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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX III**

**of the Commission Implementing Decision on the financing of the annual action plan in favour of Bosnia and Herzegovina for 2022**

**Action Document for EU4 Public Finance Management (EU4PFM)**

**ANNUAL ACTION PLAN**

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 8 of IPA III Regulation and Article 23 of NDICI - Global Europe Regulation.

**1. SYNOPSIS**

**1.1. Action Summary Table**

<b>Title</b>	Action Document - EU4 Public Finance Management (EU4PFM) Annual Action Plan in favour of Bosnia and Herzegovina for 2022
<b>OPSYS</b>	ACT-61460; JAD.1045709
<b>Basic Act</b>	Financed under the Instrument for Pre-accession Assistance (IPA III)
<b>Team Europe Initiative</b>	No
<b>Zone benefiting from the action</b>	The action shall be carried out in Bosnia and Herzegovina
<b>Programming document</b>	IPA III Programming Framework
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>Window and thematic priority</b>	Window 2 - Good governance, acquis alignment, good neighborly relations and strategic communication Thematic Priority 1: Good governance
<b>Sustainable Development Goals (SDGs)</b>	Main SDG (1 only): SDG 16 - Peace, Justice and Strong Institutions specific, entail the development of “effective, accountable and transparent institutions at all levels”. Other significant SDGs (up to 9) and where appropriate, targets: SDG 8 - Decent work and economic growth SDG 10 - Reduce inequality within and among countries SDG 17 - Partnership for Goals

<b>DAC code(s)</b> <sup>1</sup>	15110 - Public sector policy and administrative management 15111 - Public finance management (PFM)			
<b>Main Delivery Channel</b>	Bilateral			
<b>Markers</b> <sup>2</sup> (from DAC form)	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition <sup>3</sup>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b> @	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Internal markers</b> <sup>4</sup>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Connectivity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Digitalisation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Migration <sup>5</sup>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<sup>1</sup> DAC sectors (codes and descriptions) are indicated in the first and fourth columns of the tab 'purpose codes' in the following document: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/dacandcrscodelists.htm>

<sup>2</sup> For guidance, see <https://www.oecd.org/development/financing-sustainable-development/development-finance-standards/> Go to "Data collection and resources for reporters", select Addendum 2, annexes 18 (policy) and 19 (Rio) of the reporting directive. If an action is marked in the DAC form as contributing to one of the general policy objectives or to RIO principles as a principal objective or a significant objective, then this should be reflected in the logframe matrix (in the results chain and/or indicators).

<sup>3</sup> Please check the [Handbook on the OECD-DAC Nutrition Policy Marker](#)

<sup>4</sup> These markers have a different scope/rationale than the DAC codes. They are drawn from the level of budget allocation and emphasis given to the action in terms main objective(s) selected. The definition of objectives, results, activities in description of the action should be in line with this section.

<sup>5</sup> For detailed information on programming migration and forced displacement, please have a look at the [thematic guidance note](#) on migration and forced displacement; for information on the migration marker please look at annex 2 of the thematic guidance note.

	COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>BUDGET INFORMATION</b>				
<b>Amounts concerned</b>	Budget Line: 15.020101.01 Total Cost: EUR 3 500 000 Total amount of EU budget contribution: EUR 3 500 000			
<b>MANAGEMENT AND IMPLEMENTATION</b>				
<b>Implementation modalities (type of financing and management mode)</b>	<b>Project Modality</b> <b>Direct management</b> through: - Procurement (service and supply) - Twinning grant			
<b>Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans</b>	<b>Priorities:</b> “Digital Transition”, “Governance, Rule of Law, PAR” <b>Flagships:</b> “VIII Digital Infrastructure”			
<b>Final Date for conclusion of Financing Agreement</b>	At the latest by 31 December 2023			
<b>Final date for concluding contribution / delegation agreements, procurement and grant contracts</b>	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation			
<b>Indicative operational implementation period</b>	72 months <sup>6</sup> following the conclusion of the Financing Agreement			
<b>Final date for implementing the Financing Agreement</b>	12 years following the conclusion of the Financing Agreement			

## 1.2. Summary of the Action

The main impact of this Action is to improve the public financial management in Bosnia and Herzegovina in the part concerning the strengthening of operational capacities and digitalisation in order to ensure functional public financial management systems which observes the EU recommendations in this field. In ensuring so, the action will focus on strengthening revenue mobilization and improve business environment.

The Action will increase the overall efficiency of the revenue collection system through strengthening indirect taxation by introduction and implementation of new procedures and EU best practices.

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<sup>6</sup> Number of months should not exceed 72 months.

## 2. RATIONALE

### 2.1. Context

Public administration reform (PAR), together with rule of law and economic development, is a fundamental pillar of the enlargement process. Bosnia and Herzegovina has adopted the Strategic Framework for Public Administration Reform 2018-2022 (PAR SF) and the accompanying Action Plan at all levels of government (state, entities and district) in course of 2020<sup>7</sup>. Development and adoption of country-wide public financial management (PFM) reform strategy and its related action plan are activities envisaged by the PAR Action Plan. Following Commission's recommendations, the countrywide PFM Strategy represents one of the key areas and pillars of public administration reform in Bosnia and Herzegovina, and one part of the PFM is integrated in the PAR SF. Preparation and adoption of the credible and relevant countrywide Public Finance Management Reform Strategy in BiH represents the basis for common reform direction on countrywide public finance management.

Bosnia and Herzegovina (BiH) is characterised by asymmetric fiscal decentralisation with multiple levels of government and their high degree of fiscal autonomy- institutions of BiH, Entity *Republika Srpska* (RS), Entity Federation of BiH (FBiH) and the Brčko District (BD). All levels of government are financed from indirect taxes, the administration and management of which is centralised by the Indirect Taxation Authority and its Governing Board. While institutions of BiH are mainly financed from indirect taxes, other levels of government (entities and District Brcko) are also financed from direct taxes and social contributions, the administration and distribution of which is the sole responsibility of the entities and the District Brcko. In addition, each level of government has the right to introduce different administrative fees and non-tax revenues.

There is no single framework for public financial management both in the organizational and in the material sense. However, significant progress has been made in the previous period in terms of strengthening the public finances and increase the quality of management. Strategic commitment to the European Integration has led to numerous reforms and harmonization in terms of better fiscal and financial consolidation, that is, better management of public finances at all levels of government within BiH.

In the previous period, all levels of government, except RS, adopted and implemented PFM strategic acts which ended in 2020, namely: the institution at the State level – The Strategy for Public Finance Management in the institutions of Bosnia and Herzegovina 2017–2020; at the Entity level - FBiH – the PFM Strategy of FBiH for the period 2017-2020, and Public Finance Management Strategy of BDBiH for the period 2017-2020, in the Brčko District.

The 2021 Commission Report on Bosnia and Herzegovina<sup>8</sup> states that a country-wide PFM reform strategy has yet to be developed and adopted to ensure a common reform direction on PFM. However, it would be very beneficial to have a country-wide strategy, linking those existing PFM strategic documents and ensuring that reform efforts are well coordinated and successfully implemented.

Individual strategies for the period 2020-2025 have also been developed for the RS, FBiH, Brčko District, and at the institutions at the State level. All of these strategies have been developed in a similar way in the sense of consisting all key areas of public finances, namely: the fiscal framework, public revenues, budget (planning, development and budget execution), management and monitoring and conducting effective internal and external control. There have been reform efforts in different PFM subsystems at various levels of government,

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<sup>7</sup> The basis for the development of PAR Strategic framework and Action plan, as the main sector strategic document, was the Principles of Public Administration which consist of 6 pillars: strategic framework, policy development and coordination, civil service and human resource management, accountability, service delivery and public finance management.

<sup>8</sup> [https://neighbourhood-enlargement.ec.europa.eu/bosnia-and-herzegovina-report-2021\\_en](https://neighbourhood-enlargement.ec.europa.eu/bosnia-and-herzegovina-report-2021_en)

contributing towards alignment with international standards in the area of internal control and audit, debt management, treasury operations and external audit. PFM systems at all levels of government need to be further brought in line with international standards in the areas of budget formulation and execution procedures, monitoring, transparency of budget data and forecasting.

Finally, it could be said that the Public financial management strategies within BiH should serve as tools that would create a comprehensive and integrated framework for planning, coordination, implementation and monitoring of progress in the implementation of measures and activities related to improving macroeconomic and fiscal stability within the whole BiH, while increasing the transparency and functionality of public financial management and meeting the necessary conditions for accession to the European Union.

In addition to the reform steps planned and implemented within the Public Finance Management Reform Strategies, BiH is also committed to further improvement of public financial management at all levels through participation in the economic and financial dialogue and the preparation of the Economic Reform Program (ERP). Commission assessment of ERP 2020-2022 also emphasizes the importance of adoption and implementation of a countrywide PFM strategic framework.

Monitoring and reporting will be based on the adopted Action Plans which are integral part of individual strategies. Performance Assessment Framework is established for each Strategy through the monitoring of given indicators and through repeated diagnostic assessments (such as annual EU progress reports or periodic OECD/SIGMA monitoring reports, IMF, World Bank reports or other).

The overall objective of the EU's assistance under Window 2 is to promote good governance, increase the compliance with Union's values and their alignment with the Union's rules, standards and practices in the relevant areas.

Window 2 areas of support target public administration reform process, including digital transformation and public financial management at all levels of government, as well as legislative and institutional alignment with the EU *acquis* and EU best practices.

In the Commission's Report for 2021 there is a reminder that "a country-wide public financial management (PFM) reform strategy has yet to be developed and adopted to ensure a common reform direction on PFM". All levels of government have prepared and adopted individual PFM strategies until 2025. All of them were adopted by July 2021. During the second half of 2021 there was a working group to develop new Comprehensive (countrywide) PFM strategy. The challenge continues to be that PFM reform programmes at various levels of government need to be further aligned with international standards on budget formulation and execution procedures, monitoring, transparency of budget data and forecasting. Public institutions at all levels have insufficient internal audit capacity and inadequate internal controls, especially for public procurement. Although some progress has been made, Bosnia and Herzegovina has not yet achieved sufficient budget transparency. Available budgetary information remains incomplete and assessing the overall budgetary and fiscal policy is difficult.

Importance of areas covered in the AD are also recognised in the Economic Reform Program for 2021-2023 which was finalized in January 2021 and represents the continuation of the process of transition and capacity building. Despite the COVID-19 pandemic negative effects, Bosnia and Herzegovina maintained macroeconomic and fiscal stability in 2020. However, among others, further efforts on institution building and strengthening of the public financial management system are needed in order to reach European standards. An efficient public administration system is crucial for success and for this reason capacity building should remain one of the main goals in the transition process.

As far to complementarity with other EU assistance it should be noted that the latest support was initiated under the IPA 2020 and was formulated in the separate PFM AD. In that sense, this AD presents a logical

continuation of support in this area, which is of paramount importance for further reforms, having in mind that preparation of the country-wide PFM Strategy is underway. The Action in the previous support were aimed to improve the system of indirect taxes through support of the Indirect Taxation Authority (ITA) in further harmonization of legislation and best practices with the EU Acquis, as well as further capacity building of ITA.

## **2.2. Problem Analysis**

As a result of extensive internal consultations, this Action will particularly address revenue collection and further harmonisation in the area of indirect taxation with the EU *acquis*. Under this action, interventions are planned for further strengthening of the ITA.

### **Area of support 1: Further support to the Indirect Taxation Authority of Bosnia and Herzegovina (EU4ITA)**

The taxation system in BiH is organized in accordance with the constitutional order with divided responsibilities for taxation, where direct taxes are under the jurisdiction of the Entity level and BD and the State level is responsible for indirect taxes. In BiH there are four independent tax authorities, with own organization, business process, IT system, taxpayer services and responsibility to control and collect revenues.

#### **Indirect Taxation Authority (ITA)**

Indirect Taxation Authority (ITA) is the only institution in BiH which is responsible for the implementation and compliance with the legislation on indirect taxation and policies established by the Council of Ministers on the proposal of the Board of Directors, as well as the collection and allocation of indirect taxes and for the collection of all customs duties, excise duties on imported goods and road taxes as well as for the accounting and collection of VAT on import in BiH, according to the Law on Indirect Taxation Authority.

In the structure of collected revenues in BiH from direct and indirect taxes, the share of indirect taxes is dominant. Therefore, it is of the utmost importance for the overall fiscal framework in BiH to ensure a functioning system for collecting indirect taxes. Indirect taxes and implementation of customs legislation are administered by the Indirect Taxation Authority (ITA), a State level institution responsible for collecting and distributing indirect taxes and for the collection of all customs duties, excise duties on imported goods and road taxes as well as for the accounting and collection of VAT on import.

The introduction and implementation of new procedures in the area of indirect taxation require adequate IT tools, especially software developed according to the current needs and compatible with existing applications. In accordance with the 2020 Commission report, the Customs legislation in BiH is not fully aligned with the EU *acquis* and in the following period it is necessary to upgrade interconnectivity and interoperability with the EU IT systems and requirements.

ITA has started a number of processes towards harmonisation and implementation of EU practices and processes. The project of technical assistance, IPA 2014 “Introduction of NCTS in BiH” is implemented in ITA since September 2018. The activities of the project are focused on practical implementation of the NCTS at national level and at Common Transit Convention level and providing management support for NCTS. The activities also focus on legal harmonisation, assistance in implementing new legislation and improvement on working methods in the Indirect Taxation Authority.

The Law on Customs Policy in BiH, which implies “paperless customs”, is in force since July 2021. All participants in customs procedures must have an additional qualified signature, and from that date the application of the New Computerized and Transit System (NCTS) in BiH will begin. The transition to electronic communication in the field of customs will speed up all customs procedures and reduce costs. Also,

ITA is in process of verifying as certification body for issuing quality certificates for digital signatures with EU assistance. ITA is currently working on preparations with an international accreditation body to obtain a Conformity Certificate which remains the only condition for verification with Ministry of Transport and Communication. The technical part has been completed, the Indirect Taxation Authority will in 2021 become a certified body in Bosnia and Herzegovina for the issuance of digital signatures, which will completely replace the handwritten signature and seal.

Within this action, it is planned to procure the Excise Movement and Control System (EMCS). EMCS is a computerised system for monitoring the movement of excise goods under duty suspension in the EU. It records, in real-time, the movement of alcohol, tobacco and energy products for which excise duties have still to be paid. The implementation of this system is important in terms of facilitating the exchange of information and in the light of compliance with the obligations arising from the future harmonization of laws with the EU.

One of ITA's most important roles is also to facilitate trade in balance with control measures. In order to perform this role, software for the integrated electronic customs tariff TARIC is necessary. TARIC, the integrated Tariff of the European Union, is a multilingual database integrating all measures relating to European Union (EU) customs tariff, commercial and agricultural legislation. TARIC is used on the national level in the sense that it represents a database in which all measures are integrated (tariff measures, agricultural measures, commercial measures, measures relating to certain prohibition of movement of goods, customs rates, tariff suspensions, quotas, excise rates, tax rates, goods that are in the regime of prohibitions and restrictions, statistical measures, etc.), applicable in trade with the EU, but also with third countries, and is a useful tool in the work of customs officers. Procurement of this software is planned through IPA 2020 AD, and setting up a fully functional software is planned through this AD. In addition, new system will allow for risk-based approach to inspection and control, eliminate petty corruption from inspection of small traders.

In accordance with the Commission's 2021 Analytical Report, Bosnia and Herzegovina also needs to continue the process of harmonization of VAT and excise duties legislation with the EU *acquis*.

The legislation in this area includes the Law on value added tax, Law on excise duties, Law on indirect taxation system in Bosnia and Herzegovina, Law on the indirect taxation authority, Law on indirect taxation procedure, Law on the procedure of forced collection of indirect taxes, Law on payments to single account and allocation of revenues.

It is necessary to harmonize the following aspects of law on VAT with the EU *acquis*: VAT scheme in construction, the transfer of business assets, and exemptions for international agreements. A Law on excise duties is in force since January 2005. Bosnia and Herzegovina apply excise duties on tobacco, alcohol, non-alcoholic beverages other than natural juices and water, fuel and coffee. Considerable discrepancies from the EU *acquis* exist for excisable goods as regards scope, classification of the goods, exemptions, structures and the minimum rates, thus the planned intervention should result with the necessary alignment.

Through the IPA 2017 Twinning project that is currently being implemented, activities are carried out in order to amend indirect tax legislation with the aim of further alignment with the EU *acquis*, therefore the planned intervention under this AD represents a logical continuation of reforms in this area. Also, support under this area represents continuation of assistance planned through IPA AD 2020 EU4 Efficient Public Financial Management.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action

**Area of support 1: Further support to the Indirect Taxation Authority of Bosnia and Herzegovina (EU4ITA)**

The main stakeholder of the Action in this area of support is the Indirect Taxation Authority (ITA) of Bosnia and Herzegovina.

### 3. DESCRIPTION OF THE ACTION

#### 3.1. Intervention Logic

**The (expected) impact of this Action** is to improve the contribution of indirect taxes to revenue of Bosnia and Herzegovina.

The **Specific Objective (Outcome)** is to further support to the Indirect Taxation Authority of Bosnia and Herzegovina to further align with EU *acquis* and to implement legislation and practices in the field of indirect taxation.

If EMCS software for complete control of excise products in accordance with EU practice has been developed (Output 1.1), tariff integrated software TARIC finalised (output 1.2) and customs and tax legislation further aligned with EU *acquis* (output 1.3), the Outcome 1 will be achieved. To achieve the Outcome 1, it is necessary that assumption recognised as IT experts engaged on software development establish effective cooperation with competent staff in the respective institutions, hold true.

This would be achieved by developing EMCS software for full control of excise products in line with EU practice, finalizing tariff-integrated TARIC software, further aligning customs and tax legislation with the EU *acquis*. Improving the IT system is crucial for faster and secure data exchange, but also for an efficient revenue collection process.

#### 3.2. Indicative Activities

##### **Outcome 1: Further support to the Indirect Taxation Authority of Bosnia and Herzegovina**

**Output 1.1** Developed EMCS software for complete control of excise products in accordance with EU practice (Service contract/Procurement)

The main role of the ITA is to collect revenues from indirect taxes in BiH. The introduction and implementation of new procedures in the area of indirect taxation require adequate IT tools, especially software developed according to the current needs and compatible with existing applications.

The new Draft Law on Excise Duties has a completely new approach to taxation in terms of facilitating the functioning of the economy and reducing tax burden of taxpayers. A deferred payment system is being introduced, which has not existed before. For the new Law on Excise Duties to be implemented, it is also necessary to develop an implementing regulation or Rulebook on the implementation of the new Law on Excise Duty, for which the experience and practices of EU experts are of great importance. This will be done with EU experts in IPA 2017 twinning project. When finished all legal parts the implementation cannot start without a software which is controlling the movement of excise goods EMCS (Excise Movement Control System). Proposed activity include:

1.1.1 Develop or procure software for complete control of excise goods EMCS. The EMCS provides Member States with an electronic system to monitor the movement of these goods in real-time, in order to ensure that the duties are properly levied at the final destination. The software should enable the processing of all relevant data; documentation, software testing and training

**Output 1.2** Finalised tariff integrated software TARIC (service contract)

In order to have simplified and EU aligned procedures implemented, besides support in legislative reforms, support is needed to develop software compatible with existing applications. One of ITA's most important



roles is also to facilitate trade in balance with control measures. In order to perform this role, software for the integrated electronic customs tariff TARIC is necessary. TARIC, the integrated Tariff of the European Union, is a multilingual database integrating all measures relating to European Union (EU) customs tariff, commercial and agricultural legislation.

TARIC is used on the institutions at the State level in the sense that it represents a database in which all measures are integrated (tariff measures, agricultural measures, commercial measures, measures relating to certain prohibition of movement of goods, customs rates, tariff suspensions, quotas, excise rates, tax rates, goods that are in the regime of prohibitions and restrictions, statistical measures, etc.), applicable in trade with the EU, but also with third countries, and is a useful tool in the work of customs officers. The process of developing TARIC software should be initiated within IPA 2020 project which is still to be verified by BiH parliament. Proposed activity include:

1.2.1 Finalisation of software for TARIC, the integrated Customs Tariff

**Output 1.3** Further alignment of customs and tax legislation with EU *acquis* (Twinning)

1.3.1. This output includes one activity dealing with assistance in the drafting of legal and secondary legislation and operational instructions in the field of indirect taxes, continuation of work on the results of the previous twinning projects.

### **3.3. Mainstreaming**

#### **Environmental Protection, Climate Change and Biodiversity**

The Action aims at strengthening PFM and will not have any negative impact on the environment and effect on climate change. The activities from this action will be delivered in the most environmentally friendly possible way. Green procurement will be promoted for all activities related to the implementation of the Action, in turn supporting its mainstreaming in the wider PA.

#### **Gender equality and empowerment of women and girls**

The Gender Action Plan (GAP) of Bosnia and Herzegovina (2018-2022) is the framework strategic document for mainstreaming gender equality in all areas of social life. GAP BiH is aligned with the relevant European Union Strategy for equality of men and women and other relevant strategic documents of the Council of Europe, European Union and United Nations. Gender responsive budgeting is a principle for defining all the measures in each priority area of GAP BiH. It is required that each budget beneficiary makes an analysis of the budget impact on different needs of men and women. Gender mainstreaming of the Action contributes to the implementation of GAP BiH. This is also in line with the EU Gender Equality Strategy 2020–2025, which emphasizes that the structural reform support programme can support Member States in mainstreaming gender in public administration, state budgeting and financial management.

#### **Human Rights**

Based on the fundamental principles of promoting equality and combating discrimination, participation in the action will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation, as well as taking into account promotion and participation of people with disabilities. During implementation of activities anticipated in the action, full respect of minorities and vulnerable groups will be ensured. This Action will contribute to addressing the rights-based approach by strengthening the capacity of the government to ensure citizens' rights are being respected and the capacity of citizens to demand their government work to ensure their rights through improving the transparency and efficiency

In October 2019, the BiH CoM adopted the *Information and the Guide for Taking Effective Measures to Prevent Gender-based Harassment and Sexual Harassment in the Workplace in BiH Institutions*. In addition, the BiH CoM has requested that relevant institutions adopt a *Decision on Zero-Tolerance Policy for Sexual Harassment and Gender-based Harassment*, as well as to adopt advisors who should tackle these issues.

## Democracy

Civil society organisations have been consulted throughout the design of the intervention which is supposed to represent the basis for the Action development. When it comes to the implementation of this specific action, all envisaged activities will be open to cooperation and setting synergies with civil society organization and other interested non-state stakeholders if needed.

## Other considerations

Improvement in the public service and strengthened good governance to be gained from the Action in the area of PFM will be beneficial for minorities and vulnerable groups too. Publicity and dissemination of information will help to empower minorities and vulnerable groups as well as the society as whole. Based on the fundamental principles of promoting equality and combating discrimination, participation in the Action will be guaranteed on the basis of equal access regardless of racial or ethnic origin, religion or belief, disability, age or sexual orientation.

### 3.4. Risks and Lessons Learned

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
Legality and regularity aspects	Changes in the government and lack of political support	M	M	Mitigation measures to be determined

#### Lessons Learned:

The PFM area has been recognised as integral part of the Public Administration Reform and has been continually supported in the previous period as follows:

- IPA 2020 - EU4 Efficient Public Financial Management – Its implementation is planned in the coming period
- IPA 2017 - Further Support to Public Finance Management in Bosnia and Herzegovina (programme budgeting) - The project envisages continued support in the area of program budgeting, which represents an even more extensive capacity building action at all levels of government in BiH for the full implementation of the program budget, as well as the creation of a legal basis for a full transition to program planning. This action ensures the continuity and implementation of the Roadmap for the comprehensive introduction of the program budget.
- IPA Project “Strengthening PFM in Bosnia and Herzegovina” which started in 2013 was focused on capacity building and it provided a significant support to introduction of programme budgeting. The project prepared an accompanying methodology in the form of a Programme Budget Handbook. Roadmap explaining the need for legislation and IT systems at all levels of government to support the comprehensive introduction of programme budgeting outlines further steps in this area.

- The Swedish Tax Agency in cooperation with all tax administrations in BiH implements “Strengthening the capacity of Tax Administrations in BiH”. The main lessons learned is that active partnership and cooperation of the project with user institutions, respecting their needs within the given scope of intervention, contributes the most to the timely achievement of results.

The experience of previous projects implemented in the ITA indicated that better results are achieved when activities are focused on a few selected topics/institutions, rather than targeting a wide range of topics and stakeholders with a limited number of activities. In October 2013, August 2015 and July 2018 the Result Oriented Mission for monitoring from EU was performed in ITA and all the findings like relevance, efficiency, effectiveness, sustainability and horizontal issues got the highest grades.

The main lesson learnt from the previous and ongoing support is that actions have been taken in the absence of a long-term strategic vision. It is clear that introduction of the programme budgeting in any country is a complex and long-lasting process, which requires a continued support and full commitment of all relevant institutions. For this reason, continuous support in this area is essential for further reform steps.

### 3.5. Indicative Logical Framework Matrix

Results	Results chain: Main expected results	Indicators	Baselines 2020	Target 2026	Sources of data	Assumptions
<b>Impact</b>	To improve the contribution of indirect taxes to revenue of Bosnia and Herzegovina	1 Progress made in meeting the accession criteria in the area of public financial management (fundamentals chapter and chapter 32)	Early stage of preparation	Moderately prepared	Commission Reports	
<b>Outcome 1</b>	Further support to the Indirect Taxation Authority of Bosnia and Herzegovina to further align with EU <i>acquis</i> and to implement legislation and practices in the field of indirect taxation	Increased collection of indirect taxes	5565,6 million BAM	6348,3 million BAM	ITA website ITA Annual Report	Electronic signature applied
					ERP	
<b>Output 1.1 related to outcome 1</b>	Development of EMCS software in accordance with EU practice	Improved control of excise products	0	20%	- Records on handing over and testing the software - Software installed and fully operational	Effective cooperation with IT experts
<b>Output 1.2 related to outcome 1</b>	Development of tariff integrated software TARIC	Improved capacity for trade facilitation	0 (software)	1 (software)	Records on handing over and testing the software - Tariff integrated software TARIC fully operational	Effective cooperation with IT experts
<b>Output 1.3 related to outcome 1</b>	Further alignment of customs and tax legislation with EU <i>acquis</i>	Improved legislation in the field of indirect taxes	15 draft legal acts on customs, VAT and excise	25 draft legal acts on customs, VAT and excise legislation in line	Final report of the Twinning project The number of draft legal acts on customs,	Active participation of relevant staff.

			legislation in line with the EU <i>acquis</i> .	with the EU <i>acquis</i> .	VAT and excise legislation is in line with the EU <i>acquis</i> .	
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## **4. IMPLEMENTATION ARRANGEMENTS**

### **4.1. Financing Agreement**

In order to implement this action, it is envisaged to conclude a financing agreement with the Bosnia and Herzegovina.

### **4.2. Indicative Implementation and Eligibility Period**

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date entry into force of the financing agreement. Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

### **4.3. Methods of implementation applicable for Project modality**

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>9</sup>.

#### **4.3.1. Direct Management (Grants)**

##### **(a) Purpose of the grant(s)**

Twining grant has been envisaged as implementing modality in the area of indirect tax (ITA) aiming in further alignment of customs and tax legislation with EU Acquis (*Output 1.3*). With regard to customs and tax legislation alignment with EU Acquis, the peer to peer activities will be implemented through institutional cooperation between Public Administrations of selected EU Member State(s) and the administration of statistics in Bosnia and Herzegovina

##### **(b) Type of applicants targeted**

Choosing twinning grant as an implementing method in the area of indirect tax is due to already proven pathway of successful implementation of this type of intervention many times in previous actions implemented with IPA support. The part of the action concerning **Output 1.3** will be based on learning by doing principle and sharing of EU best practices in the most sustainable way.

##### **(c) Justification of a direct grant**

N/A

##### **(d) Exception to the non-retroactivity of costs**

N/A

#### **4.3.2. Direct Management (Prize(s))**

N/A

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<sup>9</sup> www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

### 4.3.3. Direct Management (Procurement)

The activities related to Outcome 1 of this Action will be implemented under **direct management** by the EU Delegation in Bosnia and Herzegovina. The operational procurement will contribute to achievement of the Outcome 1 recognised as cooperation of institutions in BiH in charge of revenue collection in order to further harmonize with the EU requirements and best practice improved.

Procurement procedure is the choice and responsibility of the authorising officer. In case it is necessary to launch a call for tenders with a suspension clause before the adoption of this Financing Decision, the launch date must be mentioned and the nature of the exceptional circumstances hindering the possibility to launch the call after the Financing Decision is adopted must be explained. Moreover, the internal NEAR /INTPA prior approval procedure must be followed.

### 4.3.4. Indirect Management with a [Member State Organisation] [third donor country] [EU specialised (traditional/regulatory) agency] [international organisation]

N/A

### 4.3.5. Indirect Management with an IPA III beneficiary

N/A

### 4.3.6. Contribution to <name of the relevant Regional Investment Platform>

N/A

### 4.3.7. EFSD+ operations covered by budgetary guarantees

N/A

### 4.3.8. Changes from indirect to direct management (and vice versa) mode due to exceptional circumstances (one alternative second option)

Implementation under Indirect management with entrusted entity may be used as an *alternative modality* for this action that is planned to be implemented in **direct management**. Entrusted entity (es) will be selected by the Commission's services using the following criteria:

- Financial and operational capacity of the applicant.
- Technical capacity, such as experience in the preparation and implementation of joint capacity building and similar projects;
- experience in managing programmes or projects related to the results, extensive experience in the implementation of similar projects in the area of PFM/PAR, and documented capacity to mobilize relevant networks in the EU Member States, BiH and the region, etc.
- Criteria related to the quality of the Concept Note, including relevance;
- consistency with the objectives, results, and activities of the Action, expected impact;
- sustainability and cost-effectiveness

If negotiations with the entrusted entity fail, that part of this action may be implemented in indirect management with other alternative entity which shall be selected by Commission services using the same selection criteria. In case the envisaged entity would need to be replaced, the Commission's services may select another replacement entity using the same selection criteria given above. If the entity is replaced the decision to replace it needs to be justified.

If negotiations with the entrusted entity fail, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in section 4.3.3

#### 4.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

#### 4.5. Indicative Budget

<b>Indicative Budget components</b>	<b>EU contribution (amount in EUR)</b>	<b>Indicative third-party contribution, in currency identified</b>
Methods of implementation – cf section 4.3		
<b>Outcome 1.</b> Further support to the Indirect Taxation Authority of Bosnia and Herzegovina (EU4ITA), composed of	<b>3 500 000</b>	N/A
Grants (direct management) – cf. section 4.3.1	1 000 000	N/A
Procurement (direct management) – cf. section 4.3.3	2 500 000	N/A
<b>Evaluation</b> – cf. section 5.2 <b>Audit</b> – cf. section 5.3	will be covered by another Decision	N/A
<b>Communication and visibility</b> – cf. section 6	will be covered by another Decision	N/A
<b>Contingencies</b>	0	N/A
<b>Totals</b>	<b>3 500 000</b>	

#### 4.6. Organisational Set-up and Responsibilities

The main beneficiary is Indirect Taxation Authority (ITA) of Bosnia and Herzegovina.

For the implementation of each contract a Steering Committee will be established.

The Steering Committee(s), consisting of all relevant stakeholders involved in a specific AD Component/Outcome (related outputs), will be established at the beginning of the Action implementation.

Steering Committee(s) will oversee the implementation of activities under this Action. Apart from Contracting Authority, Steering Committee(s) will include representatives from main stakeholders from all levels of



authorities in BiH. The composition of the Steering Committee(s) will ensure equal representation of the interest of all key actors highlighting the effectiveness and efficiency of such body.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

The role of the EU Delegation will be to ensure alignment of the provided assistance with the EU Agenda for BiH.

#### **4.7. Pre-conditions**

N/A

### **5. PERFORMANCE MEASUREMENT**

#### **5.1. Monitoring and Reporting**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support). The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Thus, the monitoring of the implementation of this Action will be the implementing partner's responsibilities and that of the EU operational manager. Both types of internal monitoring will be undertaken in an inclusive way, involving key stakeholders.

The different responsibilities for this dual internal monitoring are the following:

- Implementing partners' monitoring will aim at collecting and analysing data to inform on progress towards planned results' achievement to feed decision-making processes at the action's management level and to report on the use of resources.
- EU operational manager monitoring will aim at complementing implementing partners' monitoring, especially in key moments of the action cycle. It will also aim at ensuring a sound follow-up on external monitoring recommendations and at informing EU management. This monitoring could take different forms (meetings with implementing partners, action steering committees, on the spot checks, reviews), to be decided based on specific needs and resources at hand.

The performance and result monitoring arrangements will be finalised once the IPA III Implementing Regulation is adopted and the Framework Agreement between Bosnia and Herzegovina and the European Commission on the arrangements for implementation of Union financial assistance to Bosnia and Herzegovina under the Instrument for Pre-Accession Assistance (IPA III) is signed.

Additionally, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement. External monitoring will be implemented through Result-oriented Monitoring (ROM). This will provide, as necessary and required, an independent assessment of the on-going or ex-post performance of the Action.

## **5.2. Evaluation**

Having regard to the nature of the action, a mid-term and/or final evaluation will not be carried out for this action or its components.

In case an evaluation is not foreseen for some action's components, the 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 financing of the evaluation shall be covered by another financing Decision.

## **5.3. Audit and Verifications**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be financed under a difference decision.

## **6. COMMUNICATION AND VISIBILITY**

Visibility of EU funding and communication about objectives and impact of Actions are a legal obligation for all Actions funded by the EU, as set out in the EU communication and visibility requirements in force.

In particular, the recipients of EU funding shall acknowledge the origin of the EU funding and ensure its proper visibility by:

- providing a statement highlighting the support received from the EU in a visible manner on all documents and communication material relating to the implementation of the funds, including on an official website and social media accounts, where these exist; and
- promoting the actions and their results by providing coherent, effective and proportionate targeted information to multiple audiences, including the media.

Visibility and communication measures shall be implemented, as relevant, by the national administrations (for instance, concerning the reforms linked to PAR), contractors and twinning grant beneficiaries. Appropriate contractual obligations shall be included, respectively, in financing agreements, procurement and twinning grant contracts.

The measures shall be based on a specific Communication and Visibility Plan, established and implemented in line with the EU communication and visibility requirements in force. The plan shall include, inter alia, a communication narrative and master messages for the Action, customised for the various target audiences (stakeholders, civil society, general public, etc.)

Visibility and communication measures specific to this Action shall be complementary to the broader communication activities implemented directly by the European Commission services and/or the EU Delegations and Offices. The European Commission and the EU Delegations and Offices should be fully informed of the planning and implementation of the specific visibility and communication activities, notably with respect to the communication narrative and master messages.

## **7. SUSTAINABILITY**

The action will produce sustainable results since it is designed to support the already existing beneficiary institution and structure that are already in place, but which require additional assistance in the complex process of the harmonisation with the Acquis and the latest international standards in the field of PFM. All outcomes related to this action are linked to already established structures and procedures at all levels of the government and will result in sustainable outcomes.