

# **TWINNING CONTRACT**

**BA 12 IB ST 01**

## **Support to the State and Entity Statistical Institutions, phase VI**



### **MISSION REPORT**

**on**

#### **Activity 1.6 Institutional sectors I**

Mission carried out by  
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19 October – 23 October 2015

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## Table of contents

1. General comments .....	3
2. Assessment and results .....	3
Follow-up from previous mission on ESA2010 implementation .....	3
Guidance concerning general government delimitation and sub-sector breakdown .....	4
Main government units in BiH and their grouping .....	5
General government delimitation -borderline cases .....	7
Preparations for next activities .....	9
3. Conclusions and recommendations .....	9
Annex 1. Terms of reference .....	10
Annex 2. Persons met .....	11

## 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
RSIS	Institute for Statistics of Republika Srpska
RTA	Resident Twinning Adviser
TOR	Terms of Reference
R&D	Research and development

## 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 fifth mission to be devoted to national accounts within Component 1 of the project, and the first mission dealing with institutional sector classification.

The purposes of the mission were:

- Support in allocation of units to sectors and sub-sectors: General government units
- Preparation of guidelines for allocation of units in sectors and sub-sectors of general government
- Support in practical implementation of updated methodologies, incl. market/non-market delimitation

The experts 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 experts and do not necessarily correspond to the views of EU, BHAS, FIS, RSIS or Statistics Finland.

## 2. Assessment and results

### ***Follow-up from previous mission on ESA2010 implementation***

It was agreed in the previous mission that in the upcoming missions originally devoted to institutional sector classification also ESA2010 implementation in general would be on the agenda as a follow-up item. Thus, the BiH authorities briefly summarized the current situation. A draft version of ESA2010 implementation plan has been prepared and a working group has been established to deal with relevant issues for implementation of ESA2010, including sector classification of units. The working group consists of representatives of all statistical authorities, the central bank and ministries of finance from BiH, two entities and Brcko district. All these parties also took part in the mission and it was considered the first meeting of the group. This important milestone was welcomed by the experts.

Recently the statistical authorities have been working with capitalisation of R&D. They have gone carefully through the relevant ESA guidance, as well as

OECD Frascati manual, and have prepared changes to the questionnaire used to gather the necessary data from companies. These changes would be introduced to the questionnaire as of statistical year 2015. Preliminary estimates for R&D output, investment and capital consumption of non-market producers have not yet been done, but it is foreseen them to be conducted by mission 1.7. in January, as was suggested earlier. However, the BiH authorities pointed out that it will take time to achieve all the goals according to plan and that resource constraints cannot be overlooked.

### ***Guidance concerning general government delimitation and sub-sector breakdown***

This was the first mission on institutional sector classification and it focused on general government units. The work was started by introducing relevant guidance concerning general government delimitation in ESA2010 and the related manual on government deficit and debt (MGDD, ESA2010 edition), which gives more accurate rules for classifying public-controlled units inside or outside government. Compared to previous version of ESA (95), the ESA2010 changed the criteria for defining whether a unit is a market producer or not, which is a key issue for sector delimitation. Now qualitative criteria (to whom the production is sold, exposure to competition) should be evaluated before the 50% test, ie. whether market revenue counts at least half of the costs of the unit in question. The experts paid special attention to the 50% test, as it emerged relevant for many BiH public corporations.

In Finland, a large number of limited companies (d.o.o.) were reclassified from corporation sector to government sector in the context of ESA 2010 transition, based on the new qualitative criteria. These are companies that are owned especially by municipalities and serve mainly their owners. The BiH authorities informed that in Bosnia and Herzegovina, there are not recognized such extra-budgetary units, that would need to be analyzed and possibly re-classified because of qualitative criteria, meaning that there are no units producing services only or mainly to government units.

BiH authorities explained that sector classification of public schools, hospitals and kindergartens is clear. Recognizing of government units in these fields is easy, because there is no public-private co-operation. Public schools and hospitals are classified in government sector. Kindergartens are classified in either government sector or corporations sector, depending on the share of their market revenue (50% test is applied).

The main criteria of an institutional unit were also presented. If the required conditions are not met, the unit should be consolidated with the unit controlling it, which may have implications to government sector boundary. It was pointed

out that although institutional unit is the right statistical concept to be applied, in practice it would be feasible to deal with legal units, but taking account of the rules for institutional unit when determining the sector class.

Concerning the allocation of government units to sub-sectors of general government, ESA2010 did not bring much new guidance compared to ESA95. General government (S.13) is divided to central (S.1311), state (S.1312) and local government (S.1313) and social security funds (S.1314). The guidance is rather general and it gives some room for national implementation especially when making distinction between state and local government. It was also stressed that in EU context the boundary of government sector as a whole is more important than its sub-sector breakdown. However, the sub-sector composition should not be ignored either. It could be noted that in EU countries different approaches exist.

### ***Main government units in BiH and their grouping***

Bosnia and Herzegovina has four main levels of public administration:

- BiH State administration consisting of common institutions exercising core functions such as foreign affairs, law enforcement, national defence and financial administration. There are some 75 budgetary and 6 extra-budgetary units involved.
- Governments of entities Republika Srpska, Federation of BiH and Brcko District
- Regional Cantons of Federation of BiH
- Municipalities and their associated entities

According to ESA2010, central government (S.1311) consists of all government units having a national sphere of competence and their political authority extends over the entire territory of the country. The state government (S.1312) consists of all government units in a federal system of government having a state or regional sphere of competence and a state is the largest geographical area into which the country as a whole is divided for political or administrative purposes. Provinces, cantons, republics and administrative regions are explicitly mentioned as examples of state government.

The local government subsector (S.1313) consists of government units having a local sphere of competence. They cover a wide variety of governmental units, such as counties, municipalities, cities, towns, townships, boroughs, school districts, and water or sanitation districts.

Thus, in the light of ESA2010, it is evident that in case of BiH, central government (S.1311) would consist only of units belonging to BiH State

administration, being the only level of government having national sphere of competence and political power over the whole territory of BiH. Likewise, the two entity-level governments (RS, FBiH) and Brcko district, forming the largest geographical areas into which the country as a whole is divided for political or administrative purposes, would be classified to state government (S.1312). Municipalities in two entities obviously belong to local government (S.1313).

However, there is one additional level of public administration: Cantons in FBiH, which have a strong administrative role in FBiH. For the treatment of cantonal level of administration ESA2010 guidance leaves some room for different approaches. It could be argued that representing a higher level of administration than municipalities, and also because of having a strong relationship with federal (entity) government of FBiH, the cantons could be classified to state government (S.1312) together with the entities. On the other hand, the cantons do not represent "the largest geographical areas into which the country as a whole is divided for political or administrative purposes" and they could thus be considered as local government (S.1313) as well. The experts suggest that whatever the solution would be, for compilation and analytical reasons it would be feasible to introduce a separate sub-category for cantons in the national sector classification (using 5-digit coding). National sub-categories could also be used for other groups of units when necessary. Finland has implemented national categories for example to separate government of Åland from other local government units.

Extra-budgetary government-controlled units like public corporations, if deemed to be non-market producers would then be classified to the sector of their controlling units.

Finally, there are several social security funds meant for pension, health, unemployment and child protection managed either by the entities, Brcko district or cantons of FBiH. According to ESA2010 such funds should be classified to social security (S.1314) regardless of the level of government operating or managing the schemes. Thus, all those funds would be classified to S.1314. The pension funds do not require, according to BiH authorities, further analysis as being clearly social security schemes by nature.

During the mission a common view on the sub-sector breakdown of government was not reached. It was suggested by the experts that this issue should be forwarded to a higher level for decision, possibly to the IPA 2012 steering committee group where the directors of relevant statistical authorities are involved.

### ***General government delimitation -borderline cases***

BiH authorities and experts discussed a number of sector classification cases. First authorities provided background information for the cases. Some of them were analysed also through actual financial data, and 50% tests were calculated. As a result, sector classification was confirmed for many units. In some cases, further investigations are needed. A few cases are presented here, as they are seen by the experts:

#### Public TV and radio broadcasters

In Bosnia and Herzegovina there are three separate public TV and radio broadcasting companies. Their revenue consists of taxes and market sales revenue. Tax is based on ownership of a TV/radio. Tax has to be paid, even if a person would consume only private channels. In other words, it is not possible to opt out.

Conclusion: Broadcasters are classified in general government sector S.13 (unless they would pass the 50% test, which is unlikely, since tax revenue is not included in "sales" of the test).

#### Municipal companies in water supply, garbage disposal and other utilities

Legal status of these municipal owned companies can be joint stock, limited company or other publicly owned company. Companies sell to households and corporations. Prices can be regulated by the government, but to experts' understanding that doesn't affect sector classification. Some companies are loss making. Government gives guarantees to companies' borrowing.

Conclusion: Companies are classified in corporations sector S.11, if they pass the 50% test. Otherwise they should be classified in S.1313.

#### Non-profit institutions without clear ownership

BiH authorities explained, that there exists about 30 units that were founded before the current BiH State was established. These units (museums, other cultural institutes) don't have clear owners, and they live with donations and occasional transfers from different levels of government.

Conclusion: If there is no strong indication (based on e.g. financing) of control of a certain government level, these units could be classified in S.15 (non-profit institutions serving households) for practical reasons.

#### Cantonal owned companies

Five cantonal owned companies that operate on market were analysed through their financial data. These companies include e.g. heating company KJKP Toplane Sarajevo doo and gas distributor KJKP Sarajevogas doo. For four companies, data was now available for two years, and they passed the 50% test in these years. For city transport company KJKP Gras doo, data for three years

was available. It passed the 50% test for two years, and one year's test was slightly under 50% because of extraordinary interest expenditure.

Conclusion: Four of five companies are likely to be classified in corporations sector S.11, if the 50% test holds also for a longer time period. The transport company needs a bit closer examination.

#### Public heating company and public water supply company owned in majority by City of Banja Luka

Two companies owned in majority by City of Banja Luka were analysed through their financial data. The 50% test was done for the years available.

Conclusion: Both companies are likely to be classified in corporations sector S.11, if the 50% test holds also for a longer time period.

#### Railway company Zeljeznice Dobo

The railway company is 65% owned by Republica Srpska. Company's financial data of three years was analyzed and the 50% test was calculated. Subsidies on products were included in sales, but other subsidies were not included. The 50% test showed a ratio slightly over 50% for all three years,

Conclusion: In principle, the company passed the 50% test for all three years. Still, since results were so close to the threshold, more analysis is recommended before making a sector classification decision.

#### BiH Road administration

There are many public companies dealing with road administration on different levels of government. They are financed by tax-like revenue (registration fees, road tolls) earmarked for them, but collected by separate government units.

Conclusion: Classification of road administrations to government sector S.13 was confirmed.

#### High school for medical studies

This high school for medical studies operates under University of Banja Luka. It receives most of its revenue from market, and a smaller part from government budget. The school has its own set of accounts and financial statement.

Conclusion: Most of unit's revenue consists of market revenue, so it could be classified in corporations sector S.11 (while owner, the university, is in S.13). It is unclear, whether the unit can be seen as a separate institutional unit. Instead, it can be seen as a quasi-corporation. Quasi-corporations acting on market are deemed to have an autonomy of decision, and they are classified in S.11.

#### Forestry management companies

There are several forestry management companies in the country. They finance themselves mostly by selling wood to the market.

Conclusion: Classification of forestry management companies in corporation sector S.11 was confirmed.

Certain government-owned development banks were also discussed. It was questionable whether they fulfil the criteria of being financial corporations. In case of a FBiH owned development bank it was obvious that the bank is not operating under market conditions as receiving funds only from government and granting subsidized loans below market interest rates. A similar kind of case found in RS. It was however suggested to keep those units in S.12 for the time being, but to analyse them further in the light of ESA2010 and MGDD.

### **Preparations for next activities**

The next mission Activity 1.7 Institutional sectors and implementation of ESA2010 I is expected to take place on 25.1 - 29.1.2016 in Banja Luka. The exact timing is to be confirmed. The mission would focus on financial corporation sub-sectors, including holding companies, head offices and SPEs, and the household/non-financial corporation delimitation. The practical implementation of sector classification in business register is the second main item on the agenda. Follow-up of ESA2010 related work from activity 1.4 and other sector classification issues will also be on the agenda.

## **3. Conclusions and recommendations**

Action	Deadline	Responsible person
Arrange an ESA2010 Working group meeting to deal with and make decisions on classification of borderline cases (public corporations)	End 2015	BHAS, FIS, RSIS, CBBH, Ministries
Analyse further some borderline cases like development banks and extra-budgetary non-profit bodies	By Activity 1.8. (Feb 2016?)	BHAS, FIS, RSIS, CBBH
Reach a common agreement and make a decision on general government sub-sector breakdown according to ESA2010	IPA project steering group by February 2016	BHAS, FIS, RSIS
Start practical implementation of sector classification codes to business register, including variables needed to apply automated rules (ownership type/share)	By Activity 1.7.	BHAS, FIS, RSIS
Check the possibilities to implement automated procedures to run regular 50% tests using enterprise data.	By Activity 1.7.	BHAS, FIS, RSIS

## Annex 1. Terms of reference

### EU Twinning Project BA-12-IB-ST-01

#### Terms of Reference

#### Component 1: National Accounts

19<sup>th</sup> October – 23<sup>th</sup> October 2015

Sarajevo, Zelenih beretki 26 – Federal Institute for Statistics of Federation of BiH

#### Activity

1.6 Institutional sectors I

#### 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:

- Support in allocation of units to sectors and sub-sectors: General government units
- Preparation of guidelines for allocation of units in sectors and sub-sectors of general government
- Support in practical implementation of updated methodologies, incl. market/non-market delimitation

#### Expected output

- Guidelines for classification of government units
- Decisions on specific cases, list of government units

## **Annex 2. Persons met**

### **Agency for Statistics of BiH (BHAS)**

Dijana Mlikota, Assistant Director for Macroeconomic Statistics  
Edina Kozić, Head of National Accounts Department  
Ivana Haračić, Senior Adviser  
Senija Fačić, Head of the branch office of Brcko

### **Institute for Statistics of Federation of BiH (FIS)**

Nisveta Džebo, Assistant Director for Economic Statistics  
Nermina Ibrišević-Ademović, Head of National Accounts Department  
Zlatka Tukić, 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  
Jadranka Luburić, Senior Associate  
Dijana Maleš, Senior Associate

### **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**

Bogdanka Peco, Head of the Accounting Department  
Sanja Nježić- Mišić, Head of the Department for Macroeconomic Analysis and Projections  
Radmila Miličević, Head of the Department for reporting

### **Directorate of Finance Brčko District**

Anela Ilić, Head of the Department of execution of the budget

### **Central bank of Bosnia and Herzegovina**

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

**Twinning Project Administration**

Søren Leth-Sørensen, RTA

Đemka Šahinpašić, RTA Assistant

Haris Imamović, Interpreter


## 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: 23 October 2015.



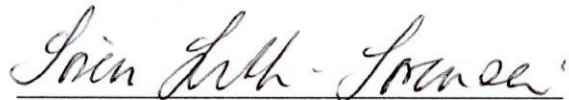
Component leader, BHAS



Component leader, FIS



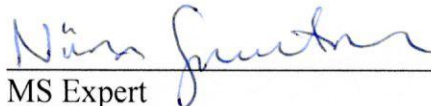
Component leader, RSIS



RTA



MS Expert



MS Expert



## Søren Leth-Sørensen

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**To:** sls@bhas.ba  
**Subject:** FW: Mission Report - Activity 1.6

**Fra:** Djemka Sahinpasic [<mailto:djemka.sahinpasic@bhas.ba>]

**Sendt:** 28. oktober 2015 15:34

**Til:** Charlotte Juul Hansen; Søren Leth-Sørensen

**Emne:** FW: Mission Report - Activity 1.6

Dear Charlotte and Soren,

Please find below translated email form Nermina (FIS NA Coordinator)

"Dear Djemka ,

Due to the lack of time on the mission to go through the entire report thoroughly, hereby we are sending our comment on the part of the text in the following paragraph " **Main government units in BiH and their grouping** ", although the mission reports 1.6 is final:

"On the other hand , the cantons do not represent " the largest geographical areas into which the country as a whole is divided for political or administrative purposes " and they could thus be considered as a local government ( S.1313 ) as well. "

**Comment on the above text :** " Given the fact that this option was not discussed at the mission at all , nor was offered as an option during the mission, we suggest that this part is deleted, or to clearly state that this option was not discussed during the mission . "

Best regards"

---

**From:** Nermina Ibrišević-Ademović [<mailto:Nermina.Ibrisevic-Ademovic@fzs.gov.ba>]

**Sent:** Wednesday, October 28, 2015 1:57 PM

**To:** Djemka Sahinpasic

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**Subject:** RE: Mission Report - Activity 1.6

Draga Djemka,

Iako je Izvjestaj sa misije 1.6. konacan, a zbog nedostatka vremena na misiji da se detaljno prodje kroz cjelokupan izvjestaj, saljemo komentar na dio teksta u poglavlju „**Main government units in BiH and their grouping**“:

„On the other hand, the cantons do not represent “the largest geographical areas into which the country as a whole is divided for political or administrative purposes” and they could thus be considered as local government (S.1313) as well.”

**Komentar na tekst iznad:** “S obzirom na činjenicu da ova opcija uopće nije razmatrana na misiji, niti ju je expert tokom misije ponudio kao moguću, predlažemo da se ovaj dio ili izbriše, ili da se jasno navede da ova opcija nije razmatrana tokom misije.”



Srdacan pozdrav,

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**To:** SIKIMA Dijana (EEAS-SARAJEVO); [jasna.samardzic@bhas.ba](mailto:jasna.samardzic@bhas.ba); Charlotte Juul Hansen  
**Cc:** [bhas@bhas.ba](mailto:bhas@bhas.ba); [fedstat@fzs.ba](mailto:fedstat@fzs.ba); [stat@rzs.rs.ba](mailto:stat@rzs.rs.ba); [international.cooperation@bhas.ba](mailto:international.cooperation@bhas.ba); [sls@bhas.ba](mailto:sls@bhas.ba); RUSTANOVIC Amra (EEAS-SARAJEVO-EXT); [biljana.vuklisevic@rzs.rs.ba](mailto:biljana.vuklisevic@rzs.rs.ba); [nihada.lugusic@fzs.ba](mailto:nihada.lugusic@fzs.ba); [dijana.mlikota@bhas.ba](mailto:dijana.mlikota@bhas.ba); 'Edina Kozic'; [vanja.papaz@bhas.ba](mailto:vanja.papaz@bhas.ba); [jadranka.luburic@rzs.rs.ba](mailto:jadranka.luburic@rzs.rs.ba); [dijana.males@rzs.rs.ba](mailto:dijana.males@rzs.rs.ba); [rada.radanovic@rzs.rs.ba](mailto:rada.radanovic@rzs.rs.ba); [zlatka.tukic@fzs.ba](mailto:zlatka.tukic@fzs.ba); [nermina.ibrisevic@fzs.ba](mailto:nermina.ibrisevic@fzs.ba); 'Niveta Dzebo'; [danijela.buzuk@fzs.ba](mailto:danijela.buzuk@fzs.ba); [sanjin.cengic@fzs.ba](mailto:sanjin.cengic@fzs.ba); [senija.facic@bhas.ba](mailto:senija.facic@bhas.ba); 'Jelena Djokic'; Ervin Zolic; Amir Hadziomeragic; [belma.karadza@fzs.ba](mailto:belma.karadza@fzs.ba); [SLS@dst.dk](mailto:SLS@dst.dk); Okko Matti (STAT); Suutarinen Niina (STAT)  
**Subject:** Mission Report - Activity 1.6

Dear All,

Please be informed that our fifth mission for National Accounts was successfully completed last week.

**Activity 1.6 – Institutional Sectors I**

Please find attached following documents:

- Mission report including
- ToR and Agenda
- Evaluation of the mission
- Registry list

Best regards  
Djemka

