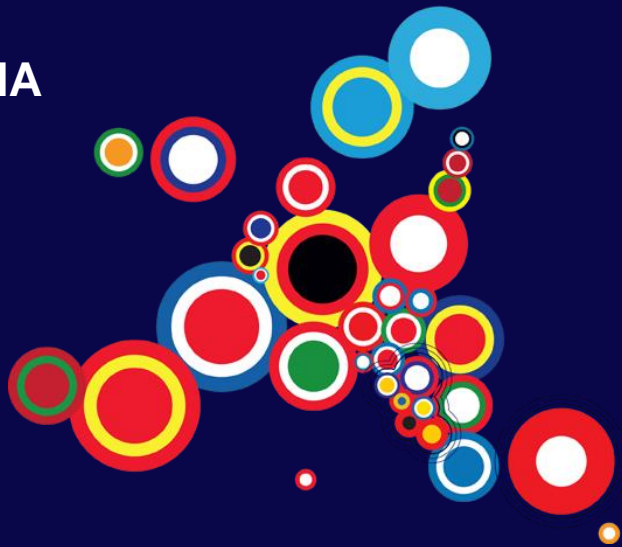




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

BOSNIA AND HERZEGOVINA

Support to Public Sector Management Reform in Bosnia and Herzegovina



Action summary

The overall objective of this IPA II 2016 Action is to provide technical assistance and policy advice on strengthening public employment controls and reducing the wage bill of the public sector in BiH.

The Action's objective is to provide assistance in the implementation of the Reform Agenda (2015-2018) of Bosnia and Herzegovina and support efforts of the BiH Council of Ministers, Government of the Federation of Bosnia and Herzegovina and Government of Republika Srpska to strengthen public performance and enhance quality in the provision of services delivered to its citizens.

Action Identification	
Action Programme Title	Country Action Programme on Bosnia and Herzegovina for the year 2016
Action Title	Support to Public Sector Management Reform in Bosnia and Herzegovina
Action ID	IPA 2016/039-653.2/Bosnia and Herzegovina/Public Sector Management
Sector Information	
IPA II Sector	Governance and Democracy
DAC Sector	15110 Public sector policy and administrative management
Budget	
Total cost	EUR 3,100,000
EU contribution	EUR 3,100,000
Budget line(s)	22.020101
Management and Implementation	
Management mode	Indirect management
<i>Indirect management:</i> National authority or other entrusted entity	Budget implementation tasks entrusted to the World Bank
Location	
Zone benefiting from the action	Bosnia and Herzegovina
Timeline	
Final date for concluding Financing Agreement(s) with IPA II beneficiary	At the latest by 31 December 2017
Final date for concluding delegation agreements under indirect management	At the latest by 31 December 2017
Final date for concluding procurement and grant contracts	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 189(2) of the Financial Regulation
Final date for operational implementation	6 years following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreement

Policy objectives / Markers (DAC form)			
General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	x
Aid to environment	x	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	x	<input type="checkbox"/>
Trade Development	x	<input type="checkbox"/>	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

This Action is a response to the request for assistance in the reform of the public sector submitted to the World Bank (WB) by the Chairman of the Council of Ministers (CoM), Prime Minister of the Federation of Bosnia and Herzegovina (FBiH) and Prime Minister of the Republika Srpska (RS). The request was passed to the WB management during their last visit to Washington DC in spring 2016.

Public administration reform is a priority for BiH for fiscal sustainability and a more effective government, but progress has been limited and recent changes create additional risks. Fiscal pressures and a renewed engagement on reform as part of the Reform Agenda (2015-2018) of Bosnia and Herzegovina have combined to reopen the debate on the organization, staffing and effectiveness of the broader public sector. There is growing recognition of the need to reduce public sector employment and create the right conditions for the growth of the private sector.

BiH has a large government with general government expenditures heavily skewed towards current spending. General government expenditures account for 46 percent of GDP, with the bulk of the spending in FBiH (25 percent of GDP) and RS (13 percent of GDP).¹ The wage bill accounts for 12.5 percent of GDP and a quarter of public expenditures and social benefits take up over a third of spending, leaving very little fiscal space for spending on much-needed public infrastructure. Across the entities, the share of compensation varies significantly, from 60 percent in the BiH state institutions to 23 percent in the FBiH and RS². The share is higher in the cantons with between 60 to 70 percent of the expenditures going to employee compensation. These numbers underestimate the actual wage bill as they do not include compensation for staff employed in, or financed by, the extra-budgetary funds, which is recorded under social benefits.

Unsurprisingly, the wage bill in BiH is high compared to other countries cross-nationally. BiH has one of the highest shares of general government wages to GDP and including the wages for staff of the health institutions or the extra-budgetary funds—potentially an additional 3 to 4 percent of GDP—will make BiH an even bigger outlier. The share of wages to revenues is lower, reflective of the high tax burden, but including the health personnel will make BiH an outlier by this measure as well. The institutional fragmentation resulting in duplication of functions is one reason for the high wage bill expenditures. Public employment and wage regimes vary both horizontally across the different levels of government and vertically across different categories of employees within each government.

The Public administration reform Strategy from 2006 has recognised a need for the improvement of public administration in BiH. The reform is guided by the overall vision to create a public administration that is more effective, efficient, and accountable; that will serve the citizens better for less money; and that will operate with transparent and open procedures, while meeting all conditions set by the European integration process, and thereby truly become a facilitator for continuous and sustainable social and economic development. The reform is a precondition for the integration of BiH into the European Union (EU), which considers sufficient administrative capacity, and the ability to adopt and implement the core of EU law (the *acquis communautaire*), a key requirement for EU membership. The Strategy described the state of play in 2006 as follows: “capacity and methodology for human resources planning at both strategic and institutional levels is basic” and “the issue of salaries and awards has not been solved systematically”. Instrument for implementing strategic goal was Action Plan 1 (2006-2011) and Revised Action Plan 1 (2011-now). One of the pillars of the AP is the human resource management. The general objectives in the area of human resources are related to the development of policies that will ensure functional, politically neutral and professional public administration, capable to provide and serve economic and social

¹ CBBH and GFS data, World Bank staff calculations

² Ibid

development. Within this broader objective a number of aspects and specific components have been identified that determine the credibility of human resource management policies and are related to:

- Ensuring transparent employment policies based on competences, development of motivation mechanisms for the retention of skilled staff in the civil service, an affirmation of ethics and integrity in order to preserve the independence and professionalism, merit based performance measurement and development of the system of vocational training and methodological harmonization of policies between the administrative levels, and
- Development of the organizational and institutional capacities of the administration and the bodies that will enable and support the above objectives and principles through the establishment and strengthening of the functions required for the efficient planning and management of human resources, strengthening of trainings, standardization of job descriptions and linking with the salary grades, reform of the records necessary for the effective monitoring and planning and development of coordination mechanisms for cooperation between the institutions and organs of various levels of government who have the competence and responsibility in the creation and implementation of human resources policies.

PAR Strategy and RAP1 addressed the problem of salaries and one of the measures from RAP1 is to create conditions for a pay system that enables promotion of individuals. SIGMA Baseline Measurement said that “the salaries and the BiH public sector, including the civil service, are still much higher (nearly 40%) than in the private sector. This appealing general salary creates conditions to attract and retain qualified and competent staff to the civil service”.

BiH government is not only large but also ineffective. A rough aggregate measure of low effectiveness is that BiH scores lower on the Worldwide Governance Indicators (WGI) Government Effectiveness index than other countries at similar levels of income, or other countries in the Europe and Central Asia (ECA) region. The urgent need therefore is not only reducing the size of the public sector but also making it more efficient by improving the motivation and performance of public employees.

Managing the wage bill will require the politically difficult staffing reductions in the sectors of education, health and interior that have the bulk of general government employees. The education sector (both teaching and non-teaching staff) unsurprisingly accounts for the largest share of budget-funded public employees. A recent analysis of the health sector of RS revealed that wages account for 61 percent of the expenditure of health institutions on average, and up to 86 percent in some health care centres. One reason for the high wage bill is the high share of non-medical workers, who constitute 28 percent of all medical personnel in RS, as compared to a European Union norm of 10 percent.

The recently adopted medium-term BiH Reform Agenda represents a broad consensus among all governing institutions on the key priorities for economic and social development that would place Bosnia and Herzegovina on a more sustainable growth trajectory. This Reform Agenda sets out the main plans of the BiH CoM and the governments of the FBiH and RS for socio-economic reforms in the coming years. It aims to: foster sustainable, efficient, and steady economic growth; create jobs; increase and better target social assistance; and create a favourable economic environment. Efforts to ensure fiscal and financial sustainability will be augmented by measures to strengthen the rule of law and the fight against corruption, and to strengthen administrative capabilities and increase the efficiency of public institutions at all levels of government.

The Chairman of the CoM and Prime Ministers of both entities requested WB support in order to finalize new agreement with the IMF and to be in a better position to respond to fiscal pressures related to the public sector employment. As a result the WB Team visited BiH and, in coordination with the PMs Offices and respective Ministries of Finance³, defined actions and priorities outlined in this Action.

³ Ministry of Finance and Treasury of BiH, Ministry of Finance in the BiH Federation and Ministry of Finance in the Republika Srpska

By the end of June 2016, the CoM and governments at both entity levels adopted Strategic Plans to reduce and control public expenditures, including wage bill control and continuation of the hiring freeze in public sector, as a precondition for a new arrangement with the IMF. The strategic plans are fully aligned with the Reform Agenda and are step in the right direction in reforming public administration in BiH so it become efficient, professional and affordable. In order to successfully implement adopted strategic plans governments at the entity levels as well as Council of Ministers request technical assistance from the World Bank which is outlined in this Action.

The main beneficiaries and lead institutions for this Action are three ministries of finance (Ministry of Finance and Treasury of BiH, Federation Ministry of Finance and Ministry of Finance of Republika Srpska). Cantonal ministries of Finance are also in the group of the main beneficiaries. Indirect beneficiaries are Civil Service Agencies at all levels, citizens and general public in BiH who will benefit from effective, affordable and reformed public sector which delivers high quality and efficient services.

Key stakeholders are:

1. Council of Ministers, Government of the Federation of BiH, Government of Republika Srpska⁴ – The Action will support efforts of the CoM and governments at Entity levels to define activities which will support implementation of adopted Strategic Plans.
2. PARCO (Public Administration Reform Coordinator's Office)
3. Civil Service Agencies at all levels
4. Ministry of Finance and Treasury of BiH, Federation Ministry of Finance, Ministry of Finance of Republika Srpska – The Action will support efforts of the respective ministries of Finance to meet targets identified in the Strategic Plans and in the programme with the IMF.
5. Cantonal Ministries of Finance – The Action will assist in amending wage bill legislation and in identifying areas for optimization of public sector.

OUTLINE OF IPA II ASSISTANCE

The development objective of this project is to provide technical assistance and policy advice on strengthening public employment controls and reducing the wage bill of the public sector. The longer-term objective is to assist the authorities strengthen public performance and enhance quality in the provision of services delivered to its citizens. This longer-term objective can only be achieved when BiH's public finances have been put on a sustainable footing and when agencies are able to align human and financial resources as well as functions, management, and organization structures with their strategic objectives. That said, the longer-term objective will guide the selection of policy measures and structural reforms to achieve short-term cost-reductions and medium-term improvements in efficiency and cost-effectiveness.

The proposed Action is in full alignment with the Reform Agenda and Strategic Plans for reduction and control of public expenditures adopted by the CoM and governments at the Entity levels and in the Letter of Intent sent to the IMF on July 31, 2016 by the CoM and government of the Entity levels for the three year Extended Fund Facility approved by the IMF Board on September 7, 2016. Strengthening fiscal controls and personnel management is one of the priorities as explicitly stated in the Letter of Intent sent to the IMF. This should be done through better public employment and wage data. Moreover, after the Constitutional Court ruling⁵, the cantons have stopped sharing data on cantonal civil servants with the Federation agency, further fragmenting data. An attempt to develop a comprehensive nationwide Human Resource Management Information System (HRMIS) for civil servants was challenged by the Personal

⁴ Given the small number of employees in the public sector and since there are no extra-budgetary funds, the District of Brcko will not be directly involved in project activities.

⁵ According to the ruling of FBiH Constitutional Court (ruling No. U-27/09, from 20/04/2010), FBiH Parliament was not given the constitutional authorization to independently regulate legal status of civil servants on other administrative levels (except on the level of FBiH)

Data Protection Agency in Bosnia and Herzegovina on privacy and data protection concerns. As a result, the conditions for its full operationalization and long-term sustainability have not been secured⁶.

Recognizing the importance of objective and verifiable data on the staffing levels, the CoM, Federation, and RS governments have agreed, as stated in the Letter of Intent to the IMF, to develop registries of public employment that include staff employed in the cantons, municipalities, health institutes, and extra-budgetary funds with the assistance of the World Bank. These registries will be maintained at the respective level of authority, i.e. entity levels and at the level of Council of Ministers. All three registries will contain the same the information and the data will be methodologically compatible across all three registries and the data will be publicly accessible.

In addition to the functional and technical specifications of developing registries, this project will also review the regulatory requirements to mitigate the risks of legal challenges that have negatively affected the HRMIS project. Unlike the HRMIS which was designed to improve the management of human resources and career development of civil servants in BiH, the registries will enable the authorities to effectively control the number of employees and wage bill at all levels in BiH in accordance with respective institutional authority.

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

Through the **Enlargement Strategy** for the period 2014-2015, the European Commission (EC) has enhanced its focus on Public Administration Reform (PAR) in candidate countries, by presenting six key issues i.e. reform areas⁷ and better integration of reform in enlargement process through stronger connections between PAR and accession negotiations. One of the key areas is Public Service and Human Resource Management.

In the **Indicative Strategy Paper (ISP) 2014-2017 for Bosnia and Herzegovina**, Governance and Public Administration reform are clearly defined as key priorities in the enlargement strategy. Strengthened democratic institutions, an inclusive democratic process, a strong role for the civil society and further progress with electoral, parliamentary and public administration reforms are the key for the accession process.

Bosnia and Herzegovina's public administration and particularly its economic governance have to improve to prepare the country for the adaptation of the challenges of EU integration and the economic coordination mechanisms in the EU and to ensure a more efficient, effective and accountable delivery of services to citizens and businesses. This will include the need for further overall reform of public administration, including among others improved policy planning and coordination, more efficient public service management and a comprehensive public financial management reform.

Bosnia and Herzegovina 2015 Report indicates that the country is at an early stage with the reform of its public administration. No progress was achieved in the past year. The lack of broad political support for country-wide reforms and the fragmentation of public service are hampering efforts to carry out institutional and legislative reforms. A systematic approach to policy development and coordination is still largely lacking and the politicisation of the civil service continues to be an issue of concern.

Furthermore, the Report noticed that the principle of *merit-based recruitment* and promotion is enshrined in law. However, in practice internal competitions and transfers are preferred to external competitions, limiting the potential for merit-based recruitment. Recruitments to senior management positions continue to be influenced by political parties and ethnic considerations, and the separation between politics and public service is not properly reflected in the legislation. The criteria for dismissals and disciplinary procedures, including possibility to appeal, are also enshrined in law. In practice the number of dismissals is low.

⁶ Due to a lack of funds for maintenance of the information system as well as legal ambiguities with regard to the processing of personal data of civil servants

⁷ Key issues: strategic framework for public administration reform, policy development and co-ordination, public service and human resource management, accountability, service delivery, and public financial management

Human Resources Management is fragmented and inefficient. Then, the remuneration system is based on the job classification of the civil service. The system is not transparent and does not ensure equal pay for equal work because different salary regulations are in force.

The Report recommends that Bosnia and Herzegovina, in the coming year, should in particular develop, adopt and start to implement a new country-wide strategic framework for PAR and ensure appropriate political leadership and guidance to public administration reform in the country; ensure implementation of an effective human resources management system what is fully in line with the proposed Action for PAR support under IPA 2016.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

The EU has supported the reforms in the area of HRM through *Modernisation of HRM system in civil service (IPA 2011)*. The Project provided assistance aiming at improving HRM system in civil service in BiH to the key institutions in charge of HRM area on the level of BiH, FBiH, RS and Brcko District of BiH. The key elements of the project success were the selection of skilful, dedicated and proactive staff in the beneficiary institutions to participate in project activities, good knowledge of the state of play in administration of the beneficiary country on the side of key personnel of the Contractor, as well as constant and result oriented support of EUD Project Manager.

Even though the project took a participative and consultative approach, and all outputs were closely consulted with all stakeholders, not all documents were adopted by all four levels of government in BiH. Activity plan and solutions identified and proposed at the beginning of the project implementation received political support. However, such stated political support was not reflected in revisions of legislation on different administrative levels.

In addition, BiH general elections that took place in 2014, during the project implementation period, and the long period of time after these elections until new governments were established caused delays in certain project activities implementation, as well as changes in identified priorities in the overall legislative drafting process. That had a direct impact on implementation of project priorities. The next general elections are planned to be held in 2018 in BiH which create political risks for the Action implementation and results.

Drawing lessons from these previous projects, the following mitigation measures have been proposed for this Action:

- The CoM and the governments of both entities endorsed project activities as stated in the Strategic Plans⁸ and the in the Letter of Intent sent to the IMF on July 31, 2016 for the three year IMF program approved by the IMF Board on September 7, 2016.
- Strong collaboration between the WB, IMF, and the EU to sustain reform momentum; in particular given that the technical assistance supported by this project—specifically adoption of staffing reduction plans based on the registries — is the basis of key structural benchmarks of the IMF program improves the likelihood of success.
- Strong monitoring of project activities. During implementation of the previous EU project, a need for independent ROM (Result Oriented Monitoring) was identified. It would be of great help for this Action (under IPA 2016) to carry out ROM as its findings would steer main project activities, helping the project management to keep the engaged institutions accountable.

⁸ The CoM approved Strategic Plan on July 27, 2016, Government of the FBiH on June 24, 2016 and Government of Republika Srpska on June 23, 2016

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	
To improve the efficiency and fiscal sustainability of the BiH public administration	Composite indicator (average of Government Effectiveness, Burden of Government Regulation and Regulatory Quality) – 1 (Worst) - 100 (Best)	Annual report on the progress in the implementation of the Reform Agenda Worldwide Governance Indicators	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
To strengthen public employment controls in BiH in line with the obligations outlined in the Reform Agenda and in the arrangement with the IMF	% of GDP savings in relation to wage bill reductions of State, Entities, and cantons in the 2018 and 2019 government budgets	WB Reports IMF Reports MoF budget documents and budget execution reports	There is a political willingness at all levels for more effective control of public sector spending
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
<p>Component 1. <u>Improving public employment data and control of staffing</u></p> <p>Result 1: Data and control of staffing levels at all levels in BiH (ministries and agencies of the State, Entities, and cantons; municipalities; extra-budgetary funds; and health institutes) are improved in full conformity with division of authorities between respective authority levels.</p>	Consistent and harmonised data on employees at all levels in BiH (ministries and agencies of the State, Entities, and cantons; municipalities; extra-budgetary funds; and health institutes) is in place and regularly updated based on the data from the registries.	Decrees from State, Entities, and Cantons authorizing the establishment of the registries IMF and WB reports	The establishment of the registries will not be derailed by legal challenges or the beneficiary institutions. This Action will include a review of legal issues and implementation arrangements in order to mitigate this risk.
<p>Component 2. <u>Rebalancing staffing in the public sector</u></p> <p>Result 2: Staffing in at all levels of government is rebalanced in line with the recommendations from the functional reviews.</p>	Number of operational plans for rightsizing of employees in public sector at the State, Entities, and cantonal levels in 2018 and 2019	Report on Functional reviews with recommendations prepared by the World Bank and agreed with the governments. Approved operational plans of State, Entities, and cantons	Governments are fully committed to implement Action Plans on restraining public expenditures and wages. The IMF programme remains on track.
<p>Result 3: Public sector pay structure is rationalised and simplified.</p>	Number of approved amendments to relevant salary laws at the State, Entities, and cantonal levels following the better regulation approach	Amended laws and government decrees published in Official Gazettes at all levels IMF and WB reports	Governments are fully committed to implement Action Plans on restraining public expenditures and wages. The IMF programme remains on track.

DESCRIPTION OF ACTIVITIES

The project will consist of the following two components:

Component 1: Improving public employment data and control of staffing

This component consists of activities in order to achieve Result 1 (Data and control of staffing levels at all levels in BiH (general government defined as per the GFS definition to include ministries and agencies of the State, Entities, and cantons; municipalities; extra-budgetary funds; and health institutes) are improved are improved in full conformity with division of authorities between respective authority levels.

In order to achieve this result, this component will support the establishment of registries of government employees at the entity levels and the CoM; and consistent and harmonised data on employees at all levels which will include staff of cantons, municipalities, extra budgetary funds, and medical institutes. This will rely on the data from the respective registries at the entity levels and CoM. The specific activities in this component will be:

1.1 Analysis of the existing personnel and payroll databases and information systems and previous attempts to create personnel registers of employees in the public sector;

1.1.1 Analysis of the shortcomings of the current system that are preventing realization of the goals.

1.1.2 Development of the logical framework and methodologies for establishing a new data processing system. Such system shall enable realization of harmonized solutions that meet all set requirements and are at the same time firmly based on legislation defining competences and ownership over registers in use.

1.2 Development of functional and technical specifications for the registries.

1.3 Recommendations on the regulatory requirements and institutional arrangements to support the development and regular updating of the registries.

1.4 Development of a web-based “demonstration” or pilot application; which includes purchase of the software and necessary hardware for the pilot. This activity also includes preparation of technical specification for the national rollout of registries; and

1.5 Capacity building activities for selected staff for implementation of the registries.

Component 2: Rebalancing staffing in the public sector

This component consists of activities to support the achievement of Result 2 (Staffing at all levels of government is rebalanced in line with the recommendations from the functional reviews.) and Result 3 (Reductions of allowances and elements of pay for employees in the State, FBIH, and select cantons are stipulated by the law) and includes the following activities:

2.1 Rightsizing measures based on staffing and expenditure reviews (functional reviews) in selected ministries and cantons. In contrast to the previous attempts to reduce staffing levels in the public sector through linear staffing reductions, the World Bank will provide recommendations to authorities for targeted and strategic staffing reductions based on functional reviews. Since recommendations will be based on analytical work they will support dialogue between the authorities and public on necessity of rightsizing in public sector. The authorities are aware of the anticipated pushback to the rightsizing measures however they are also committed to embark on this problem. The functional reviews will identify rationalization measures to be specified in operational plans for 2018, and 2019, and implemented in the FY2018 and FY2019 budgets of the CoM, in the government of Federation BiH and government of Republika Srpska. The staffing levels cannot be analysed without looking at the organizational/functional structures. Functional reviews will also identify overlaps in mandates and redundant functions which could be eliminated. There

will be 6 functional reviews of selected ministries (2 at the state level and 2 in each entity) and Functional Audit of the government of the Federation of the BiH which will also analyse the same structures in selected cantons. The ministries and cantons for the functional reviews will be selected based on potential for efficiency improvements, government commitment and preparedness, feasibility both in design and implementation and an assessment of social risks. The process will be based on stakeholder engagement in problem definition and the identification of reform options. Initial areas of focus may include interior, education and employment⁹.

2.2 Right-sizing measures based on horizontal staffing and expenditure reviews. This activity will support the development and implementation of a cross-cutting functional review (or functional audit) focusing on support functions/employees and municipal administrations in first instance, focusing, among other things, on efficiency gains to be achieved through the use of e-government tools. The outputs will include a rationalization plan focusing on these functions.

2.3. Implementation support for the preparation of operational plans based on functional reviews. This activity will support the preparation of operational plans for 2018, and 2019 to rebalance staffing at the State, Entities, and cantonal levels, drawing on the recommendations of the horizontal and functional reviews. The results from implementation of operational plans will be verified through registries.

3.1 Pay benchmarking and simplification: This activity will entail benchmarking public sector wages between the different levels of government (including cantons and municipalities) and against private sector wages by key professions. The fragmentation of the wage systems in BiH results in significant differences in the remuneration for the same type of jobs, not only between the FBiH, RS and CoM but also within the same level of government. One of the reasons for this is existence of a range of discretionary allowance which are not linked to the performance. Reducing the number of these allowances will result in approximation with the “equal-pay-for same-job” principle. The purpose of this analysis is to assess public-private pay differentials and differences in wages between the different levels of government in the BiH Federation and RS and Council of Ministers, and between the extra-budgetary funds and the ministries. This analysis will not analyse existing evaluation frameworks in public sector. Technical support will be provided to help rationalize the public sector pay structure and eliminate different elements of remuneration, discretionary and other redundant allowances.

⁹ Employment is defined as the social protection/employment services.

RISKS

RISK	STATUS	MITIGATION MEASURE
Lack of Governments' commitment to implementing the reforms	Medium	The team will propose reform options as well as change management strategies to facilitate their implementation. These strategies will take into account the interests and views from key stakeholders based on regular policy dialogue and consultation. Close coordination with the IMF and the centrality of this project's activities to the IMF program will help mitigate these risks.
Legal challenges to the establishment of the Registries	Medium	The review of the regulatory and institutional requirements for the registries will identify mitigation measures.
Local interested parties and stakeholders raise opposition against the implementation of reforms	High	Public administration reforms are never popular, especially when there are planned staff reductions. The governments, together with the World Bank, will organize a series of workshops and other communication events during the preparation of the studies to provide a continuous, transparent line of dialogue regarding the work programme. Final reports will be reviewed with the World Bank Country Manager, the EUD/EUSR and relevant authorities in BiH in order to identify and address communication alternatives for potential sensible recommendations.
Social implications of laying off public sector employees	High	Public sector layoffs are never popular, especially in an environment of high unemployment. Governments at all levels will need to continuously communicate the purpose and benefits of the reforms.
Governments do not provide required information	Low	The World Bank has an active work programme in Bosnia and Herzegovina and has background analysis across most key sectors. The solid working relationship and the commitment to this project should ensure timely delivery of information. The implementation of the Bank's activities is subject to the complete and timely provision of the Government's inputs, including information and comments on the draft reports.
Governments do not agree with the proposed reforms	Low	The preparation of the reviews, reform options and change management strategies will be done through an interactive process ensuring the participation of the main Government stakeholders at all levels. Since this activity is a response to the request for assistance in the reform of the public sector submitted to the World Bank (WB) by the Chairman of the Council of Ministers (CoM), Prime Minister of the Federation of Bosnia and Herzegovina (FBiH) and Prime Minister of the Republika Srpska (RS), the ownership of the Action outcomes is ensured with a high probability. BiH request for this assistance was passed to the WB management during their last visit to Washington DC in Spring 2016.

CONDITIONS FOR IMPLEMENTATION

- The establishment of the registries will not be derailed by legal challenges. The Action will include a review of legal issues and implementation arrangements in order to mitigate this risk.
- Governments are fully committed to implement strategic plans on restraining public expenditures and wages.

- An IMF programme is implemented and remains on track.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

The project will be delivered through a Trust Fund, which will be established with the EU funds and managed by the World Bank. This trust fund will finance Bank-executed activities structured in two components to assist the BiH CoM and the governments of the FBiH and RS. The Action activities should be completed within 30 months from the day Trust Fund is established.

Analytical and advisory services and support to capacity building activities will be delivered through the Bank-executed activities. Bank-executed activities will be implemented following World Bank corporate procedures for procurement, financial management and quality assurance. Bank-executed activities will be implemented by Bank-staff and consultants and through missions by technical specialists.

The CoM and governments at both entity levels are the main beneficiaries of this project.

The World Bank will establish a Project Steering Committee to guide and oversee the implementation of the programme. The Steering Committee will be chaired by the beneficiary country (BiH) and will comprise the World Bank, the Ministers of Finance at all levels, the Ministers responsible for Public Administration at all levels, representatives from the EU Delegation and other sectors participating in the programme.

The Project Steering Committee will review and approve the following but not limited to that:

- work programme for the project;
- scope and methodologies for functional reviews;
- quarterly reports on progress in implementation of the project activities.

The Project Steering Committee will meet at least on a quarterly basis.

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

The project will be implemented through one Contribution Agreement with the World Bank.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

The European Commission may carry out a mid-term, a final or an ex-post evaluation for this Action or its components via independent consultants, through a joint mission or via an implementing partner. In case a mid-term or final evaluation is not foreseen, the European Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The evaluations will be carried out as prescribed by the DG NEAR guidelines for evaluations. In addition, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

INDICATOR MEASUREMENT

Indicator	Baseline (value + year)	Target 2020	Final Target (2020)	Source of information
CSP indicator (impact/outcome)...(1)				
Composite indicator (average of Government Effectiveness, Burden of Government Regulation and Regulatory Quality) – 1 (Worst) - 100 (Best)	45.25 (2012)	50	50	Annual report on the progress in the implementation of the Reform Agenda Worldwide Governance Indicators
% of GDP savings in relation to wage bill reductions of State, Entities, and cantons in the 2018 and 2019 government budgets	0% of GDP (wage bill reduction in 2016)	0.3% of GDP	0.3% of GDP	MoF expenditure data IMF Reports
Consistent and harmonised data on employees at all levels in BiH.	0 per cent of all employees in registries (2016)	80 per cent of all employees in registries	80 per cent of all employees in registries	Consistent and harmonised data on employees WB reports
Number of operational plans for rightsizing of employees in public sector at the State, Entities, and cantonal levels in 2018, and 2019	0 plans approved (2016)	8 plans approved	8 plans approved	Government decrees IMF reports WB reports
Number of approved amendments to relevant salary laws at the State, Entities, and cantonal levels following the better regulation approach	1 salary law	5 salary laws in BiH	5 salary laws in BiH	Official gazettes

	amended (RS in 2014)	amended	amended	WB Reports IMF Reports
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5. SECTOR APPROACH ASSESSMENT

The sector had a PAR Strategy in place between 2006 and 2014. The new Strategic Framework development is under way and envisaged to be finished in the end of 2016. The sector coordination is well-developed and organised according to the pillars of the strategy. The sector has a unique instrument of donor coordination, set up as the *PAR Fund*, which pools the resources of donors for the priority projects aiming to implement the PAR Strategy's objectives.

The donor coordination for the sector is conducted through the meetings of the PAR Fund Joint Management Board (JMB) as well as through sector donor coordination meetings. There is also a Donor Coordination Forum organised by the Ministry of Finance and Treasury of BiH. The performances of the sector are constantly measured and monitored also through various forms of external assessments such the one carried out by SIGMA. The last performance assessment has been done by SIGMA in 2016.

6. CROSS-CUTTING ISSUES

GENDER MAINSTREAMING

It is expected that gender equity will be fully observed in the drafting legislative framework and regulations. Regarding all capacity building activities, they will be available and accessible equally to men and women. Envisaged training(s) will be equally available to men and women. Gender sensitive language will be maintained throughout the entire project cycle.

All analyses will be conducted using gender-sensitive methodologies, and gender will be mainstreamed in all activities and deliverables related to the implementation of this Action. In general, a gender perspective will be maintained ensuring that the results of the Action impact positively on gender equality as well.

EQUAL OPPORTUNITIES

Equal opportunities for all participants will be guaranteed as an integral part of the implementation of this Action. It will be ensured that the Action management will have adequate capacities to enhance equal opportunities for participants.

Collection of gender sensitive data will be upgraded by ensuring: i) better use of the existing data, ii) better collection of data which exists in the institutions (if any), iii) better procession and cross tabulation of data (i.e. age and sex, sex and education, etc.), iv) better accessibility and timeliness of data (on-line), v) better interpretation of statistical data, vi) organizing some additional surveys, if needed.

MINORITIES AND VULNERABLE GROUPS

The Government of Bosnia and Herzegovina is committed to a policy of social inclusion of minority and marginalised social groups, notably Roma, persons with disabilities, young persons, internally displaced persons, and women. During the implementation of activities anticipated in the Action, full respect of minorities and vulnerable groups will be ensured. Thus, during the implementation of the Action, there shall be no direct or indirect discrimination against any person based on gender, age, marital status, language, sexual orientation, political affiliation or conviction, ethnic origin, religion, social origin or any other status.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

In the process of implementation of the Action all envisaged activities will be open for coordination and cooperation with CSOs and other interested non-stakeholders. The Bank will organize regular meetings with a wider group of stakeholders to inform on the progress of the activity.

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

The Action does not envisage any changes to environment and climate change. Its implementation will not have any negative impact on the environment nor jeopardise environment, climate change and security in the future.

7. SUSTAINABILITY

The sustainability of the Action will be ensured through a comprehensive policy dialogue between the national stakeholders (CoM, governments of the FBiH and RS), the EU, the World Bank, the IMF and other interested parties including CSOs. Commitments from the CoM and governments at entity levels outlined in the Action Plans, which were prerequisites for the new IMF programme, are clear signal of local ownership and will ensure that recommendations from this Action will be considered and implemented in the future.

8. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action. The implementation of the communication activities shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the European Commission (DG NEAR) will have to be followed.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.