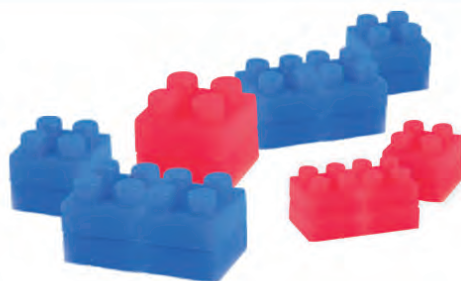
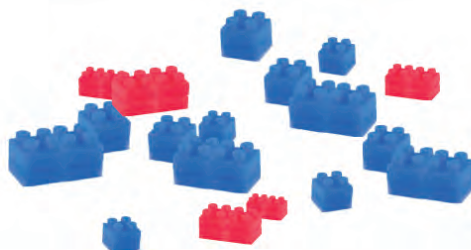


It is good to build well

CORRECTIONS OR REMODELING ?

Analysis of development options in local self-governance in BiH



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This Study is a product of EDA, the development agency from Banjaluka (for more information, please see www.edabl.org). It was prepared by the team of experts comprising: Prof. Zdravko Zlokapa, Aleksandar Draganić M.A., Branislav Bijelić M.A., Ranko Karapetrović and Zdravko Miović M.A. (team leader).

Banjaluka, May 2008

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FOREWORD

This Study was created within the framework of the project “*Development and introduction of multi-type units of local self-governance in BiH*”, which is being implemented by the development agency EDA with support provided by the Open Society Fund BiH and the Local Governance and Public Service reform Initiative of the Open Society Institute from Budapest. The project itself is one of priorities of the *Local Self-Governance Development Strategy in BiH*, which we created in 2006 with support provided by major cities and municipalities and consensus of all stakeholders from public and non-governmental sector.

The Study examines the possibilities of transformations in basic models for organization of local self-governance in Republika Srpska and the Federation of Bosnia and Herzegovina, through analysis of available options for territorial and functional reorganization. The main options for local self-governance development previously identified in case-studies from Denmark, Slovenia, Croatia, Macedonia and BiH (published in 2007, in the book “Block by Block: it is good to build well”), have been examined from the aspect of opportunities and consequences of their application in BiH. Only feasible options that have strongest support in past and present power relations have been covered.

The completed analysis is complex and comprehensive. Each option was “filtered” through the prism of spatial-demographic circumstances, economic and financial implications, socio-political assessments and, eventually, necessary interventions in laws and regulations. Assessment of solutions’ plausibility for key stakeholders was completed through the questionnaire-based survey conducted among municipal mayors and members of the entity Parliament.

This Study is the result of the dedicated work of an interdisciplinary team of experts covering different fields of expertise (ranging from the socio-political sphere and economic-financial analysis to spatial planning and normative sphere), acting in various sectors and institutions (from public, private and non-governmental sectors, to assembly administration, faculties, institutes and *think tank* organizations). Key contributions were made by Professor Zdravko Zlokapa (methodology, synthesis of separate segments of analysis and, in particular, the most sensitive socio-political tier of analysis), Aleksandar Draganić, M.A. (economic-financial aspect of the analysis, data processing and analysis of survey results), Branislav

Bijelić, M.A. (analysis and simulations of spatial-demographic circumstances) and Ranko Karapetrović (normative-legal aspect of the analysis).

In dilemma of whether to offer the more comprehensive and detailed version, which is more suitable for the professional public, or the concise one, as preferred by the political audience and decision makers, we finally opted for the first alternative. Such a decision was made not for the reason that we value the professional public more than the political (both are equally very important), but due to the importance, substance and sensitivity of the problem in focus of this analysis. We need to remember that England and Wales had been postponing the reform of their municipalities for nearly one century by reason of anticipated civil resistance, and that local self-governance reform in Sweden had lasted nearly half a century for the very same reason. Naturally, that does not mean that we advocate for the postponement of such reform here. We care about effective changes that are based on serious analyses. Here we have one such analysis, which recommww

Zdravko Miović, team leader

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SUMMARY

Although the reform of local self-governance has began more than a decade ago, with the adoption of new Laws on Local-Self-governance (1991 in RS and 1995 in FBiH), the results in this field are still very modest. All other pillars necessary for building up of a stable state – the creation of new institutions, introduction of rule of law, economic reforms and especially the return of refugees – have received more resources and attention from local governments and the European Union than it was the case with local self-governance. It ought to pass ten or so years in order to understand that the main pillars of society and state have their fundamentals in municipalities and that none of them are stable unless the ground on which they stand is steady. In other words, it became visible that neither economic system nor the central state institutions can successfully be reformed if the system of local self-governance is not reformed and developed accordingly.

The reform of local self-governance is still going on, thanks to the support provided by individual donors and the efforts of local government and the non-governmental sector. As for the government(s), previous changes were to a great extent pure consequence of political measures undertaken in order to deal with other problems while at the same time only touching marginally on local self-governance, causing different disturbances in the municipalities. The drawing of the inter-entity boundary line, for instance, has parenthetically created a dozen of undersized municipalities which do not fit in the existing model (in which the medium and large municipalities are dominating), which are economically unsustainable and it is almost impossible to disestablish them. Due to unpredictable consequences brought by spontaneous development it is necessary to start with the planning of local community's development as soon as possible. This planning must include two institutional levels – entity and municipal. This document deals with the first level only and presents different options for the development of local self-governance in BiH.

The development models depend on the existing institutional and territorial structures but also are dependent on the vision which has been presented as desirable. The existing situation is perceived as the source of different limitations. One should bear in mind that limitations are generally apprehended and interpreted very partially: usually the objectively non-negotiable obstacle is something that is not suitable for certain powerful social groups or, which more often is the case, as something that does not fit into the plans of ruling political opinion. In this analysis we have considered all circumstances and power relations, which

resulted in the shortening of the list of possible policy options to the following four, among which the most effective one should be chosen, i.e. the option which is most suitable due to its quality and eligibility for the key actors on whom its adoption and realisation depends. Complex, multi-level analysis of these options included spatially-demographic circumstances, economical and financial implications, socio-political assessments and necessary interventions in legal regulation.

1. The “*status quo*” option entails that nothing essentially should be changed within the local self-governance system; keep all existing demographically, economically and territorially uneven municipalities while the system should continue to adjust to the changes in the environment with reactive and enforced adaptations. The existing monotype municipality structure and existing municipalities’ dependence on central state bodies should be maintained while the citizens’ participation should probably decrease.
2. The “*small municipalities*” option would bring territorial and demographic mincing of existing municipalities (instead of present 143 municipalities in BiH, around 350 local communities would be created), significant mincing of its authorities and probable increase of municipality dependence on higher authority levels which would take over most of existing municipal duties. There is a possibility that in such small municipalities citizens’ participation would grow up but it is more likely that small municipalities will become the prey of local gangsters or local political party branch offices.
3. The “*large municipalities*” option would mean the annulment of small and unsustainable municipalities and establishment of demographically and economically strong local self-governance units with an increased number of duties and with the administrative apparatus capable of implementing them in order to satisfy the citizens’ needs. The implementation of this option relies on the preciseness of rational selection theory and on the presumption that public interest will always outweigh over the egoistic interests of particular social groups and municipalities – which is not certain at all.
4. The “*keep and improve*” option is not designed to deal with deep changes that usually involve intensive conflicts with groups and interests that are contradicting changes in society. This option recommends the small steps progress (“*step-by-step*”). This means that changes would refer to adjustments of competencies to realistic possibilities of municipalities by applying minimal

territorial corrections, i.e. the introduction of poly-type municipal structure is anticipated (for instance city, regular municipal or rural) with adequate competencies. This model should specify who is going to perform the deprived competencies in smaller municipalities while the additional mechanisms of monitoring and control should be built into this model.

It is the matter of political choice and assessment to decide upon which of these options is most acceptable but it should be remembered that political choice is not impartial since it is to a great extent caused by interest and depends on power relations. Within the framework of this policy analysis, the survey of the standpoints and opinions of two groups has been carried out and these two groups, according to the theory of institutionalism, have the determining influence on the implementation of the existing local self-governance model and would have the crucial influence on possible redesign of that model or its substitution for something completely different. Those are members of entity parliaments and municipal mayors. The first group is responsible for passing the laws by which territorial organisation and local self-governance are regulated while the other group is enforcing them and live by them. A tendency to accept existing territorial and institutional solutions as permanent although not good solutions can be observed in both groups of respondents. The threshold of readiness for changes regarding territorial organisation is low: the marginal majority of mayors and almost two thirds of members of Parliament are willing to accept only minimal territorial corrections. At the same time, more than three quarters of respondents in both groups would accept a more flexible approach regarding the scope of competencies which would lead to the adaptation of competencies to real the capacities and real needs of municipalities.

I INTRODUCTION

Historical background

Over the course of the last decade, local self-governance, as a part of the wider political system, has been exposed to deep changes in the same way as the entire BiH society, which some fifteen years ago accepted a new development paradigm utterly different from or even opposite to the preceding one. The planned economy was substituted with a market and competitive economy, the single-party system was replaced by a multi-party and pluralist political system, and social relations in their entirety became less rigid and more relaxed. The encounter with highly developed capitalist economies revealed all the economic and political weaknesses of socialism; each transitional country had been resolving its problems in its own manner, however within the framework of the single - democratic-capitalist – modernisation paradigm that had already been applied in many developed countries.

Yugoslav socialism – which, as *benevolent totalitarianism*, to some extent differed from the hard core totalitarianism in the form in which it existed in Eastern Europe – bequeathed to all the succeeding countries of the former Yugoslavia, thus to Bosnia and Herzegovina as well, a specific form of the local self-governance, the so-called *communal system*, that is to say a form for application of integral self-governance at the local level. Local self-governance was a mere emanation of the state, for which reason the municipalities in socialist BiH were burdened by state affairs and local economy management, undoubtedly detrimental to the completion of elementary communal and other services that municipalities normally offer to their citizens. In view of the fact that the ideological model of the communal system had envisaged that an increasing number of state functions would be transferred onto municipalities – communes, a municipality was

conceived as an administrative unit with high performance competencies that is large in territory, demographically rich, economically comprehensive and with appropriate capacity of human resources.

No major accomplishments had been achieved in the development of this model, with the exception of the territorial transformation of municipalities that were gradually consolidated until they became – statistically observed – Europe’s largest, in territory and in population.

In the period between World War II and year 1992, the territorial reorganisation of local self-governance in Bosnia and Herzegovina had the tendency of territorial and demographic consolidation. Nevertheless, primarily as a consequence of war activities and inter-entity demarcation, the last 16 years resulted in certain territorial and demographic attrition. The table below summarises the changes in territorial organisation of local self-governance in BiH, in the last 55 years.

Table 1 – Development of the territorial organisation of local self-governance in Bosnia and Herzegovina (BiH) in the period 1952 – 2007

DEVELOPMENT OF THE TERRITORIAL ORGANISATION OF LOCAL SELF-GOVERNANCE IN BOSNIA AND HERZEGOVINA (BiH) IN THE PERIOD 1952 - 2007					
YEAR	AREA BiH (km ²)	POPULA- TION BiH	NUMBER OF MUNICIPALITIES IN BiH	AVERAGE AREA OF MUNICIPALITY IN BiH (km ²)	AVERAGE POPULATION OF MUNICIPALITY IN BiH
1952	51221*	2791000**	418	122,54	6677
1962	51197	3336000**	122	419,65	27344
1991	51197	4377033	109	469,70	40156
2007	51197	3873000	142	360,54	27275
* BiH area in 1953					
** Population, mid-year - estimate					
SOURCE: Spatial-planning documentation, authors calculations					

The Table shows that the average area of municipality increased from 122.54 km² in 1952 to 360.54 km² in 2007 i.e. that the average municipality area nearly tripled. In a demographic sense, the same period shows that the average population of the municipality had quadrupled.

Economic and social development had not been consistent with these spatial and demographic changes, hence the Yugoslav municipalities had remained among the most undeveloped and poorest local communities in Europe.

Economic position of local self-governance

Bosnia and Herzegovina does not represent a typical example of one comprehensive approach to meeting citizens' needs in the sense of public economy functioning, and therefore of mechanisms that distribute the economic effects of particular activities to a greater number of citizens. Devastated after the civil war and mentally crippled due to the countless ideological failures of the former socialist system, Bosnia and Herzegovina commenced the process of building authority and governance that should serve its citizens. As it emerged from the war with four levels of authority (some even claim with five levels, considering existence of *lex specialis* units of local self-governance), problem of financing and creation of balanced economic units came into first view.¹ Therefore, local self-governance, forgotten and uncared for by decision-makers at the highest level (including international arbitrators), remained at tail end throughout the creation of a single economic area, democratic market economy, privatisation processes, property utilisation, etc.

The territorial organisation and consequential distribution of state and society functions have a major influence on the economic position of a particular level of authority. Since BiH has four levels of authority (state, entity, cantonal – in FBiH – and local), the position of self-governance units in these relations is not surprising at all. According to data set forth in the Table 2 of the Annexe, we can see that the allocations for municipalities are significantly lower in FBiH than in RS (2.27% as compared to 7.28% of the respective entity's gross domestic product). At the same time, the allocations for the middle level of authority (entity and cantonal level in FBiH, and entity level in RS) are lower in RS (16.83% of the entity GDP) than in FBiH (20.26% of the entity GDP). The data on allocations for extra-budgetary funds (pension and disability insurance, employment, health insurance and child care) are approximately at the identical level of entity GDPs (13.12% in RS and 14% in FBiH). The structure of expenditures is significantly influenced by the system of financing, based on cantonal regulations, which is greatly amended by the new Law on the Allocation of Revenues of the Federation of BiH².

¹ Samuelson and Nordhaus argue that government expenditures (as well as the government control) grow faster than other economic activities in crisis periods – depressions, wars or care for social problems such as poverty, thus in such cases the government's authorities expand. Following the crisis, government control and expenditures never resume the preceding level.

² Pursuant to the Law on the Allocation of Revenues of the Federation of BiH, municipalities receive 8.42% revenues from indirect FBiH tax, at least 28.5% of revenues raised from income tax, fee charged for utilisation and development of the building land, and other fees and taxes pursuant to local regulation

	Cantons									
	Bosna-Drina	Herceg-Bosna	Herceg-Neretva	Posavina	Sarajevo	Srednja-Bosna	Tuzla	Una-Sana	Zapadna-Hercegovina	Zenica-Doboj
Participation of municipal expenditures in cantonal expenditures	11.26%	23.94%	49.53%	12.79%	6.06%	23.49%	31.68%	26.81%	19.04%	11.10%

Source: Audit reports; OMA; author's calculations

The relation between cantonal and municipal authorities in FBiH can be seen in the above Table, showing the percentages of expenditures by municipalities, ranging between 6.06% of cantonal expenditures in Sarajevo Canton and 49.53% of cantonal expenditures in Hercegovina-Neretva Canton. These considerable discrepancies in allocations for local self-governance are the consequence of the economic power of individual cantons, inconsistency in cantons' treatment of local self-governance units and enormous discretionary rights in transfer of competencies and functions, thus consequently in the resources allocated for their realisation. The structure of municipal revenues is as such that the ratio of revenues derived from taxation and non-taxation sources is practically equal, 50:50.³

In the Republika Srpska, units of local self-governance have a relatively good position, if an observed indicator is the participation of public expenditure at local level as compared to the entity level gross domestic product. Namely, if this indicator is observed, the units of the local self-governance in the Republika Srpska are in a better position than units in Slovenia, where local level expenditure is 3.5% of GDP, Croatia (5.16% of GDP) and Macedonia (1.7% of GDP). Such a situation is a consequence of entity level's better treatment of the local level, when

³ According to a regression analysis of the number of inhabitants and type of municipal revenues (calculation of the coefficient of determination), it is established that 76.57% of a municipality's taxation revenues was explained by the number of inhabitants, whereas the remaining share can be attributed to other factors (canton-municipality relation in allocation of revenues, and other unexplained factors).

it concerns decisions on the allocation of revenues.⁴ The structure of revenues of local self-governance units in the RS is such that approximately 2/3 of the revenues of local self-governance units come from taxes (particularly significant is the component of indirect taxes) whereas 1/3 comes from non-taxation revenues (including grants).⁵ The structure of most important municipal revenues in RS and FBiH is shown in graphical charts in the Annexe.

The aforementioned analysis of the economic and financial framework with the two functioning systems of local self-governance in Bosnia and Herzegovina (in the Republika Srpska and the Federation of BiH) is also very important in the context of the results to which any of the possible policy options for harmonisation of the territorial organisation and the scope of competencies of the local self-governance units lead, and will serve us as a starting point for an analysis of available options.

4 According to the Law on Budgetary System of RS, municipal budgets receive: 24% of revenues from indirect taxes that are attributed to the Republika Srpska, 25% of income tax, 70% of fees charged for re-categorisation of agricultural land, 70% of fees charged for utilisation of minerals, 30% of repossessed property and resources from sales within the competences of Republican market inspectorate.

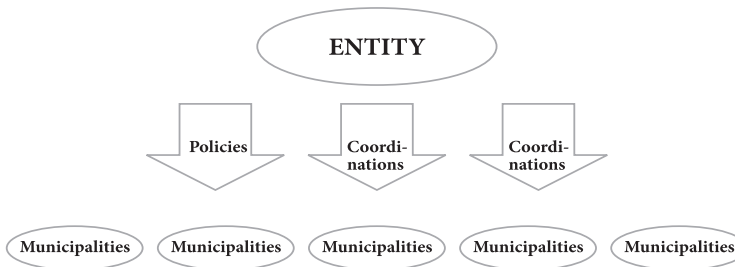
5 Particularly noteworthy and significant for future consideration of the territorial organisation of municipalities in the Republika Srpska and Bosnia and Herzegovina, is the coefficient of determination of revenue types as compared to the number of inhabitants. According to the data for RS, it was established that 93% of municipal revenues deriving from taxation sources are explained by the number of inhabitants, while the rest is attributed to other factors. This is naturally logical, since taxes are allocated in accordance with the administrative origin (with the exception of revenues allocation from the unique treasury account), however according to the formula in which number of inhabitants has a significant effect on distribution (70%).

General development options

All the above should be born in mind while considering a modern model of local self-governance in BiH and while projecting the future development of municipalities in Bosnia and Herzegovina. Namely, of all the former Yugoslav republics, BiH is the slowest in its advancements in post-socialist transition and progress towards the West European integrations. Therefore, BiH must employ all the factors that could help it to accelerate its development. Local self-governance is one of those social and political resources that could be utilised for that purpose.

Roughly and simply speaking, it may be said that Bosnia and Herzegovina is facing two development opportunities. Neither of them excludes fully the role of the central state nor it eliminates local self-governance, but both place some other factors into first view while neglecting or de-emphasising other ones.

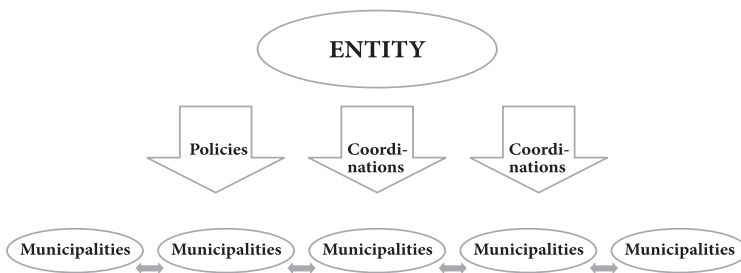
According to the first option, development is initiated, stimulated, directed, coordinated, monitored and re-directed from the top; the central state and entity bodies have a dominant role in all issues, while local communities only implement the strategies and policies devised by the state.



Such development – managed by the iron hand of a centralised state – is not a historically rare case, although it occurs in specific occasions and ends well, owing to the mere luck and chapter of accidental circumstances. In XIX century, West European countries passed through the period of so-called enlightened absolutism, which was nothing else but orchestrated and centrally directed development. In the middle of the XX century, Singapore, Hong Kong, Japan, South Korea and Taiwan developed their economies in this manner, and essentially

without liberally conceived freedom, whereas China still persists on this development model. Centralised and authoritarian states of Latin America were not lucky enough to have their development attempts ending as fortunately as those in Far East. BiH had spent long time in a centralised and planned system, with the final outcome of it being the fact that BiH is today one of most undeveloped countries in Europe. Even though we believe that this development option is ill starred and little possible for BiH at the beginning of the 21st century, we are of the opinion that it should not be totally excluded from considerations. Withal, BiH with the operational Office of the High Representative is still in the situation that the highest authority (although not state authority) passes the most important decisions, determines the general direction and development goals, and sometimes even interferes with the most concrete affairs in local communities. However, we trust that such situation is not permanent, even though it does not mean that it must necessarily be replaced with another democratic alternative.

In addition to the role of the state, the *second development option* takes into consideration all other social sub-systems, thus it also reviews the role of local communities in the development process. The reason for that is the fact that social development is not perceived solely and exclusively as economic development but as a multidimensional process in which economic aspects are important (particularly in undeveloped and poor countries such as ours) but despite that, development cannot be managed with economic resources only. Local communities can significantly contribute to this perception of development. Their role is to create favourable conditions for the conduct of business activities, in which no state can replace them – although, an inadequately organised state may represent a huge obstacle in more uninhibited engagement of local communities.



Local self-governance as a factor of development

For a long time, BiH had been a totally isolated country, and, to a great extent, it is still the case. However, opening towards the world is a necessity and only then will BiH feel the full pressure of world markets and competition. All resources will have to be employed in the struggle for survival of the weak domestic economy, where local communities can make a significant contribution. Specifically, the self-development of local communities and their attempts to provide their citizens with the highest possible level of services are intermediary but an enormous assistance in the development endeavours of the society and each individual company. This does not entail only the creation of a favourable business climate in a municipal territory, support to business and promotional activities, or only the development of the infrastructure that will also be available to potential investors and creation of special economic zones – some municipalities do not have the basic preconditions for any of it. However, one thing that all municipalities can do is a modernisation of the local governance that must not force its citizens to spend their free or working time waiting in queues due to trivial administrative complications; parents need to be freed of child care by available kindergartens and playgroups where necessary; primary health care needs to be available and accessible to all citizens; an appropriate level of utility services needs to be ensured, etc. – concisely, municipalities need to provide their citizens with living conditions that will satisfy them as citizens and at least partly relax them as workers.

The political aspects of development – the creation of an open and democratic society – also have their origins in local communities. If citizens do not enjoy freedom in their municipalities – they will not enjoy it at higher levels of the state organisation either. (The opposite is true as well; anyhow, there is a proverb in social sciences that “the municipality is the primary school of democracy”, while a similar sentence has never been constructed with use of the state, which remains a synonym for authoritarian and hierarchical organisation which is, in principle, not inclined to the freedom and democracy.) In order to accelerate the development of the BiH society and to have all development aspects – economic, social and cultural – equally represented, i.e. for social development to be unvarying and balanced – it is necessary to include the system of local self-governance into development calculations.

Development trends

No analyst who takes his/her job responsibly will dare forecast the direction of development in any country. The whirl of social events can always mean that something will occur to change or redirect previously foreseeable development tendencies. What all analysts rely on are *development trend* based on stable and enduring social structures. Development is always multivariate, but the variable that will prevail in a critical moment cannot be anticipated with certainty. The introduction of supplementary variables into the analysis drastically increases the number of possible outcomes, while a prediction based on few variables is greatly general and risky, since one modification can entirely change the development trend and devalue such a prediction.

Policy analysis of the development of the local self-governance in BiH needs to encompass the most probable options, i.e. to indicate those trends that have the strongest support in the past and present circumstances. Elements that policy analysis cannot avoid, even when those cannot be quantified, include:

- The influence of the tradition and customs on the reform implementation in local self-governance,
- The influence of new institutions and measures (which cannot be associated with the number of new regulations),
- The relation between central bodies and local self-governance, and
- The behaviour of local elites towards their own environments, i.e. towards central bodies and reform measures.

Local self-governance is deeply rooted in tradition and to a great extent reflected in old time habits, even if some institutions have disappeared or have been replaced by new ones. Earlier analyses showed that our local communities are essentially traditionalist, i.e. closed and conservative. It is immeasurable how much this traditionalism influences the functioning of the local self-governance, but it is certain that it must not be neglected.

On the other hand, an increasing number of institutions are penetrating into local communities, they are modernised, voluntarily or forcibly opening to the world,

introducing electronic governance and similar recently unthinkable innovations, benevolently accepted at the local level and acting as a flywheel of further development.

The behaviour of central bodies towards the local self-governance may critically determine the future development of local communities. For example, should the view prevail that development is easier managed and controlled if centrally conducted; it could result in the adoption of regulations that weaken the autonomy of local communities, decrease the number of their competencies, reduce the sources of their income, etc.

Finally, the behaviour of local elites towards their municipality may prove to be a very important variable. If economic and political elites are locally orientated and ready to counteract to measures coming from party or state centres – it means the existence of a local front that is willing to oppose to excessive centralisation. Confrontation between the centre and periphery does not need to be open and ferocious, but in small countries such as BiH even minor opposition to the policy of the centre may induce the crisis and disruptions.

Problem in the centre of analysis

The central problem of this analysis is the revelation of incongruity between the normative model of local self-governance as defined by the Constitution and laws on one hand, and the factual model that exists and functions on the basis of relations of power and dominance, on the other. Since this disharmony produces severe dysfunctions and tensions in the entire political system, the need for its elimination becomes an important political demand. Such a conception of the problem logically creates a *research task* that can be expressed as a search for the optimal model of local self-governance that could be successfully built on the existing institutional structure, and would at the same time represent the solution of problems identified in the present model. In order for this search to be successful, the basic research task will be accomplished through the following stage tasks:

- Identification of development trends;
- Selection of those development trends that can justifiably be assumed to become dominant trends;
- Identification of measures that could strengthen those trends, in which manner the transitional pains of local communities would be mitigated and development of the entire society would be accelerated.

II

METHODOLOGICAL EXPLANATIONS

Complex analysis: as necessary as hard

Most frequently, in the pragmatic political activities of governments, especially in Balkans and particularly in BiH, serious analyses of available policy options are omitted. Everything is reduced to practical intervention in the normative domain, to analysis and corrections of the bylaws regulating the problem that is on the Government's actual agenda. Economic analyses and simulations of the economic costs and effects of some possible solutions are rarely undertaken prior to adoption of the final decision, despite the fact that the legislator prescribes the obligation to include the results of the economic analysis concerning costs induced by the introduction of a new solution in the preambles of the decision⁶. The demographic, social, socio-psychological and political consequences of the government's moves, decisions and law are almost never analysed in advance.

Due to the complex nature of the problem we cope with, here we have to apply a complex, multi-level analysis, covering spatial-demographic circumstances, economic and financial implications, socio-political assessments and necessary interventions in legal regulations. In so doing, a normative analysis will always come at the end, its natural position, since the format of the norm comes after research and definition of contents that are normatively shaped. Regarding other levels of the analysis, in this explanation, and later in the analysis, will shall start

⁶ *Ministries and entire governments assess and explain only their, administrative costs, while neglecting costs that other parties will have in introduction and implementation of a certain solution. Thus, most frequently, we cannot talk about any concrete economic analysis.*

from issues that are easier to measure and methodologically less arguable and work towards issues that are harder and different to “measure” or require different “measurement”, and where methodological reliability is almost inversely proportional to the depth and coverage breadth of the problem treatment.

For the spatial-demographic level of the analysis we use customary **spatial and planning criteria**, i.e. the criteria used for definition of spatial units. These criteria are:

- Functional links in space and among inhabited settlements (work migrants, education, culture, health sector, administration, etc.);
- Current equipping of the space and inhabited settlements with technical infrastructure (traffic, power/energy, hydro-technical, telecommunications, utilities);
- Current equipping of the space and inhabited settlements with social infrastructure (public services) such as facilities for education, culture, health care, social care, utility activities, administration, sport;
- Existing traffic network, distance from centres, availability of contents (time-distance);
- |Population size / number of inhabitants;
- Terrain characteristics of the space;
- Historical factor (centrality⁷ and gravitation zone in past);

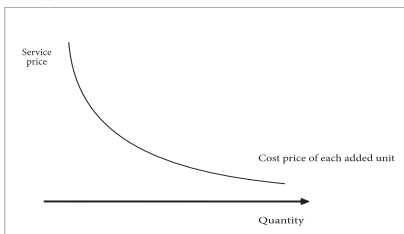
All these criteria do not have the same importance. Thus, historical factor cannot be considered as the main criterion, since the space is a dynamic category. The economic level of the analysis is slightly more complicated. In confronting the number of more-or-less important and favourable economic criteria and financial aspects that are essential for the organisation of local self-governance, on one hand, with the statistical slackness and unreliability of the available data, on the other, we selected the following criteria, as a least bad option:

- Economic sustainability of local self-governance units,
- Economic efficiency in provision of local public services, and
- Economic sustainability of local self-governance systems.

⁷ Centrality of an inhabited settlement (centre) entails the sum of all distinct functions of that settlement, primarily functions concerning surrounding space (trade, traffic, education, health care, administration, etc.).

Economic sustainability of local self-governance units entails the possibility that the available resources ensure the execution of all legally envisaged activities and tasks falling within the units' competencies (regulatory and utility) and the satisfaction of citizens' needs. Since the scope of competencies ranges from adoption and implementation of development plans and programmes, through regulation of basic economic and social activities, to environmental protection and certain functions concerning health care and education, inability of some local self-governance units to fulfil their legally prescribed responsibilities and to satisfy the needs of their citizens should not come as a surprise. Analyses of different municipalities and analyses of budgets and financial indicators provide a convincing line of reasoning that there are huge horizontal dissonances between municipalities, which can be partly eliminated with certain re-composition of space, scope of competencies or introduction of defined equalisation mechanisms.

Economic efficiency in provision of public services represents a concept in which all decisions are adopted with a view of results created by separate inputs. For example, whether any of the listed solutions for future territorial organisation (small or large municipality, uniformed or multi-type competencies) will affect the provision of public services shall primarily depend on economy of scale and profitability of the provided public service. Efficiency is based on the fact that the unit price of a provided public service is exactly what needs to determine the organisational form of a provider and the "market" in which the particular service will be provided. Efficiency is in direct correlation with the economy of scale, which specifies that each additional unit decreases the unit cost price of the product/service.



The dominantly monotype form of organisation of local self-governance units had, in its essence, contained the argument of economy of scale (provision of cheaper services with given investments) for all services provided by the local government. This meant that efforts had been made to find an adequate territorial organisation and distribution of competencies that would appreciate all activities to be entrusted to local self-governance. The state had been attempting to resolve differences that had existed between certain municipalities and their abilities to

satisfy citizens' needs for particular services by intensive investments that were based on degree of development/undevelopment, with the aim of equalising the provision of public services in the entire territory. The attempts were more or less successful, depending on a current status and the ability of any particular local self-governance unit to impose itself as a priority. However, more recently, there have been some considerations concerning the optimal size for particular services. This argument is in direct correlation with the postulates of the school of public choice, stating that, if forms of economies of scale exist for particular services, it is necessary to complete functional integration, regionalisation or partnership with some private organisation that provides the same service in several units of local self-governance. Supporters of public choice⁸ believe that it is always better than to agglomerate local self-governance units, when all services are provided collectively (the reason for monopolistic inefficiency).

Economic sustainability of local self-governance systems expresses its robustness, i.e. the homogeneity rating of the entire economic and financial aspect of the appropriate model of local self-governance. We shall use the measure of standard deviation of the budget per capita for each of the analysed models/options. This indicator shows the total deviation in individual municipalities with respect to an average. Theory and practice imply that a system is more sustainable if the standard deviation is lower, i.e. if deviations from the average are not substantial for individual cases within the entire group, i.e. all local self-governance units. Substantial standard deviations indicate the need for system corrections where these occur, since separate parts of the system always require certain exceptions from rules that determine the whole system. We should note here that, in addition to the legality oversight as the main function of higher levels of authority in relation to local self-governance, the constant need for interventions concerning exceptions is one of the higher levels' key justifications for the permanent desire to control the everyday activities of local self-governance units. The existing large standard deviation in systems of local self-governance in the RS and FBiH is the indicator of misbalance among local self-governance units, both from the territorial and demographic aspect and from the aspect of economic and financial capacities in fulfilment of uniformed competencies prescribed by laws that regulate this area.

⁸ *The analogy of this school derives from considerations on economic monopoly that by definition «levies the rent» while fragmentation itself is observed as the introduction of a perfectly competitive economic model entailing that local (self-)governance units retain low taxes, provide more efficient services and allow individuals (analogy to consumers) to express their preferences for different levels of services and decisions reached by local self-governance units in a manner to be asked as directly as possible.*

How to measure the unmeasurable ?

We can merely imagine the roughest silhouettes of the social, economic, demographic, socio-psychological, organisational and political disruptions that will be generated by administrative and territorial changes. What will be reactions of people, and what will be reactions of their institutional and organisational entities – in this case municipalities – when their institutional environment changes completely? How long will it take them to accommodate to the new conditions? Will that be just passive adaptation or can resistance and demands for amendments in the new legal framework be expected?

Could an approximate estimation be made of what material and human resources are entailed by one such voluminous and deep socio-political change that would mean partial or complete change of municipal boundaries, thus requiring certain changes in people's routine behaviour and customs? Is it at all possible to calculate the human costs of such social perturbations that affect all citizens, since these are never followed by court proceedings in order to establish that the individual endured "mental suffering and pains" and no pecuniary remuneration is ever established? However, the existence of such a price is confirmed by the fact that reform of municipalities in England and Wales had been postponed for nearly one century by reason of the anticipated civil resistance motivated by "regards for the existing local order". Had not the reform of local self-governance in Sweden dragged on for nearly half a century for the very same reason? On the other hand, the similar substantial social reform called "the introduction of the communal system" in Yugoslavia was completed in only ten years, although not a single valuable social research on it was conducted either before or after the reform.

The very same reason – the implementation of administrative-territorial reforms and the anticipation of their socio-psychological and political implications – must be observed from another point of view: does a change caused by the abolishment of some and the establishment of other municipalities cause any psychological consequences at the individual level or do people move through institutional networks disregarding how they change, some of them disappearing and some new emerging? This second option is hard to believe, since institutional arrangements directly influence people's behaviour, change their habits and require them to establish new behavioural patterns. Yet, what is the influence of some institutional arrangements on other institutional arrangements? Are adjustments automatic and instantaneous or do they require certain time and efforts? Is Ogburn's theory of "cultural lag" still current? We should not forget

the fact that this famous sociologist formulated his theory while working on the national report, i.e. political report, on the influence of advanced technical and technological changes on various segments of American society and the manners in which these segments are adjusted⁹.

All these issues are related to one of the hardest and most controversial problems of the social sciences in general, and of sociology and political sciences in particular; it is still an open problem of the capacity of these sciences to develop their prognostic aspects to the extent that can merit them the title of science. Efforts of social sciences that have been made in an attempt to match the exactness of predictions, in prognostic sense – something that was very successfully achieved by naturalists – resulted in total failure; it could be said that these attempts have been abandoned since the thirties of the past century, especially since the uncertainty principle became dominant in the natural sciences. Following the development of chaos theory, which in the natural sciences shifted the emphasis from the certainty and determination to uncertainty and coincidence, the social sciences stopped their discussions on predictions in the sense of reliable predictability and started discussions on predictability in sense of knowledge of particular trends.

What is true at the macro level of the social organisation seems in this case to be true at the micro level as well. In other words, in the same way that it is impossible to predict epochal social changes (in sense of a shift of socio-economic formations) it is equally hard to predict with high certainty how municipalities would behave in circumstances that are entirely different to those in which they currently function. Municipalities, as well as societies, are not linear systems, the behaviour of which can be predicted by the mere application of the formula “if → then”. Municipalities are complex geographic, economic, demographic and socio-political systems with greatly different capacities and resources, and can respond to the same normative and institutional changes in a completely different and entirely unpredictable ways.

⁹ Ogburn's theory of cultural lag, which is also called the theory of the billiard ball, suggests that changes in the social system may derive from any of its segments (even though it is most frequently the case that these derive from the economic segment of the society), spreading to other segments as “billiard balls”. In other words, changes in one segment of the society cause corresponding changes in its other segments. However, adjustment is not instantaneous, but often comes after a period of particular, brief or lengthy, lag in adaptation, thus the social system spends a time of disharmony in a state of imbalance and social disruptions; a new balance and social peace are established when all sub-systems adjust to the changes.

The prediction of personal, group and institutional reactions is still possible to some extent. All municipalities have identical or greatly similar organisational and institutional structures. This – a rigid and stable skeleton that we are acquainted with relatively well and that is to the greatest extent a product of conscious efforts of people and political engineering – is exactly what we rely on in our predictions; such an institutional and organisational framework responds to “stimulations” by a prescribed and well-known pattern, and is in that sense very reliable. The theory of rational choice proved to be the most useful in the interpretation of citizens’ behaviour. According to this theory, citizens participate in collective actions only if the collective goals that are achieved by the collective activity are in a positive correlation with their own personal interests; moreover, the theory is consistent and suggests that citizens will even avoid participation in those collective actions that merit them some personal benefit if such benefit can be achieved without personal engagement and under the mask of mass participation of others.

A prediction always refers to a future that appears as a consequence of changes in the present. It is very simple to make predictions in circumstances without or with minimal changes. Yet, that is not the situation in our municipalities. They change dynamically, whereas the system of local self-governance must adjust to those changes, and moreover, needs to stimulate and direct them. Our specific problem is in the manner in which changes are accepted and experienced. In psychology, observations have been made that social changes may occur significantly faster than people’s ability to accommodate to them. In most people, fast changes cause the feeling of discontentment and resistance; we believe that such a feeling in our municipalities and among our citizens are considerably stronger than it is the case in the environments we tend to compare with. We do not have a reliable answer to the question why it is the case, but we presume that it might be a consequence of the general social atmosphere that is pervaded with pre-modern values and is distinctly traditionally oriented. The dissolution of the state in which all adult citizens of our municipalities were born is still in progress, which instigates additional ethnical and political tensions, increases the resistance to changes and slows down the development of local self-governance units.

Despite all that is said, the development is inevitably progressing. In our municipalities, progress may be seen all over the place, even though signs of destructions and dilapidation are also visible everywhere. We are making this warning on account of the exceptionally contradictory processes that simultaneously occur in our municipalities; those peculiar and diversified occurrences significantly

complicate every attempt to create a single theoretical framework that would lead to explanations of everything that happens and that would enable us to acquire more certain insight in what will follow.

To the greatest extent, our analysis will rely on modern theories and methods of social sciences, and will also use the results of the political practices of our and other countries; the analysis will also appreciate the tradition and experience, however with some sceptical distance deriving from the fact that political and administrative measures are implemented in an environment that is different to environments with well-known experiences, and even different to itself some twenty years ago.

That does not reduce the need for a comparative approach. On the contrary, the comparative approach in this case is the method that will enable or at least will attempt to enable the emphasis of prognostic elements. Herein, one needs to be very restrained in drawing any definite conclusions and should constantly bear in mind the fact that the forthcoming reform of the local self-governance – the implications of which we are trying to predict – is the unique social situation without an exemplar, i.e. that the exemplars' value is so limited that their imitation must be equal to the creation of a new original.

Two remarks on the style

At the end of this introduction, we need to make two remarks on the style.

Writing an analysis that refers to the future is an unappreciated and uncertain task. Since there is no way to predict and describe the future social, economic, political and demographic processes with high certainty, each sentence relating to such a vague future should include some disassociations or reservations. In the view of the fact that such approach would complicate writing and reading, in addition to distorting the text, we recommend our readers to complement all our bluff statements with adverbs “probably” or “possibly”, hence the entire analysis will appear to be authentic and realistic.

Secondly, the style of this analysis is imbalanced. Many researches and authors of different backgrounds and with different styles participated in its creation and final shaping. Instead of smoothing such differences in style and shaping them up into the same format, we decided to leave them visible to readers. No analysis of or solution to any complex problem would be possible without the team work of various experts and a variety of approaches. Therefore, a genuine team work should remain visible in the final version as well. Not all readers of such studies are universal. Therefore, the expert readership too should be left with an opportunity to communicate with the text in the way they are accustomed to.

III POLICY OPTIONS

Local self-governance is very vital for the social (sub) system that can absorb major changes. For a long time, experts believed that space was an inadaptable category and that there were ‘natural’ units predisposed by their geography, economy and history to be municipalities. The territorial structure of municipalities in some countries had not changed in centuries as the ‘natural’ bonds between people and local region had been presumed. The policy of space changed substantially in recent decades, and the main change is reflected in space adjustments to the needs of human communities.

Policy analysis needs to display the potentials of several realistically possible and attainable models for the reorganisation of local self-governance. In this phase of project implementation, we believe that it would be productive to focus researchers’ attention on the following four models, and that the results attained should be a base for the exploration of other models or the elaboration of one of the options:

- A) ***The “Status quo” option*** This option – entailing that nothing should essentially change – needs to be seriously considered, although the present territorial structure of local self-governance is neither logical nor functional (large and small municipalities exist in parallel), even though the single-level type is not usual and the monotype concept is not good in the situation of huge discords in the size of local communities. Sociology recognises the inclination of social systems to change as least as possible, and option that does not seem to be optimal may however become attractive, especially if we take into consideration politicians’ desire to handle common and predictable social mechanisms. Analysis should point out all the final consequences that may emerge from this model, which is already showing its many weak points.

- B) ***The “Small Municipalities” option*** Some of the former Yugoslav republics – now independent states, have radically transformed their local self-

governance, reducing its authority almost to a minimum, splitting the space of former large municipalities into dozens of small ones and introducing multi-type organisation. Should this model be applied, BiH would need to be divided into 300-400 municipalities and 50-100 cities, while policy analysis just needs to examine the socio-political, demographic, economic and other implications of this model.

- C) ***The “Large Municipalities” option*** The large municipality does not merely entail a large territory, but also means a large population and substantial authority. Since homogeneity is the essential feature of each planned model, and in this case entails that variations among municipalities are minimal, it involves necessary harmonisations and major changes with respect to the current status. This so-called Scandinavian model of local self-governance mostly resembles the earlier model of the communal system, with the exception of the municipality’s active role in local economic management.
- D) ***The “Keep and Improve” option*** Social systems are inert and politicians dislike major changes, since these mean ventures into the unknown and the unpredictable. Therefore, seemingly acceptable is a model that would in essence retain the existing territorial formation of municipalities (a model already proven and to a certain extent accepted by state authorities and from the inside supported by the interests of local elites), but would introduce the polytype organisation; this would enable harmonisations of municipal competencies and organisations with their size and economic-demographic potentials, while requiring a minimum of institutional and organisational changes. Although the depth, volume and prices of socio-political modifications cannot be the only acceptability criteria of any model, these can significantly influence politicians’ decisions concerning the choice of proposed options.

Every of these options was analysed by alternate inclusion of already emphasised aspects: spatial-demographic circumstances, economic and financial implications, socio-political assessments and necessary interventions in legal regulations.

Following the analysis of all the options, we shall include the opinions of key stakeholders (primarily municipal mayors and representatives in entity parliaments) in order to “gauge” the acceptability of options and then recommend a solution that contains the appropriate balance of quality and acceptability.

A) The Status quo option

Retaining vast territorial and demographic differences

Retaining the existing status of the territorial organisation of local self-governance would stipulate the continuing existence of 30 spatially and demographically small municipalities, the majority of them not having the basic economic, technical and social infrastructure for normal functioning.

The main feature of the present status of the territorial organisation of local self-governance, from the spatial and demographic aspect, is a distinct discord in the territorial and demographic size of local self-governance units. Such discord is primarily a result of war activities, i.e. the establishment of the inter-entity boundary line that divided many municipalities in Bosnia and Herzegovina, while creating new municipalities that are in a majority of cases smaller in territory and in size of the population. The total number of bordering municipalities created in this manner on the inter-entity boundary line (entity border) in BiH is 30. Of that number, 18 municipalities are in RS and 12 in the Federation of BiH.

Everything is clearly visible in concrete examples. If we consider municipalities with a territory that had not changed in the period 1992 - 2007 (municipalities that were not intersected by the entity border), the difference between the largest and the smallest local self-governance unit in RS, with regard to spatial and demographic size, was 4.45, i.e. 21.85 times respectively (Banja Luka – Čajniče). On the other hand, in year 2007, the greatest difference in the spatial size of the municipalities was 43.07 times (Banja Luka – Istočna Ilidža), and greatest difference in demographic size was an entire 6343.7 times (Banja Luka – Istočni Drvar)! In both cases, opposed to Banja Luka as the territorially largest and the most populated municipality in RS, are municipalities located on the entity border: Istočna Ilidža and Istočni Drvar.

The spatial difference between the smallest and the largest complete municipality in today's Federation of BiH before the year 1992 was 13.59 times (Livno – Breza), and demographic difference was 33.65 times (Zenica – Neum). In year 2007, such differences in both the spatial and the demographic sense had increased. Thus, the difference in the territories of the largest and the smallest municipality in FBiH (Mostar and Doboј-jug/Doboј South) is 115.63 times, and the demographic difference between the most populated municipality in the Federation - Tuzla and the demographically smallest municipality in the Federation of BiH – Ravno is 202.74 times!

Anyhow, the municipalities located along the entire entity border in BiH are in a majority of cases characterised by small territorial and demographic size (consequently, by low population density, with the exception of Istočna Ilidža), as well as by the low level of social and economic development. Thus, for example, of 18 such municipalities in the Republika Srpska, according to the municipality development rating list for 2007 and 2008 (The RS Official gazette 81/07), even 16 municipalities are categorised as undeveloped and extremely undeveloped municipalities. These 16 municipalities do not have urban settlements, they have weak technical infrastructure and public services, and the local governing structure is characterised by an unfavourable qualification structure (education level) and below-average IT equipment. A presumption may be made that similar features exist in the 12 FBiH municipalities located on the entity border.

Increasing differences in level of development

As observed from the economic and financial aspect, it may be concluded that maintenance of the existing status concerning territorial organisation and volume of competencies would lead to increasing differences in the level of development within and among local self-governance units. Here, we do not merely observe the microeconomic entirety in the form of individual municipalities, but the overall territory and the necessity of consistent economic, political, social and any other development. In the observation of the geographic structure of the most undeveloped municipalities, we can see that these are usually located on entity borders, geographically far from urban centres, and with terrain extremely inaccessible for the development of any meaningful infrastructure (to satisfy the requirements of the critical mass of the population). However, these territorial units do exist and it is necessary to consider possible consequences in this respect.

In order to have a better understanding of the *economic sustainability of these municipalities*, it is necessary to reflect on the structure of country's gross domestic product (GDP) and the manners in which it is generated. According to World Bank data, 14.2% of GDP is generated by the agricultural sector, 30.8% by industry, and 55% by services. With respect to the given structure, and in relation to the already explained unfavourable geographic (and demographic) position, the question emerges whether and to which extent can small and insufficiently developed municipalities be economically sustainable, from the standpoint of the

existing powers and the need to execute all legally prescribed competencies in their territories. Since the aforementioned municipalities do not have any major industries, both due to historical factors and absence of a workforce (with the exception of wood-processing industry, which is based on utilisation of natural resources and export activities, without any major processing), and since services cannot develop given that the markets are too small, the only source of income is in the utilisation of natural resources and land. However, even the natural and geographic position along with climate and meteorology conditions is not favourable for these small and insufficiently developed municipalities to enable them to develop this sector of economic activity. The aforementioned data are necessary for better understanding, as the economic strength is the basis for the municipalities' fiscal capacity, i.e. for financial development opportunities concerning a particular space and its economic sustainability. This is confirmed as being true by the example of the municipalities of Kupres, Istočni Drvar and Istočni Mostar in the Republika Srpska, where all citizens' revenues in the form of local taxes (consumption taxes, property and income taxes, and various administrative and utility levies) are not even nearly sufficient to cover current administrative costs (employees' wages and material costs) in the municipality, let alone further development. According to all analyses¹⁰, these municipalities are unsustainable in an economic and financial sense, given that their operating costs exceed by several times the revenues derived from taxation sources. The economic sustainability of these municipalities is based on charges levied for the utilisation of natural resources, which are shared with the entity in the proportion 70:30, as well as on the relatively large participation of current and capital transfers by the entity¹¹, intended for the uninterrupted work of the administration, without major investments into infrastructure. The situation is similar in the FBiH, concerning cantons that have municipalities which emerged after inter-entity demarcation and cannot find their way towards economic sustainability. Other municipalities are economically and financially sustainable, but with distinct discords in fulfilling some of their responsibilities and in satisfying citizens' needs.

In order to understand a specificity of differences existing among the municipalities, in particular from the aspect of *fulfilling competencies and the provision of public services*, we decided to mention the previously listed municipalities only

¹⁰ See Table 3 in Annexe, with budgets of all municipalities in the Republika Srpska in 2006.

¹¹ Current transfers represent grants allocated by higher levels of authority, due to the necessity of fulfilling particular competencies and ensuring the functioning of the administration, as well as to providing assistance to the undeveloped. Capital transfers are amounts granted to municipalities for infrastructural development (schools, water plants, roads, etc.)

as examples, with a detailed functioning overview of five small¹² (up to 5.000 inhabitants) and five large municipalities (regional centres)¹³ in RS, whereas for the Federation of BiH we would only comment on the facts that significantly deviate from the situation in the Republika Srpska.

According to data from the municipal budgets for 2005 and 2006 (see Table 4 in Annexe), budgetary per capita expenditures in small and large municipalities do not differ significantly. According to the analysis of municipal budgets and actual practices, it is evident that the state uses transfers in attempts to equalise municipal budgets (per capita) since the fiscal capacity of municipalities is largely based on number of inhabitants, hence larger and wealthier municipalities levy more resources from indirect taxes, income and property taxes (representing approximately 70% of the total municipal revenues) than it is the case with smaller and mainly undeveloped municipalities.

However, what is indicative is the fact that the majority of these transfers are used for administration functions (wages and other administrative costs). Namely, according to budget analysis, it may be observed that salaries, other costs of municipal council members and regular operating costs (fuel, electricity, utilities, etc.) consume 50-80 % of the budget in small municipalities, provided that capital grants received from higher levels of authority or from abroad are excluded from the calculations. Contrary to this, situation in large municipalities is different, thus salaries, fees and regular operating costs consume no more than 40% of the available budget, though with some exceptions as well.

The greatest differences in capacities of municipalities are observed in the structure of allocated expenditures in municipal budgets. Even though municipal competencies as envisaged by the RS Law on Local Self-Governance include social welfare services (provision of conditions for maintenance, development, extension and equipping of child and youth social care facilities; adoption of municipal social welfare development programme and encouraging the development of social welfare programmes in municipalities; creation of preconditions for provision of quality social services to their citizens and provision of resources required for payment of legally prescribed entitlements), small municipalities usually neglect these activities, mainly due to a lack of resources. According to a functional structure of expenditures in budgets, as set forth in the table below, we can see that small

12 Here we opted for the municipalities of Berkovići, Jezero, Istočni Stari Grad, Osmaci and Trnovo

13 Banja Luka, Doboј, Prijedor, Bijeljina and Trebinje

municipalities allocate a mere 1-5% of their budgets to social welfare, whereas in large municipalities this item receives up to 15-20%. The situation is similar with allocations for education, health care and recreation, culture and religion. Due to the essential character of administration operations, the fulfilment of numerous activities transferred from the state and large share of administrative costs in the budget, small municipalities do not have capacities to dedicate to these activities (partly due to material, and partly due to human resources). Apart from allocations for administration costs, small municipalities make the greatest allocations for the maintenance, reconstruction and modest development of communal utility and road infrastructure, which does not leave them with any manoeuvring space for the development of the so-called social infrastructure that legislators envisaged as the competency of municipalities. The social infrastructure is a foundation for the further development of a particular space.

Functional structure of expenditures in municipal budgets for 2006										
	Small municipalities					Large municipalities				
	Berkovići	Jezero	Istočni Stari Grad	Osmaci	Trnovo	Banja Luka	Bijeljina	Prijedor	Doboj	Trebinje
General public services	64,05%	52,61%	40,98%	95,06%	58,49%	83,05%	22,69%	13,98%	30,93%	26,94%
Defence	0,00%	0,00%	0,00%	0,64%	0,00%	0,00%	0,00%	0,07%	0,67%	0,00%
Public order and security	0,00%	0,00%	0,04%	0,00%	0,00%	0,00%	0,00%	2,46%	2,79%	2,50%
Economic activities	5,43%	39,90%	0,00%	0,00%	0,00%	3,84%	9,30%	13,54%	11,97%	33,75%
Environmental protection	0,00%	0,00%	10,32%	0,00%	0,00%	0,00%	1,43%	0,04%	0,00%	6,57%
Housing and general issues	23,28%	0,15%	39,11%	0,00%	36,28%	0,00%	37,49%	47,43%	13,45%	4,37%
Health care sector	0,00%	0,02%	0,70%	0,35%	0,48%	0,62%	3,49%	0,53%	0,74%	1,04%
Recreation, culture and religion	0,86%	1,94%	2,68%	0,31%	2,76%	0,00%	9,45%	4,69%	13,68%	9,57%
Education	4,92%	0,66%	0,40%	0,20%	0,35%	8,90%	9,74%	9,47%	7,19%	5,45%
Social welfare	1,46%	4,73%	5,77%	3,44%	1,65%	3,58%	6,40%	7,80%	18,58%	9,83%

Source: Municipal budgets for 2006 (implementation)

NOTE: Some municipalities do not break all expenditures by functions, thus there are some variations (for example, in Banja Luka, environmental protection, recreation, religion and culture, housing and general issues, defence, security and public order are merged under "denominator" as classified general public services)

In observation of the *efficiency in provision of public services*, we can notice that the present situation with regard to local self-governance units is very bad. While economies of scale had dominated in the logic of monotype municipalities and existence of the same functions and competencies at the local level, not all municipalities have the capacity to fulfil them in the same manner. We should point out that decisions on the transfer of particular functions of higher levels need to be determined by a necessity to provide particular public services in accordance with common standards in the entire territory, along with the provision of the resources required for their implementation. Problems occur in provision of all public services in the relations between the centre and the periphery, and in municipalities that are dominantly rural and demographically small, where problems concerning the infrastructure (water supply facilities, sewers, roads, public lights, etc.) multiply.

The major problem in maintaining the present situation with regard to territorial organisation and structure of competencies is the (dis)harmonisation of *capacities* of local self-governance units, i.e. harmonisation as implemented in the present manner. Namely, due to the inability of the legislature to approach the problem of identification of those municipalities that need assistance in their implementation of legally envisaged competencies in a more objective manner, all indicators are observed *per capita*.

This represents a huge problem in cases that involve the development of a particular space and the conduct of particular functions regardless of the economic justifications. If, for example, we observe the budget per capita, it cannot be relevant that, according to this indicator, municipalities of Drvar or Drinić Petrovac have better performances than the city of Banja Luka or any other relatively urbanised municipality (or municipality with a higher population density). A paradox occurs since the objectivised criteria use already objectivised data, thus harmonisation is reduced to a satisfaction of municipality's basic needs (mainly manifested in administrative costs) whereas the mere fulfilment of functions envisaged by the law is left in the background. For example, the same applies to use of (un)employment rates, number of vehicles, number of physicians, number of telephone connections, length of arterial and regional roads, where the local self-governance unit has no capacity and no resources to exert any influence, nor do these issues fall within its powers. Even if these criteria had been valid in the cases of former large municipalities, the present situation requires more adequate mechanisms for the assessment of the status in some municipalities.

In order to illustrate the existing discords from the standpoint of the actual local self-governance system in RS (and some possible alternatives of transformation), we shall try to observe the aforementioned “objectivised” criterion in the form of the budget per capita, in the context of the entire local self-governance system. With respect to the *economic sustainability of the local self-governance system* as a whole, the present situation can be described as rather bad. According to data on municipal budgets for 2006 (following adjustments to current and capital-transfers, completed by entity authorities)¹⁴, the standard deviation of the per capita budget in the existing system of the RS territorial organisation is 1399.66. Simply said, this indicator shows the extent to which the per capita budget in municipalities deviates from the average (amounting to 574.9 KM *per capita* for all municipalities). It is evident that such a huge standard deviation from the system occurs because of some small (demographically empty) municipalities, in which state’s transfers increase the per capita budget by amounts multiple to those typical for an average municipality. As we already said, it is at the same time one of main arguments for the greater interference of higher levels with local activities, even though their only task should be to control the legality of the work of local self-governance units.

As explained earlier, we shall reflect on the system of local self-governance in FBiH with reference to some issues that differ from the situation in RS. Concerning the existing status, it is a relationship between the cantonal level and the local self-governance units. According to introductory data, the participation/share of municipal expenditures in cantonal expenditures greatly differs among cantons. Since the distribution of functions and activities by the cantonal level, beside utility services that are as a rule local, shows significant variations, it is very difficult to analyse the effects of the current local self-governance system from the economic and financial aspect. What differs FBiH from RS is the fact that the municipalities receive significant resources from higher levels, based on road charges and utilisation of oil derivatives, which they later use to improve the road infrastructure, meaning that higher levels are particularly present in the construction/reconstruction of water supply and sewer infrastructure in undeveloped and small municipalities. Such behaviour of higher levels of authority in FBiH places the local self-governance in a subordinate position, as the discretionary rights of higher levels determine the economic and financial position of the local self-governance.

14 See Table 3 in Annex

Deepening negative social and political trends

The status quo option is the option that cannot be avoided in the analysis, even if its realisation seems to be completely improbable – as is the case here. It is difficult to believe that the local self-governance system shall remain unchanged despite all the criticism addressed to its functioning and particularly to its territorial component; however, as we shall see, it is a quite realistic alternative. We shall first evince what is the status of the local self-governance units, and subsequently illustrate the implications entailed by retention of such status.

As already said, the local self-governance is monotypic, which means that only one type of local unit exists and that all of them have the same competencies¹⁵. The illogicality of such legal status of local self-governance units is in the fact that municipalities greatly differ from each other – by the size of the territory, the geographic configuration of terrain, the number of inhabitants, economic power, the available human resources – that it is contrary to elementary logic to assign them the same roles and same competencies/powers. That must result in municipalities that fulfil their responsibilities to different extents, since the state failed to develop sufficiently efficient mechanisms to facilitate harmonisation and ensure that citizens in its entire territory enjoy the same or nearly the same rights, along with the same quality and volume of public services. At present, the state defines laws that prescribe what municipalities will do, while municipalities do as much of it as possible within their capacities. Only the poorest and most undeveloped municipalities receive from the state the additional resources required to fulfil their legal competencies to a minimum extent.

The consequences of this situation are numerous and are manifested in many ways:

- *In the economic domain* – the differences between municipalities increase; even though the entire state territory shows general economic progress (measured by the statistical average), the wealthy and developed municipalities are developing faster than those that are undeveloped and poor. The exceptions are municipalities that, owing to extremely high rates of local economic development, are now catching up after years of lagging behind.
- *In the demographic domain* - drastic disruptions occur: some municipalities literally

¹⁵ Normatively and legally, there are two types of local units – municipalities and cities – however, since these are equal in their competences and legal status, we talk of a single type of local self-governance units.

die off, while others thrive. That is to a great extent the consequence of the war, but also a consequence that has received an additional impetus from post-war development trends.

- *In the socio-psychological domain* - the most visible consequence of the imbalanced development of local units is the citizens' disappointment with the poor quality of public services. Such disappointments are greater in provincial and poor areas in which people often do not have even what is deemed a necessity of a civilised life: running water, electricity, available utility services and other public services.
- *In the political domain* – the consequences of the described situation in local self-governance are reflected in almost non-existent horizontal cooperation (cooperation among municipalities) and an almost exclusive commitment of municipalities to the respective entity, i.e. cantonal authority, whether they cooperate with it, as is the case with undeveloped municipalities, or they are in disputes, which is quite often the case with developed municipalities which believe that higher levels of authority hamper their faster development.
- Political aspects also include forms of consequences that the present-day model of local self-governance produces with respect to *social elite*; however, due to its significance, this aspect will be analysed separately. For this purpose, the term “elite” will be broken up into local and state elite, as it seems to us that the two react differently to the present constellation of circumstances. The *local elite* entails united local commercial and political elites. On the other hand, the *state elite* entails not only high state and political officials but also major manufacturers, entrepreneurs, bankers and businessmen that do not only operate in one municipality but in the entire territory of the state and whose interests differ to the interests of local businessmen. Local elites are unhappy with the current situation in municipalities and even more dissatisfied with their own status. They regard their municipalities as their living and incontestable business space; hence, they believe that they must have priority in local commerce, and arrival of other companies angers them. On the other hand, current model of local self-governance suits the state elite:
 - It is centralised and simple to govern;
 - Mainly acts in a predictable manner;
 - Ensures the uninterrupted conduct of activities in the entire territory of the entity, i.e. uninterrupted access to all municipalities and their resources; which consequently
 - Ensures decisive control in particular municipalities.

Should the situation in local self-governance remain unchanged in the long term, all observed negative trends will intensify. In truth, some of those trends will, as we shall see, deteriorate under all circumstances, but some – such as citizens' frustration and displeasure, or economic development – may be significantly alleviated with the change of the actual model of local self-governance that generates inequality and frustrations.

Why is the “*Keep the Status Quo*” option possible even though it is obviously socially harmful and unwanted by citizens, i.e. why could it happen that the current model of local self-governance may experience only deceptive changes while in fact it remains the same?

The answer to this question must take into account the relations of power that will determine it decisively. Translated into the language of political praxeology, it is a matter of who will be making the choice of future self-governance model. All previous experiences show that a decision-maker will try to illustrate as the finest solution the model that suits the decision-maker best.

Why would the government, as a body with decisive influence in this decision, be interested in retaining the existing model of local self-governance with all its flaws and failings, despite the expressed criticism and citizens' displeasure?

The answer to this question also originates from relations of power (which is the rational aspect of this problem), however complemented with some reasons that are difficult to explain (which is the irrational aspect of the problem), such as the inclination of authorities to maintain earlier established and verified institutions and to refrain from changes until they are forced to make them. This inertia of authorities in our case could be efficiently opposed only by energetic demands from the EU to harmonise particular segments of the political system with the legal order of the EU, which means the introduction of many new institutions, new rules and customs.

Status quo also requires necessary legal upgrade

The *Keep the Status Quo* option represents a continuation of current politics with regard to the existing territorial organisation, as well as to a majority of competencies of local self-governance. At present, RS has 63 units of local self-governance (61 municipality and the cities of Banja Luka and Istočno Sarajevo). All local self-governance units have the same competencies, which are regulated

by the RS Law on Local Self-Governance, whereas the city status of Banja Luka is regulated by a separate law. The Federation of BiH has 80 local self-governance units (78 municipalities and the cities of Mostar and Sarajevo). That fact that some municipalities are not capable of fulfilling their legally prescribed competencies brings the existing legal order into jeopardy, thus, in practice we have the multi-type model of organisation of local self-governance units, with few of them capable of fulfilling their competencies with the available human and material resources.

Even the institutionalisation of the factual status would require some amendments of the Law on Local Self-Governance. Namely, numerous demographically¹⁶ small and undeveloped local self-governance units cannot execute their legally prescribed scope of activities¹⁷. For example, it is very difficult to expect municipalities such as Istočni Drvar, Kupres or Istočni Mostar to have the capacity for the provision of quality administrative services (issuance of construction and site permits, inspection surveillance, etc.). Consequently, the assumed possible improvement is in a new definition of competencies and the creation of governance affairs systems for separate competencies (issuance of permits and licences) that would normally be located in a bigger and more developed neighbouring municipality, which as a rule has greater capacity and potential (human and financial) to carry out particular tasks.

Changes should also happen with respect to large local self-governance units, such as Banja Luka. Banja Luka's city status represents a major constraint for the development of the whole territory that covers 1236 km². What is needed for the entire vast territory to be equally developed is the establishment of several municipalities within the city or the creation of several districts, as a method for the division of governance affairs into several organisational units. This entails the creation of several administrative organisational units within the city territory that would be able to meet current needs. As one example, it is interesting to analyse the cities of Istočno Sarajevo in RS and Sarajevo in FBiH, as cities comprising several municipalities. The proposed solutions imply a necessary separation of governance and self-governance areas and the determination of the lowest level of governance, while self-governance affairs (including spatial planning, utility services, facility construction, etc. – or in general – improvement of quality of life) would not change significantly. To a great extent, this would

¹⁶ *Municipalities with up to 1000 inhabitants*

¹⁷ *Main arguments are in absence of rationality to organise provision of particular services, poor quality, absence of adequate professionals*

free adjacent regions that include small municipalities of administration, enabling them to utilise their resources for development. The manner of intervention in this field is in part possible to resolve by the adoption of a law on areas of special state concern, which could define a special status for small, adjacent and undeveloped territorial units with respect to other self-governance units, with separation of governance and self-governance competencies.

A particular problem concerns the regional level, raising the issue whether this middle level of authority should be linked to local self-governance (as second level of self-governance) or should be constituted as a part of state governance, i.e. regional state governance. The manner in which the scope of competencies is defined would also determine the position of that level. This is by all means important for the Republika Srpska which, contrary to the Federation of BiH, does not have the middle level¹⁸.

Other (separate) laws would not entail major interventions, if laws on territorial organisation and on local self-governance would be carefully defined. Some laws, such as the Law on Budgetary System, would require changes and amendments concerning the balance in financing of bodies that would, in addition to their existing competencies, be assigned duties that prior to changes were conducted by some local self-governance units. Analogous interventions would be applied to laws on administrative proceedings, public servants, etc.

A special position in improving the existing system under the *Status Quo* option should be assigned to a local community as the most frequently used and so far most successful form of citizens' participation in decision-making process. Nowadays, the position of a local community in BiH has different legal regulations. In the Republika Srpska, it is defined as an optional form of citizens' participation in decision-making processes at the local level and it does not have the status of a legal entity. In the Federation of BiH, the local community is defined as a compulsory form of local community self-governance with an option to be entrusted with the conduct of activities from the original scope of local self-governance work; in the Federation, the local community has the status of a legal entity, which factually establishes it as a level of local self-governance (local community self-governance) in this entity. The current constitutional changes, as well as changes and amendments to the RS Law on Local Self-Governance, are considering status changes in RS local self-governance concerning the possible (re)definition of the local community's position (from citizens participation towards local community self-governance).

18 According to solutions in the FBiH, the cantonal level is a level of state-governance with the power to regulate issues concerning local self-governance (adoption of laws) and its numerous areas

B) Model of “Small municipalities”

From 142 to 348 municipalities

One of the most significant starting points for a concrete territorial definition, both in the model of small municipalities and in the model of large municipalities in RS, could be the RS concept of a system of centres that is envisaged by the RS Spatial Plan (RS SP) 2015, since gravitating spatial units lean on the system of centres.

According to the system of centres concept, the total number of municipalities in RS could be 154 (total 154 centres defined), if the fragmentation model, i.e. the model of small municipalities, is applied. The average size of such a small municipality would be approximately 160 km² with approximately 8554 inhabitants.

Due to the volume of work, a detailed spatial and demographic simulation was completed only for one meso-region in the Republika Srpska – the meso-region of Prijedor (defined in RS SP). This meso-region identifies 18 small municipalities: Budimlić Japra, Donja Kozica, Oštra Luka, Krupa na Uni, Dobrljin, Donji Agići, Novi Grad, Svodna, Kostajnica, Draksenić, Knežica, Kozarska Dubica, Brežičani, Busnovi, Kozarac, Ljubija, Omarska and Prijedor (Table 5a). In addition, the categorisation of small municipalities for the entire RS territory was completed with respect to two criteria – territory size and population size (Tables 5b and 5c).

Unfortunately, the absence of the Spatial Plan of the FBiH and consequently the non-existence of the concept of the FBiH system of centres, greatly hampers the implementation of the small municipalities model, or the large municipalities model in FBiH, and thus in the entire BiH.

The definition of the system of centres was possible only in those cantons in FBiH that have their own spatial plans: Srednja Bosna, Tuzla canton and Sarajevo canton. Due to the volume of work, two out of these three cantons were selected for analysis of the system of centres – Srednja Bosna and Tuzla canton.

The implementation of the small municipality’s model would lead to the creation of 31 municipalities in the canton of Srednja Bosna, and the creation of 39 municipalities in the territory of Tuzla canton.

A rough estimate, based on the combination of spatial and demographic principles and trends in RS and the two FBiH cantons with different spatial characteristics, points to the potential existence of 348 municipalities in the entire BiH, should the model of small municipalities be implemented. See Tables 5 in Annexe for other simulations concerning possible fragmentation in spatial and demographic aspect (Tables 5d - 5g).

Considerable reduction of economic power and competencies

Should the authorities opt for the model of small municipalities, it would be necessary to analyse the particular previous (and future) competencies of these municipalities. Namely, according to the competencies as defined by the current Law on Local Self-Governance and analysis concerning the fulfilment of particular competencies (based on budget analysis and interviews with some representatives of municipal authorities), it is evident that a significant reduction in the volume of competencies would be required (firstly, in competencies concerning regulatory activities), along with a different stance concerning the provision of public goods (water supply, sewage systems, garbage disposal, fire protection, etc). Even at present, small municipalities have problems with human resources, with respect to their ability to create and implement development, spatial, urban and implementation plans, inspection surveillance, and the management and utilisation of municipal property. According to the analysis conducted in five small municipalities (this section), it is evident that, if the territorial fragmentation of municipalities occurs, competencies in fields of social welfare, education, health sector, culture, recreation and sport will have to be fulfilled differently.

If smaller municipalities were created, it would prompt significant differences between urbanised municipalities (urban centres of present municipalities) and rural municipalities¹⁹. The occurrence of these visible differences (contrary to the present situation, where we have majority of municipalities with an urbanised centre and a rural periphery) should be followed by codification that would take into account the tasks that rural and urban municipalities can perform. In addition, the small municipalities would need to allocate a higher percentage of resources to the costs of their administration (although it is presumed that administrations in such municipalities would be smaller). That would lead to reduced allocations for capital projects and public services, which would bring

¹⁹ According to World Bank data, approximately 57% of the entire BiH population live in villages.

the whole system into jeopardy. Also, we would see the occurrence of major differences in the size of population (number of inhabitants) and their spatial distribution, which would greatly determine differences in the fulfilment of certain competencies, both from the aspect of functionality and from the aspect of financial justification. That is to say, if laws (and most importantly, legislator's views) did not favour cooperation in the provision of public utility services and other particular tasks, we would see extensive waste of scarce resources which would be detrimental to the local development of the particular area.

According to the analysis of municipalities that would be categorised as small (consistent with the analysis of spatial and demographic aspect – Petrovo, Pelagićevo), i.e. those that would normally have approximately 8554 inhabitants and would cover the territory of approximately 160 km², it is evident that these municipalities would have difficulty in fulfilling their current competencies. Specifically, both municipalities have similar budgets (approximately KM 1.5 million in 2006) and more than half is spent on the municipality's administration costs (salaries and material costs). If we deduct from this amount all current supports granted to individuals and non-governmental organisations (amounting to approximately 1/3 of the budget), hardly 20% of the municipal budget is allocated for capital investments (comprising allocations for roads, water supply facilities, sewage system, public electricity, etc.), which, in absolute figures, is quite insufficient. This is also confirmed by the budget analysis of small municipalities from the previous section – *the Status Quo* option – it is very difficult for the budgets of small municipalities to finance public goods in the form of education, health sector, social welfare, culture, recreation and sport.

Concerning revenues, the most important municipal income is represented by indirect taxes, which were 50-70% in these municipalities in 2006 (exclusive of transfers made by higher levels of authority). These municipalities have very small incomes from property tax. Furthermore, the level of municipal income from income tax is very low, since a large number of inhabitants work in the territories of other municipalities, where that income is realised.

With the aim of completing a realistic analysis of relations that would be established by the creation of small municipalities, we conducted a simulation of territorial fragmentation of Prijedor municipality (from the present 85076 inhabitants and territory of 834 km²) into the municipalities of Prijedor (355.71 km² and 58714 inhabitants), Kozarac (106.9 km² and 8315 inhabitants), Omarska (264.12 km² and 13229 inhabitants) and Ljubija (107.32 km² and 3818 inhabitants). Bearing

in mind the fact that the most important municipal income is the income from indirect taxes, and fully respecting the distribution coefficients that will be operational in 5 years (based on territory size, number of inhabitants and number of pupils), we can observe that all newly created municipalities would be financially sustainable (see Table 6c below). Important to mention, with respect to small municipalities, is the size of administration and the volume of competencies that such municipalities would have.

Table 6c – Fragmentation of Prijedor municipality into small municipalities

	VAT	Budget	Population	Budget per capita
Kozarac	1.565.779	3.131.558	8315	376,62
Ljubija	831.349	1.187.641	3818	311,06
Omarska	2.672.624	3.818.034	13229	288,61
Prijedor	12.706.275	29.549.478	58714	503,28

Source: Forecasts based on Prijedor municipal budget and participation of revenues with respect to the degree of urbanisation (personal calculations)

Also, simulations were completed with respect to a radical fragmentation of Prijedor municipality, which would most probably occur if the criteria for status of municipality were set in a relaxed manner and citizens in certain locations applied for the status of local self-governance unit (see Table below). With regard to the previously mentioned incomes that a local self-governance unit will have from indirect taxes, the motives for fragmentation will certainly exist, because even territories with 2000-3000 inhabitants will have financial benefits if granted the status of local self-governance unit, since these receive major resources for investments in local infrastructure.

Table 6b – Fragmentation of Prijedor municipality into small municipalities – radical fragmentation

	VAT	Budget	Population	Budget per capita
Brežičani	749.933	1.071.333	3469	308,83
Busnovi	746.415	1.066.307	3479	306,50
Ćela (Petrovo)	554.314	791.877	2907	272,40
Donji Orlovci	778.071	1.111.530	4190	265,28
Hambarine	548.872	784.103	3028	258,95
Kozarac	1.565.779	2.236.827	8315	269,01
Lamovita	700.156	1.000.223	3212	311,40
Ljubija	831.349	1.187.641	3818	311,06
Omarska	1.226.053	1.751.504	6538	267,90
Prijedor	9.627.868	22.390.391	42.996	520,76
Rasavci	447.381	639.115	2.125	300,76

Source: Forecasts based on Prijedor municipal budget and participation of revenues with respect to the degree of urbanisation (personal calculations)

Simulations with respect to the criteria set forth in the RS Spatial Plan 2015 were conducted for the meso-region of Prijedor (see Table 6a in Annexe). According to this scenario, RS would have 154 municipalities with population ranging from several hundreds to several tens of thousands (4 would have even more than 50.000 inhabitants). Characteristic of this model is that some 100 municipalities would need to organise their administration in cooperation with larger administrative centres, since it would be economically inefficient for municipalities with less than 5000 inhabitants to establish the administration in full capacity. This is confirmed by data set forth in Table 4 in Annexe (the most important indicators for small and large municipalities). Namely, if we observe the data on the functional structure of budgets for 2005 and 2006, it is visible that small municipalities spend significantly less than large municipalities (by criterion of expenditure per capita) for housing affairs and shared expenditures that comprise all communal utility activities. Considering the absence of communal utility infrastructure and substantial administrative costs encumbering these environments, it is very

important to bear in mind the criteria to be applied in the establishment of local administration when and if applying the model of small municipalities. In doing so, the financial implications of the provision of particular public goods and services in a completely new way must not be forgotten. Specifically, the state should establish standards for services, i.e. should encourage municipalities to team up for particular infrastructural projects (water supply, construction and expansion of sewage network, forming shared bodies).

As far as the Federation of BiH is concerned, the simulation of fragmentation was conducted on the municipality of Tešanj (see Table 6e below). The conclusions made on fragmentation in RS may be applied in the Federation of BiH, taking into account the fact that the middle level of authority (cantons) has substantial discretionary right in setting out the amount of revenues to be transferred to municipalities. The formed municipalities would be economically sustainable, but a number of administrative tasks would have to be performed in a different manner. The presumption here is that the fragmentation would lead to a weakening of economic and financial position of municipalities, if the entire system of local self-governance in FBiH is observed. The aforementioned data on the differences that exist among cantons (in the form of the share of municipal expenditures in cantonal expenditures) confirm the notion that fragmentation in FBiH would lead to the declining position of municipalities; it is evident that in cantons with large municipalities/cities, the budgets of those municipalities have higher share in cantonal expenditures than that is the case in cantons with smaller municipalities/cities. The exception is the Sarajevo canton, but this is due to the nature of the relations prevailing in this canton (canton=city=Sarajevo municipalities).

Table 6e – Fragmentation of Tešanj municipality into smaller municipalities

	VAT	Budget	Population	Budget per capita
Jelah	1.730.489	4.326.223	16833	257,01
Kardagije	273.480	455.800	2668	170,84
Lepenica	812.976	1.354.960	7900	171,51
Tešanj	1.507.084	4.566.921	14599	312,82

Source: Projections based on the budget of Tešanj municipality and participation of revenues with respect to the degree of urbanisation (personal calculations)

According to the indicators of economic and financial sustainability of the entire local self-governance system based on the standard deviation of the system of models of small local self-governance units, it should be noted that no conclusions are possible at the moment since there are no exact data on the projected budget per capita for all 154 municipalities in RS. However, if we observe the standard deviation for the meso-region of Prijedor, which is 118.05 (based on the average of 393.84 KM of budgetary revenues per capita), it is evident that system of small municipalities is more robust than the present situation, where the standard deviation is 1399. It is certain that this indicator would increase, as the inclusion of other municipalities from other regions with lower/higher economic activity and taxation revenues would mean an increase in the regional differences that contribute to standard deviation, but surely not more than in the present situation of the local self-governance system.

This suits the local elite and political parties

The small municipalities model is not unknown to us: we know it from our own history and from the surrounding countries. Small municipalities dominated in the system of local self-governance in BiH until 60s of the past century, when the introduction of the communal system replaced them with much larger units. Table 1 shows that BiH in 1952 had 418 municipalities with an average territory size of 122km² and with approximately 6,500 inhabitants. At that time, the republics of the former Yugoslavia that we used in earlier comparisons – Slovenia and Croatia – had ___ and ___ municipalities, respectively. Nowadays, these two states have approximately the same number of municipalities as half a century ago, which means that in fact they reverted to the earlier administrative and territorial division. If we apply this observation in an analogical manner to BiH, it would mean that, in the Republika Srpska, the implementation of the *small municipalities option* would lead to the number of approximately 190 municipalities, whereas in the Federation of BiH that number would be approximately 200. The RS Spatial Plan, applying the system of centres, envisages 154 centres-municipalities, since it takes into consideration the demographic emptying of particular areas.

The introduction of the *small municipalities model* should be considered from several aspects. The economic and spatial-demographic aspects have already been reviewed; here, we are interested to see what such transformation would

mean in the political and socially-psychological sense, and which social forces are interested in it; in the methodological sense, an answer needs to be found to the question of whether the implementation of this model might follow the contemporary example of Slovenia and Croatia, can we learn from our own past or should a new paradigm be established and pursued in the implementation of this model.

Let us first assess the *political implications* of the small municipalities model.

Since old times, the political doctrine has believed that small communities are more comfortable to live in, simpler to manage and more suitable for democratic development. It is easier for people to assimilate with the environment in which they know the majority of inhabitants with whom they can establish immediate and close relations. Participation in the political life of such a community is simple, and all public affairs are transparent. Citizens rather opt for more active engagement, since the political life evolves around fewer questions upon which they can make decisions competently. In view of the fact that local bodies would have a fairly narrow scope of competencies, all public functions could be honorary, while collective bodies as well as operational executives or chairpersons of the collective managing bodies would be easily and promptly replaceable.

However, not everything about small municipalities is so idyllic; as much as it can be a place very comfortable for living by reason of pleasant interpersonal relations, the small social space can be a trap that will destroy all the advantages residing in small groups. This analysis must pragmatically point out all such threats. The municipality that we are describing is not ideal – it is the Bosnian municipality, which means it is provincial; it is poor and undeveloped – economically and even more spiritually; it is reclusive and xenophobic; it is prone to all sorts of divisions – deeply divided, ethnically and religiously, full of political splits, local intrigues and family hatred.

There are three political and socio-psychological reasons opposed to the model of small municipalities in BiH.

1. A small municipality is easy to “occupy” without any major resistance: well-organised local mafia, or local branch of a political party or one strong family with spread out connections may occupy all the important positions in the municipality and turn it into a private estate, monopolize all activities and suppress any opposition. The not a bit less harmless alternative of putting the

local community under the full control of one man may occur in municipalities in which the mayor “secedes” and runs his/her own politics without any cooperation with the assembly, spends the budget at his/her personal will, hires and fires employees... These threats are not invented or exaggerated, since similar things have already happened even in larger municipalities. We believe that misanscene for something similar to this has already been set in every municipality in Bosnia and Herzegovina. The direct election of the mayor by the citizens has strengthened the position of a head man in the municipality, especially with respect to the local assembly that had previously been the body that elected the major from its membership and removed him/her from office by the same procedure. The mayor in a small municipality may impose him/herself as a dominating factor; if, in addition, a person has no moral scruples – major damage may be inflicted upon the municipality and its citizens.

2. Our local communities are burdened with irrational fears and are governed by the past. The Election Law is only one of many sources of danger for small municipalities. Dictatorship established without any resistance has in our municipalities one more firm foundation: people’s deep, even primeval fear of any authority – state or local. As citizens observe in public opinion polls, every authority, thus municipal as well, is bad, rotten and selfish, it neglects citizens and cares only for itself, it is malevolent and revengeful. Even the previous, communist regime, that labelled itself as the people’s and self-governing, was the same and induced people not to trust in any authority. Therefore, it is good to rule and be in power, but it is not good to have anything with the authorities if you are an ordinary citizen.
3. Small municipalities assume the rule of law in the state and existence of a regulated political system in the society, a good state and local administration and independent civil society. None of it still exists in the BiH municipalities, but the situation is worst with the media and independent public; BiH municipalities do not have a printed media dedicated exclusively to local issues and local communities will not have an organised civil society in the near future. Local radio-stations, if there are any; broadcast exclusively music programme and commercials, as is the case with local TV stations. If the media are the watch-dogs of democracy, these in BiH have no teeth at all.

The reduction of municipal areas does not mean a mere reduction in the size of their territory and population but, as aforementioned in the economic analysis,

it implies a significant reduction of their economic and human potentials. This means that such – small – municipalities would have to give up all competencies that entail the implementation of economies of scale. Scaling down the competencies of small municipalities implies that someone else still needs to fulfil these competencies. With that respect, two solutions are possible:

- Introduce a second level of local self-governance to take over the competencies that small municipalities cannot fulfil or the fulfilment of which is not cost-efficient in small areas, or
- Establish new state bodies to perform the same task instead of the self-governance bodies.

Regardless of which solution is chosen, the introduction of a middle level of authority that would mediate between the municipalities and the state seems to be inevitable. A warning needs to be issued here that the middle level regularly shows tendencies to gradually take over greater competencies from the municipalities, attempting to strip them off all authority, taking over their human resources and attracting quality administrators with better salaries and more creative jobs, positioning themselves as the commanding body that blocks all their initiatives.

Who favours the transition to the model of small municipalities? If we apply the same logic as in the previous model, we shall repeat the analysis of power distribution. Observed from that aspect, the model of small municipalities mostly suits the mayors of future municipalities and local elites – even if our worst forecasts come true. However, it seems to us that this option would also suit the state elites, primarily the political and party elites. We already mentioned that the existence of a large number of small municipalities would require the introduction of a second level of local self-governance. Should that fail, centralisation would follow in which the central state bodies gain importance, as powers and resources are centralised. To ensure its influence in the distribution of municipal resources, the central state authority can for a very long time, if necessary for decades, sabotage the introduction of a second level of local self-governance (as the state authorities did in Slovenia, where “talks” about regions have been going on for fifteen years). As far as the political parties are concerned, they can be quite interested in accepting the small municipalities option. A large number of municipalities give a chance to all parties, even the smallest and most insignificant ones, to win local elections somewhere, in which manner they get “their municipality” and their “mayor” that increases their political importance and represents a good channel for lobbying.

Separation of administrative and self-governance scope

The fragmentation of the existing units of local self-governance should be observed as part of the wider context creating the multi-level self-governance, i.e. the creation of large and small local self-governance units (cities and municipalities). In relation to this, we need to mention that the proposed changes and amendments to the RS Constitution that concern changing the deleted Article 101.a) envisage that “the units of local self-governance are municipalities and cities”. These solutions do not define only cities of Banja Luka and Istočno Sarajevo, given within the Constitution, but “other municipalities may also attain the status of cities, as provided by law”. The laws to be applied by municipalities in the attainment of city status would include the revised *Law on Local Self-Governance* and *Law on Territorial Organisation*, which would determine the criteria for city status. According to this solution, small municipalities would not have same competencies as large municipalities.

Fragmentation of local self-governance units would necessarily require the separation of administrative and self-governance scope, since small municipalities (for example some existing local communities or groups of local communities that would form a municipality) would not be capable of taking over all administrative functions. Considering the miniature size, financial and human potential of the newly created municipalities, the major question is – which functions could be realised in the organisational form of the local self-governance. The negative consequences of territorial fragmentation in Croatia and Slovenia speak in favour of this – along with the response that in Slovenia it entailed the separation of administrative (58 administrative units) from self-governance scope (212 local self-governance units). Fewer people make decisions in such small local self-governance unit, but anyhow the volume of resources is at very low level, thus the municipality is economically weak. As proven by the economic analysis, the largest portion of the small municipalities’ budgets would be spent to cover the costs of their own administration, while only a minor portion would be allocated to capital investments and the development of public infrastructure.

The introduction of the *small municipalities model* would require more interventions in the current legislation, both in the laws that immediately regulate this domain (the *Law on Territorial Organisation* and the *Law on Local Self-Governance*) and in other laws that touch on it marginally. New legal solutions, for example the *Law on Administrative Units*, should fix the boundaries between administrative units and units of local self-governance. Also, the *Law on the*

Government and Ministries would require certain amendments, to cover establishment of administrative units as the form of state authority, the Law on Civil Service, the law on Administrative Proceedings, etc.

Also, there should be a plan of laws/mechanisms for fragmentation, i.e. procedures and criteria for the establishment of the local self-governance unit, as well as measures to be applied in the definition of a local administration (geographic, demographic, socio-political and other criteria).

Another very important issue arising here is the creation of a second level of local self-governance, i.e. the level that would cover the self-governance competencies that small units would not be capable of performing. This level of authority would certainly have to position itself in the segment of the Constitution that regulates these issues. The regional level is indispensable; both for the solution itself and for the inevitable aspect of the decentralisation of authorities at the lower level (for example, the district level in Serbia, which is entirely a function of the Republican authority, or some other form with elected delegates). It is of utmost significance to establish which competencies would be sensible at the second level of local self-governance. Solutions coming to mind are the competencies that do not need to be realised at the local level, such as special forms of administrative surveillance and inspections (for example, inspection body other than communal police) or similar. Examples of this form of work organisation may be found in the health sector, chambers of commerce, statistics, to an extent in the Pension and Disability Insurance Fund, Employment Bureaus.

There is even an opportunity not to separate administrative from self-governance affairs, which would entail the precise definition of what each level or group of municipalities could do. For example, in Spain, municipalities with up to 1000 inhabitants have particular legal competencies, and so on up to 5000 inhabitants, etc. In Spain, municipalities with 20,000 inhabitants have the opportunity to set up communal utility company, while smaller use the services of a formed regional company (servicing several municipalities). Also, hospitals are organised for an area covering 50.000 inhabitants. In itself, this model would be very complicated, contrary to the separation of administrative and self-governance competency. It would face a problem in financing particular competencies, i.e. the small municipalities option without the separation of administrative and self-governance scope should clearly define the cost of each competency.

C) The “Large Municipalities” Option

From 142 to 97 municipalities

In case that the large municipalities option is implemented in the territory of RS, again, based on the concept of the RS system of centres as envisaged by the RS Spatial Plan 2015, the territory of the Republika Srpska would have 47 municipalities (defined as 47 centres at entity, regional, sub-regional and primary local level). The average territory size of such a large, merged municipality would be approximately 525 km² and it would on average have approximately 28,029 inhabitants. Concrete data on such merged municipalities in RS are set forth in Table 7a in Annexe.

Due to the previously mentioned limitations (absence of the Spatial Plan of FBiH), territorial and demographical simulations were again conducted for two cantons that already have their own spatial plans. Implementation of the large municipalities option in the territory of Srednja Bosna Canton would imply the creation of 9 municipalities. In Tuzla Canton, implementation of the large municipalities option would also lead to the creation of 9 municipalities – Banovići, Gračanica, Gradačac, Kalesija, Kladanj, Lukavac, Srebrenik, Tuzla and Živinice (Table 7b in Annexe).

A rough estimation based on the combination of spatial and demographic principles, as well as on the trends in RS and in the two FBiH cantons with different spatial characteristics, implies the potential existence of 97 municipalities in BiH, should the large municipalities option be applied. Details on the specific enlarged municipalities by spatial and demographic criteria are set forth in Tables 7c – 7e in the Annexe.

The most acceptable from the economic aspect

The *large municipalities* concept is the most acceptable from the economic and financial aspect, since this concept comprises the economic logic of decreasing costs, economies of scale and a particular type of economic comprehensiveness in the provision of public services.

According to the economic concept, each additional consumer implies a reduction in the price of services provided by the municipality, since the production

of additional units decreases the costs of each additional unit (to the level of capacity utilisation). This concept, which formerly dominated in the communal system in the former Yugoslavia, had presumed the existence of a spatially and demographically rather large municipality in which municipal utility companies provided services to a large number of consumers. The prerequisite of size continues to exist in the new circumstances, or in other words, the concept itself is acceptable if the economic and demographic aspect is observed, where more clients have an impact on price reductions and a more organised approach to problem resolution.

In view of the spatial and demographic aspect of the analysis, the concept of large municipalities would encompass the enlargement and merging of particular municipalities, with the RS territory that would comprise 47 municipalities²⁰ with an average population of approximately 28,029 inhabitants and a territory size of approximately 525 km². If we observe municipalities with territory size and population corresponding to the given model (Srbac, Modriča), as an example of the average municipality, we can see that the existence of such municipalities is economically sustainable. Namely, according to 2006 data, administrative costs (salaries, fees and material costs) amounted to approximately 1/3 of the total budget, whereas allocations for capital costs and current assistance had been evenly distributed. If we observe these relative indicators in their absolute amounts, then it is a significant amount that is spent for the fulfilment of competencies and in order to meet the needs of citizens.

What certainly represents a problem is the fact that, along with the given limitations, huge discrepancies appear among “large” municipalities and that the large municipalities do not solve problems that in the present monotypic territorial organisation of local self-governance units lead to failure in fulfilling the citizens needs in an equal manner in the entire territory of RS and BiH. In order to check this, a merger simulation was conducted for the municipalities of Prijedor and Zvornik. Prijedor virtually extended to the municipality of Oštra Luka, and Zvornik was merged with the municipality of Osmaci²¹. If we observe the enlarged municipality of Prijedor, it would have the territory size of 976.27 km² and approximately 87,125 inhabitants. The merged municipality of Zvornik covers 452.6 km² and has approximately 61,647 inhabitants. Even at first glance, there are visible differences in the demographic potential that largely determines the available financing of the municipality and citizens needs. The mere functioning

20 Based on the conception of the network of settlements from the RS Spatial Plan

21 See tables in the Annexe of this section and tables in the spatial and demographic analysis.

of the administration would not be in jeopardy, but its de-concentration (considering the territory that it covers), and provision of public and utility services to all citizens of the municipality denote particular problems that large municipalities would face, especially with respect to the “periphery”. Although the indicator of per capita budget is balanced, the municipality of Prijedor would have 50% more resources for the development of infrastructure in twice as a large territory, as compared to municipality of Zvornik.

Table 8c/d – Merged municipalities of Prijedor and Zvornik (economic-financial aspect)

	VAT	Budget	Population	Budget per capita
Prijedor	18.549.003	43.137.217	87125	495,12
Zvornik	13.722.059	29.830.562	61600	484,26

Source: Municipal budget (personal calculations)

With the aim of assessing the consequences of merging on the economic and financial position of a municipality, simulations were conducted with respect to the projections of municipal revenues, the merging of Tešanj municipality, Tuzla canton, and for all 47 municipalities that would emerge in the RS should the merging be implemented in accordance with the criteria set forth in the RS Spatial Plan 2015 (see Tables 8 in Annexe).

According to the data for large municipalities in RS (based on the simulation of revenues deriving from indirect taxation and the structure of municipal revenues in 2006), it is evident that all municipalities would have at their disposal significant amounts of resources. The budget per capita would be in the range between KM 367.11²² in Laktaši and KM 1,470.28 in Kalinovik municipality. A number of municipalities and cities such as Banja Luka, Bijeljina, Doboj, Zvornik, Prijedor, Istočno Sarajevo and Trebinje would have at their disposal budgets of several million KM that could be used to improve the fulfilment of current competencies and possibly to assume new ones, such as the financing of primary education, financing of regional roads, etc. Large municipalities (by demographic criterion) are as a rule economically sustainable in the provision of utility and regulatory

²² These differences do not imply a poor economic position of Laktaši municipality, but the new method of distribution of indirect taxes and structure of municipal revenues with respect to the population.

services to their citizens, however only in limited “urbanised” territory. Namely, a large municipality with a particular urbanised core/centre represents a good foundation for infrastructure development, given that more citizens mean more taxes and charges collected, and consequently the possibility to meet the needs of citizens in its territory. According to municipal budget data, in the course of the last several years large municipalities (by demographic criterion) have, as a rule, been allocating more resources for the development of infrastructure and services, while at the same time less has been allocated for administrative costs. The economy of scale is mostly manifested in the provision of administrative services, given that the unit costs of service provision largely decrease with an increase in the number of service users. Large municipalities have many service users, and the development of service provision has lately led to more efficient services than before, especially with introduction of government shop-fronts.

The problems that had and still are occurring in the provision of utility services happen in encounters with the spatial aspect of the territorial organisation of municipalities. Specifically, urban centres of large municipalities normally have satisfactory level of utility services, contrary to the periphery where only a number of centres are fortunate enough to have regular water supply, quality roads, public lights and garbage disposal services. The role of local units and self-contributions, as well as the manner in which a municipality treats its local units were decisive in the implementation of certain periphery development projects. By its decrees, the municipality assigned certain tasks and competencies to communal utility companies in its territory, which at the same time represented a limiting factor for the development of infrastructure in the periphery.

What is regularly shown as a problem in the present municipalities that are classified as “large” is the allocation of resources for infrastructure and the provision of public goods to the population in “peripheral” local units? Specifically, the legal framework and municipal statutes normally do not supply the opportunity to plan infrastructural investments in local units. This is under the extensive discretionary powers of a municipality and its leadership. Since budgets are adopted by assemblies upon proposal by the mayor, local units that are politically “declared” as an assembly majority may normally expect that a certain portion of infrastructural allocations will end up in the territory of their local unit. At the same time, local units without adequate political support and those with weak leadership cannot expect that the municipality will have a serious approach to the resolution of their infrastructural problems.

We shall again use the standard deviation of per capita budget as a measure of robustness, i.e. a measure of economic sustainability of the *large municipalities option*. According to data from the simulation for 47 municipalities in RS with respect to their budgets based on 2006 data (following the completed harmonisation by entity authorities with current and capital transfers), the standard deviation of the per capita budget would be 187. As previously mentioned, this indicator points out how the per capita budgets of municipalities deviate from the average *per capita* for all municipalities. If we observe this indicator with respect to the present situation, we can see that the *large municipalities* concept would equalise municipalities' economic strength in the fulfilment of their legally ascribed competencies, and possibly even the assumption of new ones. Namely, the standard deviation indicator for large municipalities is 7.5 times lower than the indicator for the present situation, which implies the absence of significant differences in economic and financial strength of municipalities to fulfil tasks within the scope of competencies of local self-governance.

In the Federation of BiH, we simulated the merging of municipalities in Tuzla Canton. Specifically, a merger in this canton would mean the abolishment of Čelić, Doboј Istok, Sapna and Teočak municipality, and a different distribution of revenues to the existing 9 municipalities (see Table 8b in Annexe). To be precise, the current distribution of revenues would be corrected in the case of Gračanica municipality, which would have the coefficient 1.2 (according to the population criterion; it would have over 60,000 inhabitants), and together with Tuzla would be in the group of large municipalities. According to the Law on Distribution of Public Revenues in FBiH, large municipalities (municipalities with a population over 60,000 inhabitants) receive a greater portion of indirect taxes. Moreover, it can be assumed that the negotiating position with respect to the distribution of other functions and available resources would improve in this canton.

To illustrate the economic robustness of the local self-governance model, we shall say that the standard deviation of per capita budget in Tuzla Canton would be a mere 11.89, which is a consequence of the extremely harmonised territorial and demographic structure, and the development level within the canton itself.

Decreasing economic and political dependence on entities and cantons

The large municipalities option emerged as a consequence of the need for local self-governance to be rationalised and encompassed by the rules of economy of scale. This model appeared in Scandinavia but did not spread farther in Europe, which essentially remained faithful to the concept of municipalities as territorially, demographically and economically small units; disfunctionalities caused by the size of local communities in Europe were resolved by the introduction of a second and third level of local self-governance. Even though that further complicated the organisation of the state and increased the costs of administrative affairs, majority of European states have not seen it as a reason sufficient enough to enter into more radical reform of local self-governance. Economic problems arising from the very dispersed administration apparatus and the fact that local governance was proven to be the most inefficient part of the administration forced many European and world countries in last twenty or so years to apply the so-called *New Public Management* (NPM) in an attempt to rationalise public spending and decrease administration costs. That produced certain results, one of which is reflected in the enlargement of municipalities, since the introduction of managerial relations in local self-governance immediately pointed out the problem of their size. Efficient economic operations based on profit and governed by the interests of capital accomplished what local self-governance had for years successfully resisted.

We already mentioned that the communal system in the former Yugoslavia was most probably inspired by similar principles of rationality and efficiency. Since the communal system was introduced by law in 1950, in some ten years the country radically transformed the formal organisation of its local self-governance, thus the sixties of the last century dawned with the largest municipality in Europe. In essence, BiH still has such municipality; even the illogical 1995 demarcation by the inter-entity boundary line did not disturb the principle of the large municipality. As shown in the table below, one third of the municipalities in RS are larger than 500 km², and half of them are larger than 300 km². The situation is similar in FBiH. The dozens of dwarf municipalities existing in both entities cover only some 3% of BiH territory, with approximately 3% of the state population, while the budgets of all these municipalities summed together – amount to barely several KM million.

Table 9 – Municipalities in RS by the size of territory

Description	Categories	Total
Municipalities with territory size up to 200 km ²	10 (up to 100 km ²) 10 (from 100 to 200 km ²)	20
Municipalities with territory size from 200 to 500 km ²	9 (from 200 to 300 km ²) 7 (from 300 to 400 km ²) 5 (from 400 to 500 km ²)	21
Municipalities with territory size exceeding 500 km ²	5 (from 500 to 600 km ²) 6 (from 600 to 700 km ²) 3 (from 700 to 800 km ²) 4 (from 800 to 900 km ²) 0 (from 900 to 1000 km ²) 3 (exceeding 1000 km ²)	21

The implementation of the *large municipalities model* would entail major interventions in the present structure of local communities. Although full equity in the size of local communities cannot be achieved, the model requires their maximum possible equalization. That would at least require the abolishment of the smallest, most economically unsustainable municipalities and the transformation of the largest municipalities, in compliance with criteria primarily motivated by economic and administrative logic.

The transfer to this model would lead to noteworthy political and social changes. It would be possible to retain the principle of monotype local self-governance, since all municipalities would be in a position to fulfil their competencies. As shown by the results of the economic simulations, municipal competencies could be fulfilled in a quality manner, as a consequence of increased municipal revenues. Subsequently, that would mean improved citizens' satisfaction with municipal services and in the long term it would probably regain citizens' trust in political institutions, both local and state. Moreover, the set of original municipal competencies could gradually be expanded, depending on the pace of development of local units. In such a manner, entity bodies would be relieved of operational tasks and could to a greater extent be dedicated to the formulations of development strategies and public management. The introduction of the second level of local self-governance would probably not be necessary, as the number of municipalities would decrease, hence the regions – insisted upon by EU – could represent mere forms for the coordination of some joint municipal activities. In order to emphasise the independence of the local self-governance

units from state authorities, and in order to separate their tasks and competencies formally, it would be desirable that an agency or directorate for local self-governance be established at the entity level to take over the tasks presently performed by the Ministry of Governance and Local Self-Governance.

The distribution of power would sustain even greater changes, all of them in favour of local self-governance. However, no exaggeration should be made with respect to the importance of those changes. No matter how large and strong municipalities may be and how conscientious their leaders are – the municipalities cannot be a match to the state, and the local elite cannot compete with the state elite in their power and influence. An important fact is that this model would enable the municipalities to break away from their present absolute economic and political dependency on the state, thus it could be said that the introduction of this model would bring the most welfare to citizens through quality improvement in the provision of local services. We believe that it is not realistic to expect an increase in citizens' participation; anyhow, local self-governance here entails the meaning of this concept as set forth in the European Charter of Local Self-Governance, which emphasises the right and ability of local bodies to govern certain public services based on their own responsibility and in the best interest of the local population. Therefore, when we say that the introduction of the *large municipalities option* could lead to the increased quality of local self-governance, it means the greater ability of local bodies to perform their governing and regulatory functions, to decrease the level of corruption, to establish mechanisms of the state of law at the local level etc. and not a mere increase in citizens' participation in decision-making processes and in the formulation of public policies. Experience from other countries shows that the level of citizens' participation decreases with the increase of political community and with abstraction of goals to be decided upon. Even decades of experience of the communal system confirm this thesis.

The large municipalities option has apparent huge advantages over the other considered models.

However, since large municipalities would put at risk the present power relations, the feeling of superiority and dominance developed by the state elite, the introduction of the large municipalities model is unlikely.

Without significant changes in legal and institutional solutions

If we observe the consequences of the *large municipalities option* from the normative and legal aspect, we may conclude that no major changes in legislation and institutional solutions would occur, contrary to the aforementioned fragmentation. The current constitutional solutions, upgraded through already initiated changes and amendments, would represent a satisfactory legal framework for the *large municipalities option*. The most important issue for solutions regarding enlargement and merging would be to establish precise standards that define an optimal municipality, i.e. the minimum requirements that have to be satisfied. The criteria, i.e. standards, that would be established for local self-governance units should be sufficiently precise, as the abolishment of someone's rights – especially the abolishment of institutions with a long tradition – is primarily a political and very sensitive issue. The abolition of local self-governance units should be accompanied by the creation of certain forms of local governance, a kind of a lower level self-governance, with precisely defined rights and responsibilities. Specifically, in the *large municipalities option*, the local units as a form of citizens' participation in decision-making processes would have a new role in form of some local self-governance and a greater scope of competencies in the conduct of tasks (self-governing scope) at the local level, which would be entrusted by law and would refer to the improvement in quality of life.

The economic arguments of the *large municipalities model* emphasise the aspects of the economy of scale and of economic rationality; the political analysis points out the improved governance and regulatory abilities of local bodies and the improvement of quality in the provision of public services. The main legal and governance arguments for the creation of *large municipalities* are in the rationing of the administrative scope through reassignments to larger municipalities and links to be established with centres (with compulsory efficiency), while the self-governance scope could in part be transferred to the local units.

The most significant legal enactment that would require changes are in the basic laws that regulate the scope of local self-governance, i.e. laws on territorial organisation and laws on local self-governance.

D) The “Keep and Improve” option

Minimal territorial corrections

The RS Spatial Plan also provides the elements for the “keep and improve” option. The application of criteria such as population size, population density, commercial potential, technical and social infrastructure, implies that the three present municipalities in RS do not satisfy the minimum prerequisites – these are the municipalities of Istočni Drvar, Istočni Mostar and Kupres. Consequently, their merger with neighbouring larger municipalities is necessary – Drinić-Petrovac or Ribnik, Nevesinje and Šipovo.

The application of the same criteria as in the RS case – population size, population density, commercial potential, technical and social infrastructure (with modified values) – for the “*keep and improve*” option in the territory of FBiH, would lead to the abolishment of five municipalities that would be merged with neighbouring larger municipalities. Thus, the present municipality of Dobretići would merge with the neighbouring municipality of Jajce, the present municipalities of Foča – Ustikolina and Pale – Prača would merge with the municipality of Goražde, the present municipality of Ravno would merge with the neighbouring municipality of Neum, and the present municipality of Trnovo would merge with Hadžići. In this manner, the implementation of the “*keep and improve*” option would, in a territorial sense, probably mean a reduction in number of BiH municipalities from 142 to 134.

Corrections in competencies and interventions in the fiscal domain

In view of the sensitivity of the topic covered by this paper and considering merely minimal territorial corrections with reduction in certain competencies, we shall finally examine the “keep and improve” option. In a territorial sense, this option entails abolishment of at least three municipalities (Istočni Mostar, Istočni Drvar and Kupres). Based on this assumption, we completed a simulation of revenues in the event of a merger of the aforementioned municipalities with the municipalities of Nevesinje, Ribnik and Šipovo (see Table 10 in Annexe), with municipal data from 2006 and without the consideration of the new distribution of indirect taxes, which was the basis for the simulations in the models of small and large municipalities. Even though there are particular differences that we elaborated

on in preceding sections, especially in the relations between urbanised – rural areas and the relations between demographically small and large municipalities, the discord that was manifested in the *status quo* option would be partly reduced. According to this model, the situation after territorial corrections (with respect to the present economic and financial status of municipalities) would have to be complemented with particular corrections in the scope of competencies, at least for the demographically small, predominantly rural municipalities – 16 of them in the Republika Srpska. Here, we should also take into account criteria concerning the size of population so that, for example, some municipalities with less than 5000 inhabitants would not be obliged to perform certain governance and administrative activities that, according to the budget analysis, consume the majority of their budgets. Instead, these resources could be used for the development of local infrastructure and the provision of utility services and public goods in a significantly greater volume than is currently the case.

The new legal options should ensure that certain demographically large municipalities that have significant resources at their disposal, such as the city of Banja Luka, have the opportunity to perform other competencies of their interest, which are presently within the scope of entity competencies. To a great extent, this would include transport, roads, health care, etc.

With an aim to improve the quality of life in the entire territory of municipalities within the *keep and improve* option, a separate aspect is represented by the institutionalisation of the “periphery” in large municipalities. Namely, this primarily entails the institutionalisation of resource spending for public and utility services, housing and general administrative affairs, in the entire municipal territory, not only in urban centres. This could be achieved by changes and amendments of the Law on Local Self-Governance and the Law on Budgetary System; these legislation changes would envisage that particular amounts of resources (for example, for capital investments or infrastructural projects) would be tied to local units, in accordance with defined shares and parameters (for example, number of inhabitants, number of particular population categories, such as pensioners, children, etc). Since this solution could lead to the fragmentation of resources that are required for major infrastructural projects, a possible answer could from the start be planned in accordance with the “cash pull” concept²³.

23 This concept envisages possibility of using the resources of different entities in accordance with mutually agreed priorities so that particular entities have the possibility of greater spending today, due to priority in realisation, whereas someone else will use their resources tomorrow. What is important here is the fact that entities know what portion of the “cake” is taken from them in order to realise priorities of others.

We should note that minimal territorial corrections have improved the measure of robustness in the form of the standard deviation of the model from 1399, as it was in the *status quo* option, to 702.5 in this model (*keep and improve option*). The enlargement/merger of municipalities and the creation of “more sustainable” prerequisites for development decrease discretionary rights of the state with respect to the need for constant surveillance over the implementation of transferred responsibilities and provide greater opportunity for the development of self-governance.

The particular corrections would also refer to laws on property tax and income tax, as the municipality’s original revenues. Bearing in mind the fact that the present legal solutions exempt rural areas from payment of property taxes, we should consider including all the assets in the tax base. That will be partly possible after the introduction of the new Law on Property Tax (planned to come into force in 2010), when municipal assemblies will be granted an opportunity to determine tax rates in a range between 0.05 and 0.5% of the market value of the property (assessed value). This would somewhat improve the position of those local self-governance units with large population in rural areas that presently do not pay property tax (consequently, do not utilise it).

As far as the income tax is concerned, the most significant progress could be achieved with the improvements in identification of employees from the aspect of the municipality of residence and the municipality in which income is earned. Namely, significant number of individuals residing in small, rural municipalities are employed in other municipalities, thus income tax is paid in the municipalities of their employment. A situation is similar with incomes from private businesses (even more specific, since small and undeveloped municipalities cannot issue all the documents that are necessary for registration, hence people often opt for registration in municipalities where these services are available). Thus, for example in the municipality of Istočni Mostar, the municipality we said would be abolished in this model, the municipal budget receives mere KM 100 based on income tax. This is a paradox, as it implies that the total income realised in the municipal territory was KM 1000, and that probably no employees or municipal assembly delegates residing in the municipality had earned any incomes.

In the Federation of BiH, the *keep and improve* model envisages minimal territorial corrections in form of mergers of present municipalities Dobretić (with municipality of Jajce), Foča-Utikolina and Pale-Prača (with the municipality of Goražde), Trnovo (with the municipality of Hadžići) and Ravno (with the

municipality of Neum). This would more-or-less bring into balance the spatial and demographic situation, as well as the economic and financial position of the municipalities. Specifically, data on municipalities that should merge with others imply that, same as in the Republika Srpska municipalities, existing original revenues are insufficient to cover the administrative costs. A reduction to the number of 74 municipalities in the FBiH would lead to increased negotiating abilities of municipalities with respect to cantons, since the very fact that particular municipalities are not able to self-finance themselves gives the right to cantons not to transfer certain local self-governance functions/competencies and financial resources to the municipal level. An important determining factor with regard to the “keep and improve” option concerns the relationship between a municipal and federal level. The analysis of the federal budget structure shows that a number of municipalities regularly receive grants for development of the utility and road infrastructure without any clear criteria. This practice should be institutionalised in order to reduce discretionary powers and indications that municipalities with authorities formed of political parties that participate in higher authority levels receive more resources, regardless of any priorities and development directions.

Between apparent and actual changes

As its title implies, the *keep and improve* option commences with the evolutionary approach, which significantly differs it from the *small and large municipalities* options that assume the more radical approach to the transformation of local self-governance. Gradual pace of the development is maybe the greatest virtue of this model, even though experts might not welcome it so kindly since its continuity with the *status quo* option is more than obvious. Experts are psychologically orientated towards the result and expect from the policy option to offer an efficient problem solution. Given that the situation in local self-governance is not good, fake changes will not lead it to any improvements; the *keep and improve* option may be operationalised so as to fake the changes instead of making them genuinely.

On the other hand, power relations in the society are such that no deeper interventions may be expected in the present circumstances, including local self-governance. In our opinion, it would be a success if the implementation of this option/model puts the emphasis on the second part of the syntagm (*improve*),

and does not only remain on the first part (*keep*). However, the recent unsuccessful attempt of the RS Government to abolish two small and unsustainable municipalities proved at least three points:

- that the Government is not willing to engage in any, even smallest conflicts over the local self-governance reform;
- that political system of the Republika Srpska strongly resists all changes, even those that obviously favour the general welfare; interests of specific groups in our society have such a strength that they can inhibit every effort that is threatening them, and
- that, in political process, the Government favours the interests of specific groups rather responding to citizens' needs.

Even in addition to this negative connotation, which is more a consequence of the general social atmosphere than its structural flaws, the *keep and improve* option will still contribute to the better functioning of local self-governance if the roughest dysfunctions are removed from the current model. This entails the need of final rejection of the monotypic local self-governance that generates problems. The toughest of them is reflected in the fact that legally normed relations were gradually replaced by factual relations, thus in practice we have the local self-governance model based on the discretionary rights and informal power. How did this happen?

As previously mentioned, nowadays municipalities perform only those competencies for which they have sufficient resources and which their municipal leaders see as priorities. That is a stringent logic deriving from the monotype categorisation of municipalities in situation of the chronic absence of finances. Nevertheless, such behaviour puts poor and undeveloped municipalities in situation to be at the mercy of the central authority that fully finances their budget and has discretionary powers in the allocation of resources intended for the development and capital investments. In such a manner, client links are established between the central (entity or cantonal) authority and local authorities. In other words, and translated into the language of power relations, whoever controls central bodies and the budget also has the opportunity to control all local communities that depend on the central finances. Consequently, it is possible that any municipality may be systematically deprived of all major development investments and avoided by vital road and railway routes, while its citizens – even

future generations – pay for vengefulness of those that control central resources. That may occur in the event of incongruity between the political affiliation of the central authority and political affiliation of the local leadership.

Introduction of the multi-type model of local self-governance would allow the undeveloped and poor municipalities to have a reduced scope of original competencies, whereas other competencies that are essential for normal life of people in those municipalities would be directly assumed by the state, specifically established organisations or neighbouring and more developed municipalities. That would reduce a dependence of undeveloped municipalities on good will of the central bodies, as accomplishment of certain competencies would become a legal obligation for those bodies.

We could expect with high certainty that municipalities with re-defined scope of competencies would perform such reduced scope of competencies better than now, when they disperse their power and resources to numerous activities.

A major drawback of the *keep and improve* option is the threat of current relations continuing to exist under the disguise of introduction of a new model. It seems that this option could be the most attractive for the authorities particularly because it creates the impression of development, while in essence it allows decades to pass without any changes. As aforementioned, the development will inevitably continue in its course. As time goes by, the municipalities will be gaining the economic strength as introduction of new financing methods will gradually provide them with increasing portion of the social product. What we are trying to achieve is to induce these spontaneous movements in order to accelerate development of local communities and shorten certain historical processes to the least possible duration.

New, subtler normative solutions

The *keep and improve* option stands for the appreciation of the existing status and the attempt to improve actual relations in this field. It would not require some major corrections from the standpoint of constitutional solutions, if it would involve only creation of single-level local self-governance. The introduction of the multi-type model resembles the option of improved *status quo model*. The implementation of this option would require analysis of organisation models of

local self-governance units in countries that have been applying such option, which would be adjusted to local specificities. The model itself requires a precise definition of competencies for all forms (types) of the local community. Criteria need to be based on particular clearly defined principles concerning spatial-demographic, territorial, social and economic-financial aspects. It is extremely important to establish what the multi-type model can achieve. In this form, we may discuss future improvement policies for particular undeveloped and demographically drained regions (for example, in laws regulating areas of special state concern, where focus would be placed on small rural municipalities)²⁴.

This model should combine mergers, fragmentations and adjustments to particular situations existing in the field. If we would opt for multi-type model, following categories should be defined (in normative and legal sense): small (rural) municipality, normal (urban) municipality and cities. Similar solutions are as well incorporated in legislations (i.e. their combination) of Croatia and Slovenia.

A system of criteria and procedures must be defined by laws on territorial organisation and local self-governance, with an aim to assign the status for each envisaged category. For example, the Law on Local Self-Governance defines the urban municipality as a municipality that has in its territory a determined number of inhabitants, determined number of employees in tertiary sector (services and administration) and particular types of institutions (libraries, system of education institutions, health care institutions, etc).

As in case of other regions, focus of this model should be on the competencies of local units as the dominant form of citizens' participation in Bosnia and Herzegovina. In urban municipalities and cities, the local unit could be assigned a particular status (with clearly defined rights and obligations).

Apart from changes in fundamental laws (the Law on Local Self-Governance and the law on territorial organisation), the multi-type model would require changes and amendments of the actual financing mechanisms (the Law on Budgetary System) and separate laws on particular competencies that would be included in categories of the local self-governance (roads, education, health care, etc.).

²⁴ Here, the state certainly needs to determine whether demographically drained regions should be populated or the space should be used for development of various business activities, where workers would come to work and on weekends would return to their original municipalities that provide all benefits to them and their families (health care, education and other aspects of quality living). In some rural municipalities, it is very difficult to think about (public) investments for necessary infrastructure that is indispensable for normal conditions of living.

What is acceptable

Good experts and practitioners know that the highest quality solutions often are not the most effective solutions, since effectiveness of one solution does not only depend on its quality but also on its suitability for key stakeholders, both decision-makers and those bearing the burden of implementation. A formula is used for that purpose ($SE = SQ \times SS$), implying that a solution effectiveness (SE) is a multiplication product (\times) of a solution's quality (SQ) and its suitability (SS). Multiplication sign simply means that, if the solution's quality or suitability is zero, then there will be no effects of its implementation. If the solution's quality is the most important for experts, it is vice versa in politics: suitability factor is most frequently decisive.

For purposes of this study, assessment was made of the solutions' suitability for members of entity parliaments, who are responsible for passing the laws by which territorial organisation and local self-governance are regulated, and for municipal mayors, who are enforcing them and live by them every day (detailed analysis of survey results is in Annexe I of this study). The study shows only survey results for the Republika Srpska, where the number of completed survey questionnaires (36 mayors of 58% and 43 delegates of 52%) represents a good basis for credible conclusions.

With an evident inclination not to assume any radical changes of the situation, both categories of respondents show rather clear threshold of solutions' suitability. With slightly more risk assessment, analysis and comparisons of responses received from both categories of respondents, the following probable scenario may be established:

- Both mayors and members of parliaments show readiness to accept the option that entails only minimal territorial corrections, the solution that practically favours retention of the existing situation rather than any changes. This option is sufficiently acceptable both for demographically small, medium and large municipalities.
- With regard to definition of the scope of competencies, both categories prefer the approach that is more flexible than current, rigid monotype solution, according to which all municipalities have the same scope of competencies. Significant majority of mayors and relative majority of members of parliaments are ready to accept the option that differs compulsory from

optional competencies, which are assigned to municipalities in accordance with their capacities. This option is also sufficiently acceptable and suitable for demographically small, medium and large municipalities. A problem of lacking capacities in series of municipalities will become more evident and will require an appropriate treatment.

- A considerable majority of mayors will advocate for the decentralisation, to slightly lesser extent and very focused with respect to the transfer of competencies (property and legal affairs and land register) and to a greater extent with respect to a fiscal decentralisation. The mayors will demand more resources (and competencies) for their respective municipalities, while members of parliaments will not be ready for such distribution, especially in case of resource distribution.

ANNEXE I:

STANDPOINTS OF MAYORS AND MEMBERS OF ENTITY PARLIAMENTS

Assessment of standpoints and opinions of municipal mayors in rs and delegates in the rs national assembly on territorial-administrative division and local self-governance

Within the framework of this policy analysis, the survey of standpoints and opinions of two groups has been carried out and these two groups, according to the theory of institutionalism, have the determining influence on implementation of the existing local self-governance model and would have the crucial influence on possible redesign of that model or its substitution for something completely different. Those are members of entity parliaments and municipal mayors. The first group is responsible for passing the laws by which territorial organisation and local self-governance are regulated while the other group is enforcing them and live by them.

Prior to the survey, all mayors in both entities and all members of the FBiH Parliament and the RS National Assembly were sent the book “Block by Block – it is good to build well” with attached survey questionnaire (see in Annexe) and an explanatory letter on questionnaire administration. The survey questionnaire comprised questions covering assessment of standpoints concerning:

- Territorial organisation of municipalities;
-
- Scope of municipal competencies;
- Competencies currently assigned to entities, that municipalities would rather be performing;
- Competencies that municipalities would gladly rid of or let to someone else;
- Main problems with respect to fulfilment of competencies;
- The manner in which entity treats municipalities.

We shall elaborate only results received in the Republika Srpska, since the Federation of BiH failed to supply sufficient number of completed questionnaires to ensure credible conclusions on measured occurrences. These results include analysed responses received from 36 mayors (58%) and 43 members of parliament (52%) in the RS.

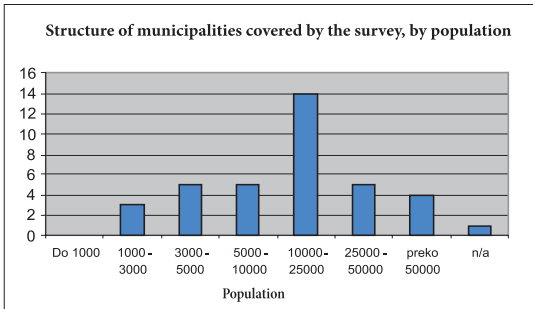
Main survey findings point out to following orientations, more or less expressed in both groups of respondents:

- Tendency to accept the existing territorial and institutional solutions as permanent although not good solutions;
- Strongly expressed view that relations between entity and municipal authorities are excessively centralised and not so strong tendency to initiate the assignment of greater competencies to municipalities;
- Awareness that municipalities have modest material and human resources, which is a significant factor that limits their entrepreneurial features.

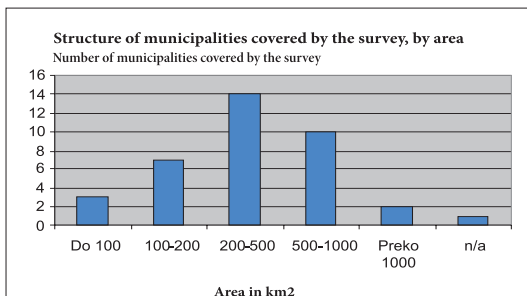
Results of the survey conducted among mayors in the RS

Characteristics of respondents' municipalities

the demographic structure in municipalities of interviewed mayors is in accordance with the current municipal structure in the system of the RS local self-governance, with the exclusion of distinctly small municipalities (up to 1000 inhabitants) – which did not supply any responses (there are 4 of these municipalities in the RS – Istočni Drvar, Istočni Mostar, Kupres and Petrovac Drinić). Their failure to respond with regard to preferences that survey attempted to cover may be interpreted in various ways, due to the fact that there were some demands for their abolishment in past period (“don't rock the boat”, incomprehensible contents, fear of consequences, refusal to cooperate due to previous bad experiences, etc).

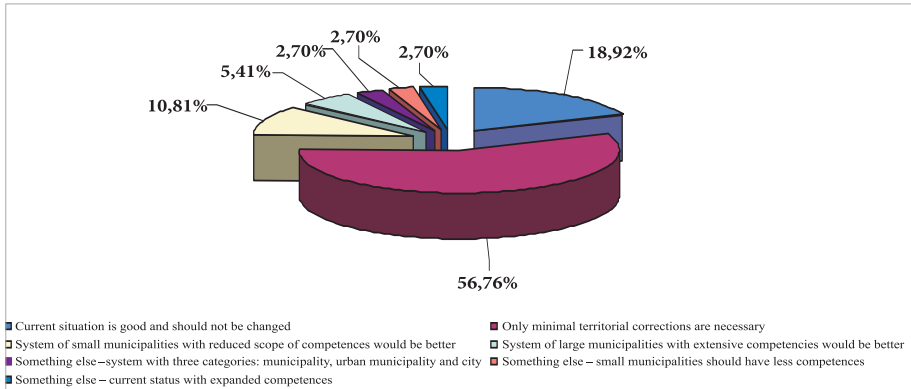


The territorial structure of municipalities covered by the survey is shown in the diagram below. Namely, 3 mayors are from municipalities with the territory size under 100 km², 7 mayors are from municipalities with the territory size 100 to 200 km², 14 mayors are from municipalities with the territory size 200 to 500 km², 10 mayors are from municipalities with the territory size 500 to 1000 km², and 2 municipalities have the territory over 1000 km².



Standpoints on the current territorial organisation

The picture below shows the respondents' (mayors') standpoints with respect to the territorial organisation. According to survey data, approximately 2/3 of respondents believe that current option is good and/or that only minimal territorial corrections are necessary. If we observe the aforesaid data from the demographic or spatial aspect, survey results are shown in the following two tables.



Opinion on current territorial organisation									
	Population								
	Up to 1000	1000-3000	3000-5000	5000-10000	10000-25000	25000-50000	over 50000	n/a	TOTAL
Current situation is good and should not be changed		1	3	1	1			1	7
Only minimal territorial corrections are necessary	0	1	1	4	7	5	3		21
System of small municipalities with reduced scope of competencies would be better		1			3				4
System of large municipalities with extensive competencies would be better					2				2
Something else – system with three categories: municipality, urban municipality and city			1						1
Something else – small municipalities should have less competencies							1		1
Something else – current status with expanded competencies					1				1
TOTAL	0	3	5	5	14	5	4	1	37

If we observe the structure of responses received from the municipalities by their population, we can see that mayors in small municipalities mainly opt for responses-solutions that do not change their position to any significant extent. Namely, if we observe municipalities with up to 10,000 inhabitants, 5 out of 13 municipalities covered by the survey believe that the current situation is good and should not be changed, while 6 out of 13 are of the opinion that only minor territorial corrections are necessary. It is significant that the mayor of one demographically small municipality (in the category 1000-3000 inhabitants) believes that system of small municipalities with the reduced scope of competencies would be better, whereas the mayor of one municipality in the group with 3000-5000 inhabitants thinks that local self-governance system should be modified so as to differentiate three categories: municipality, urban municipality and city. System of large municipalities with extensive competencies is preferred only by two municipalities in the group with 10.000 – 25.000 inhabitants.

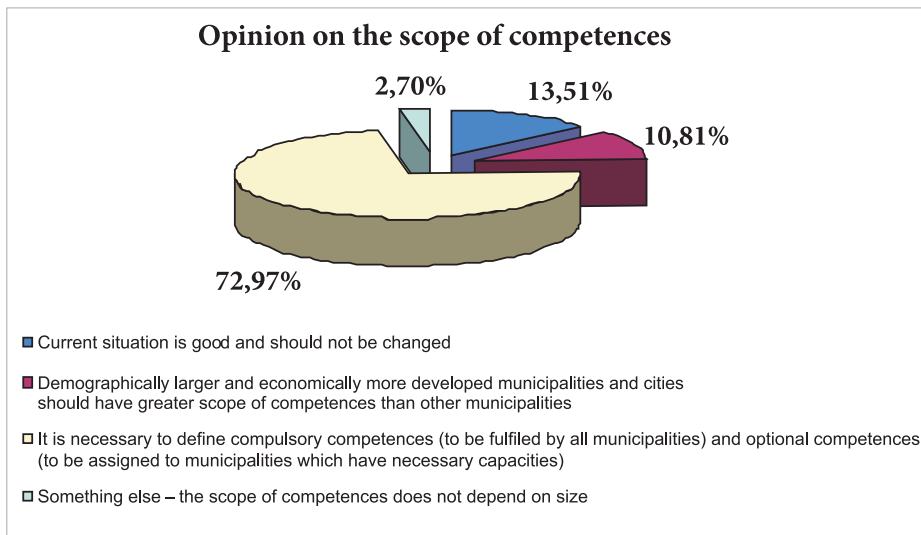
Opinion on current territorial organisation							
Area in km ²							
	Up to 100	100-200	200-500	500-1000	over 1000	n/a	TOTAL
Current situation is good and should not be changed	1		4	1		1	7
Only minimal territorial corrections are necessary	1	5	8	7			21
System of small municipalities with reduced scope of competencies would be better	1	1	1		1		4
System of large municipalities with extensive competencies would be better				2			2
Something else – system with three categories: municipality, urban municipality and city			1				1
Something else – small municipalities should have less competencies					1		1
Something else – current status with expanded competencies							1
TOTAL	3	7	14	10	2	1	37

Regarding the spatial aspect, results are similar as in observation by demographic aspect. Specifically, the mayors of spatially small and medium-sized municipalities

believe that current situation is good, that only minimal territorial corrections are necessary and that system of small municipalities with reduced scope of competencies would be good. The mayors of territorially large municipalities (area of 500-1000 km²) also opted for the system of large municipalities with extensive competencies, while mayor of one large municipality believes that smaller municipalities should have a reduced scope of competencies (multi-type model).

Opinion on the scope of competencies

According to the survey results, largest number of mayors (72.97%) believe that compulsory and optional competencies need to be defined²⁵, while 13.51% think that current situation concerning the scope of competencies is good and should not be changed. 10.81% of mayors believe that demographically stronger and economically more developed municipalities and cities should have greater scope of competencies than other municipalities.



²⁵ We need to note here that, even though the questionnaire was explicit in proposed answers, possibility exists that respondents misinterpreted what we assumed by definition of compulsory and optional competencies.

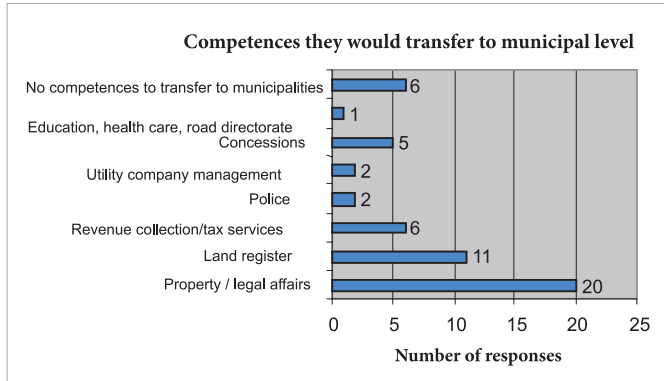
The following table points out some links that exist between demographic size of respondents' municipalities and their responses concerning municipal competencies:

Opinion on the scope of competencies									
	Population								TOTAL
	Up to 1000	1000- 3000	3000- 5000	5000- 10000	10000- 25000	25000- 50000	over 50000	n/a	
Current situation is good and should not be changed		1		1	2			1	5
Demographically larger and economically more developed municipalities and cities should have greater scope of competencies than other municipalities				2	2		2		4
It is necessary to define compulsory competencies (which must be fulfilled by all municipalities) and optional competencies (to be assigned to municipalities which have necessary capacities)		2	4	3	11	5	1	1	27
Something else – current status with expanded competencies			1						1
TOTAL	0	3	5	5	14	5	4	1	37

Entity competencies desired by municipalities

The question “Are there any competencies currently falling within the scope of entity competencies that should, in your opinion, be transferred to municipal level?” was included in the survey with an aim to point out the real measure of centralism in relations between entities and local authorities. Results as shown in the table below indicate that only 16.22% mayors that participated in the survey (6) would not transfer any competencies from the entity level to the municipal level. At the same time, 83.78% would transfer one or several competencies. The frequency structure of responses concerning desired competencies is shown in the chart below. 20 mayors that participated in this survey (54.05%) would transfer property and legal affairs, 11 (29.73%) would transfer the land registry operations, while 6 (16.22%) would like to have a control over collection of taxation revenues

and tax administration. In addition, responses imply that some municipal mayors would like to have the competencies in fields of concessions, utility company management and police.

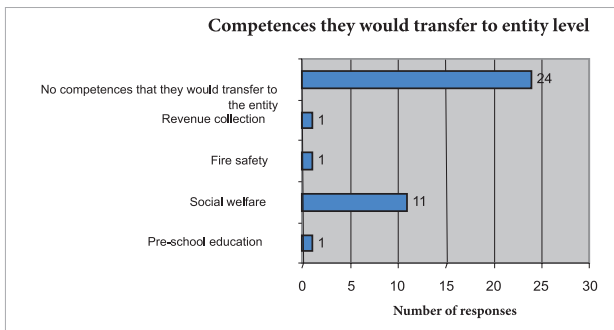


If we observe mayors' responses by demographic criterion (see table below), we see no significant differences from the aforementioned responses, except in cases of municipalities with up to 10.000 inhabitants and municipalities with population of 25.000-50.000 inhabitants. Namely, the largest number of municipalities that would like to have a greater control over concessions is in groups with up to 10.000 inhabitants (4 out of 5 with this response), while 2 municipalities in group with 25000-50000 inhabitants would like to have more competencies related to police affairs.

Competencies they would transfer to municipalities									
	Population								
	Up to 1000	1000-3000	3000-5000	5000-10000	10000-25000	25000-50000	over 50000	n/a	TOTAL
Property-legal affairs		1	1	2	3	11	2		20
Land register			2	1	2	5	1		11
Collection of revenues/ tax administration			1			4	1		6
Police						2			2
Utility company management					1	1			2
Concessions			2	2	1				5
Education, health care, road directorate		1							1
No competencies they would transfer to municipalities		1	1		1	1	1	1	6

Competencies that municipalities want to transfer to entity level

If we analyse respondents' answers to the question "Is there any competency or group of competencies currently within the scope of municipal level that should, in your opinion, be transferred to the entity level?", we can see that the largest number of them, 64.86% (24), think that no competencies/group of competencies should be transferred to the entity. Significant here is the fact that 11 mayors participating in the survey (29.73%) agree with the transfer of social welfare issues to the entity level, while following options were chosen by one respondent each: fire safety, revenue collection and competencies in pre-school education (see chart below).

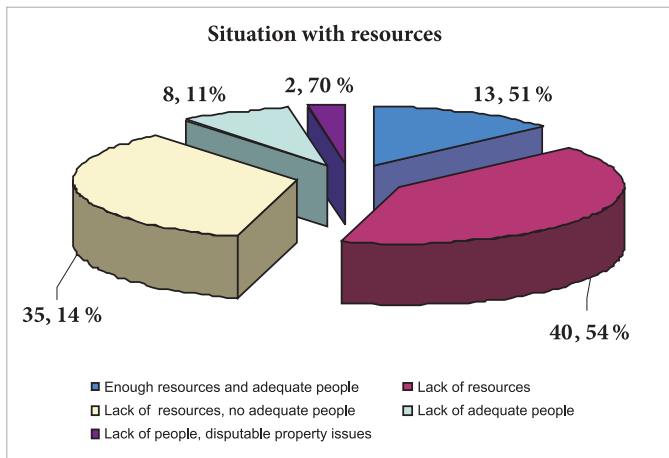


If we observe mayors' responses by demographic criterion (see table below), there are no significant differences from the aforementioned responses, with the exception of responses received from mayors in groups with 5000-10000 inhabitants and over 50000 inhabitants, who did not mention any problems with respect to competencies in field of social welfare.

Competencies they would transfer from municipal to entity level									
	Population								
	Up to 1000	1000-3000	3000-5000	5000-10000	10000-25000	25000-50000	over 50000	n/a	TOTAL
Pre-school education			1						1
Social welfare		1	3		5	2			11
Fire safety						1			1
Police						2			2
Revenue collection			1						1
No competencies that they would transfer to entity level		1	2	5	9	2	4	1	24

Resources and fulfilment of competencies

If we analyse respondents' answers concerning the question about the available resources that are necessary for quality provision of services within their scope of competencies, we may observe that the largest number of participating mayors (40.54%) think that they do not have sufficient resources, while 35.14% think they lack both resources and competent professionals. Just 13.51% of respondents say that they have sufficient resources and competent professionals, while 8.11% believe that they do not have enough competent people. A mayor of one municipality (2.7%) said that, in addition to lack of competent professionals, there was a problem with disputable property rights.

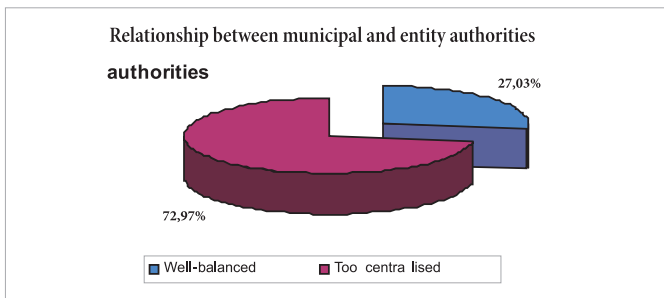


Data concerning resources required for provision of services within their scope of competencies, by the size of municipality (based on population size), imply that all mayors of small municipalities (municipalities with 1000-3000 inhabitants) believe that they do not have sufficient resources. These responses are slightly peculiar, considering the fact that all other groups of municipalities have at least one mayor stating the problem of both insufficient resources and inadequate professional to ensure the provision of services within their scope of competencies. Concurrently, mayors of only two municipalities with less than 10000 inhabitants, two mayors in the group with 10000-25000 inhabitants and one mayor of the municipality with more than 50000 inhabitants believe that they have both sufficient resources and adequate professionals.

Opinion on situation with resources required for provision of services within their scope of competencies									
Population									
	Up to 1000	1000-3000	3000-5000	5000-10000	10000-25000	25000-50000	over 50000	n/a	TOTAL
Have enough resources and enough professionals				2	2		1		5
No sufficient resources		3	2	2	3	3	2		15
No sufficient resources and no sufficient professionals			3	1	6	1	1	1	13
No sufficient professionals					2	1			3
No sufficient professionals, disputable property issues					1				1
TOTAL	0	3	5	5	14	5	4	1	37

Relationship between municipal and entity authorities

The last question in the survey conducted among municipal mayors dealt with the relationship between municipal and entity authorities (centralised, decentralised, well-balanced). According to respondents' answers, only 10 mayors that participated in the study (27.03%) think that this relationship is well-balanced, while others (27, i.e. 72.97%) say explicitly that it is centralised or their answers imply something similar (see chart and table below).



An interesting correlation can be observed with respect to mayors' opinions on relationship between municipal and entity authorities and the size of municipalities. All mayors of municipalities with less than 10.000 inhabitants think that this relationship is centralised (or their answers imply that it is a case). This is significant since small municipalities greatly depend on transfers from higher levels because of insufficient taxation revenues.

Opinion on the scope of competencies									
Population									
	Up to 1000	1000- 3000	3000- 5000	5000- 10000	10000- 25000	25000- 50000	over 50000	n/a	TOTAL
Well-balanced					5	2	2	1	10
Too centralised		2	5	5	9	2	1		24
Something else – not well-balanced							1		1
Something else – bad due to political reasons						1			1
Something else – more cooperation in field of local self-governance		1							1
TOTAL	0	3	5	5	14	5	4	1	37

It is interesting that 8 out of 10 mayors who believe that this relationship is well-balanced come from the same political option as the authorities at the entity level. At the same time, 95.24% (20 out of 21) of participating mayors who do not come from the same political option as the authorities at the entity level think or imply that this relationship is centralised. 46.67% of participating mayors who come from the same political option as the authorities at the entity level believe that relationship between entity and municipal authorities is centralised.

Relationship between municipal and entity authorities				
Attitude towards entity authority				
	Up to 1000	1000- 3000	n/a	TOTAL
Well balanced	8	1	1	10
Too centralised	7	20		27
TOTAL	15	21	1	37

Survey questionnaire – mayors in the Republika Srpska

– territorial and functional aspects of local self-governance –

1. What do you think about territorial organization of municipalities (and cities) in RS? (choose only one of proposed answers or record your answer if proposed answers are not satisfactory)

- a) Current situation is good and should not be changed
- b) Only most essential, minimal territorial corrections are necessary
- v) System of small municipalities with reduced scope of competencies would be better
- g) System of large municipalities with extensive scope of competencies would be better
- d) Something else (please, write it down) _____

2. Pursuant to the current Law on Local Self-Governance, all municipalities in the RS have the same scope of competencies. What is your opinion on such model? (choose only one of proposed answers or record new one)

- a) Current situation is good and should not be changed
- b) Demographically larger and economically more developed municipalities and cities should have a greater scope of competencies than other municipalities
- v) It is necessary to define compulsory competencies (to be fulfilled by all municipalities) and optional competencies (to be assigned to municipalities with necessary capacities)
- g) Something else (please, write it down) _____

3. Are there any competencies currently falling within the scope of entity competencies that should, in your opinion, be transferred to the municipal level?

- a) No
- b) Yes, following: _____

4. Are there any competencies or group of competencies currently falling within the scope of municipal level that should, in your opinion, be transferred to the entity level?

- a) No
- b) Yes, following: _____

5. Provision of quality services within the scope of competencies requires appropriate resources. What is the situation in your municipality? (choose only one of proposed answers or record new one)

- a) Enough resources and professionals
- b) Lack of resources
- v) Lack of adequate professionals
- g) Lack of resources and lack of adequate professionals
- d) Something else (please, write it down) _____

6. How would you describe the relationship between municipal and entity authorities? (choose only one of proposed answers)

- a) It is well-balanced
- b) It is too centralised
- v) It is too decentralised
- g) Something else: _____

Results of the survey conducted among members of the RS National

Assebly RS

Standpoints on the current territorial organisation

Respondents' (MP's) standpoints on the current territorial organisation are shown in the table below. According to the survey data, approximately 65% of participants (28 of them) believe that only minimal territorial corrections are necessary. At the same time, 2 respondents (4.65%) think that present situation is good and should not be changed. The system of small municipalities with reduced scope of competencies is preferred by 16.28% (7) members of the Parliament, while the system of large municipalities with extensive competencies is preferred option for 4 respondents (9.30%). Others (2) explain that the city of Banja Luka should be a city with several municipalities and that it is necessary to create the system with both small and large municipalities.

Opinion on territorial organisation		
	Number of responses	%
Current situation is good and should not be changed	2	4.65%
Only minimal territorial corrections are necessary	28	65.12%
System of small municipalities with reduced scope of competencies would be better	7	16.28%
System of large municipalities with extensive competencies would be better	4	9.30%
Other	2	4.65%
TOTAL	43	100.00%

Opinion on the scope of competencies

According to data received from survey respondents, largest number of them (46.51%, i.e. 20) believe that it is necessary to define compulsory and optional competencies²⁶, while 34.88% (15) believe that demographically larger and economically more developed municipalities and cities should have greater scope of competencies than other municipalities. 6 respondents (13.95%) think that current situation is good and should not be changed, while 2 recorded (OTHER) answers stating that small municipalities cannot fulfil all responsibilities from their scope of competencies, and that municipalities should be assigned some of the current entity competencies.

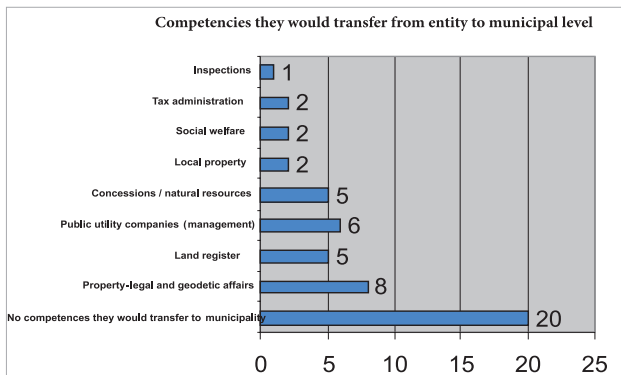
Opinion on the scope of competencies		
	Number of responses	%
Current situation is good and should not be changed	6	13.95%
Demographically larger and economically more developed municipalities and cities should have greater scope of competencies than other municipalities	15	34.88%
It is necessary to define compulsory competencies (which must be fulfilled by all municipalities) and optional competencies (to be assigned to municipalities which have necessary capacities)	20	46.51%
Other	2	4.65%
TOTAL	43	100.00%

²⁶ We need to note here that, even though the questionnaire was explicit in proposed answers, possibility exists that respondents misinterpreted what we assumed by definition of compulsory and optional competences.

Entity competencies that, in delegates' opinion, should be entrusted to municipalities

Responses to the question "Are there any competencies currently falling within the scope of entity competencies that should, in your opinion, be transferred to the municipal level?" show delegates' inclinations towards centralisation or decentralisation of the political system.

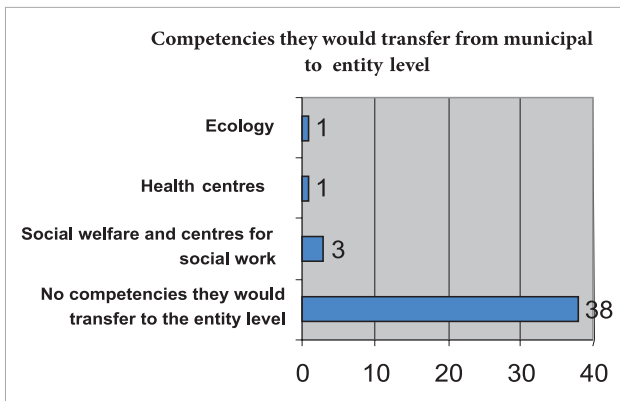
Results shown in the table and chart below indicated that only 46.51% or members of parliament who participated in the study (20) would not transfer any competencies from the entity to municipal level. 8 respondents (18.60%) would transfer competencies in field of legal, property and geodetic issues, while 5 of them (11.63%) would transfer the land register activities. 6 respondents (13.95%) would like to see local level management of public utility companies transferred to municipalities, while 5 would like the municipalities to be in charge of concessions (natural resources). Some respondents believe that the municipalities should have competencies in local property management (2), tax administration (2), social welfare (2!?) and inspections (1).



Competencies they would transfer from municipal level to municipalities		
	Number of responses	%
No competencies they would transfer to municipalities	20	46.51%
Property-legal affairs and geodetic issues	8	18.60%
Land register	5	11.63%
Public utility companies (management)	6	13.95%
Concessions (natural resources)	5	11.63%
Local property	2	4.65%
Social welfare	2	4.65%
Tax administration	2	4.65%
Inspections	1	2.33%

Municipal competencies that MPs would transfer to entity level

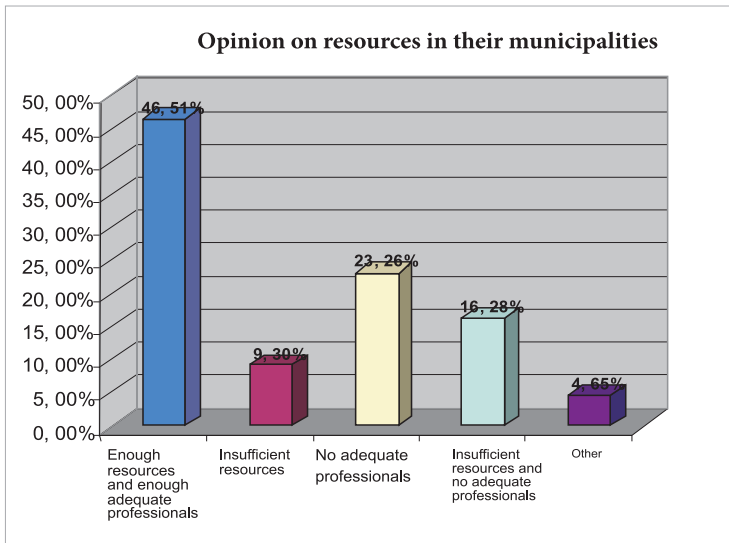
If we observe the respondents' answers to the question "Are there any competencies or group of competencies currently falling within the scope of municipal level that should, in your opinion, be transferred to the entity level?", we see that majority of them, 88.37 % (38), believe that no competencies or group of competencies should be transferred to the entity. Only 3 members of the parliament (6.98%) think that social welfare issues and the centres for social work should fall within the competencies of the entity, while one feels that ecology/environmental affairs and health centres management should be transferred to the entity level.



Competencies they would transfer from municipal to entity level		
	Number of responses	%
No competencies that they would transfer to entity level	38	88.37%
Social welfare and Social Work Centres	3	6.98%
Health Centres	1	2.33%
Ecology	1	2.33%

Resources and fulfilment of competencies

If we analyse respondents' answers to the question on available resources that are necessary for provision of quality services (see table and chart below), we can see that the largest number of survey participants (20, i.e. 46.51 %) believe that their municipalities have sufficient resources and adequate professionals. 23.26% (10) think that the municipalities lack adequate professionals, 7 of them (16.20%) believe that the municipalities lack both sufficient resources and adequate professionals. Only 9.30% of survey participants think that their municipalities do not have enough resources. Responses of two participants (4.65%) touched on inequality in allocation of resources and inadequate national distribution of professionals, as prescribed by the law.

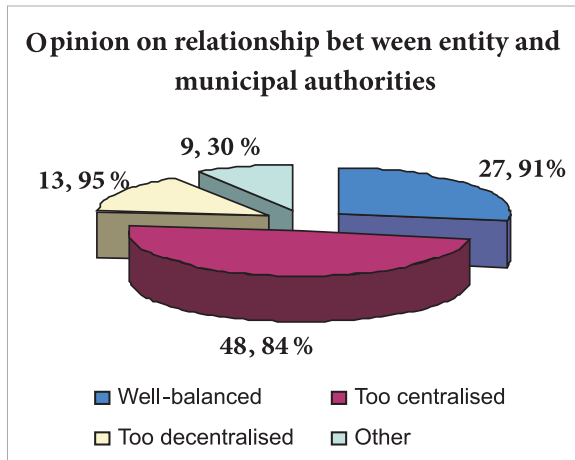


Opinion on availability of required resources and adequate professionals		
	Number of responses	%
Have enough resources and enough professionals	20	46.51%
No sufficient resources	4	9.30%
No sufficient professionals	10	23.26%
No sufficient resources and no sufficient professionals	7	16.28%
Other	2	4.65%
TOTAL	43	100.00%

Relationship between municipal and entity authorities

The last question analysed in the survey concerned the relationship between municipal and entity authorities (centralised, decentralised, well-balanced). 48.84% of survey participants (21) think that the relationship between municipal and entity authorities is centralised, while 27.91% (12) believe that this relationship is well-balanced. An interesting fact is that 6 members of parliament stated that this relationship was decentralised – these are mainly parliamentarians belonging to the ruling political option at entity level. 4 respondents (9.30%) recorded following answers that point out to the centralisation, but indirectly:

1. Politicized relationship – political, not legal character;
2. Non-transparent work of the entity institutions in relationships with the municipalities;
3. Local authorities must be enhanced;
4. This relationship depends on the ruling political opinion at the entity level.



Relationship between municipal and entity authorities		
	Number of responses	%
Well-balanced	12	27.91%
Too centralised	21	48.84%
Too decentralised	6	13.95%
Other	4	9.30%
TOTAL	43	100.00%

ANNEXE II

TABLES

Table 1 – Development of the territorial organisation of local self-governance in Bosnia and Herzegovina (BiH) in the period 1952 – 2007

DEVELOPMENT OF THE TERRITORIAL ORGANISATION OF LOCAL SELF-GOVERNANCE IN BOSNIA AND HERZEGOVINA (BiH) IN THE PERIOD 1952 - 2007					
YEAR	AREA BiH (km ²)	POPULATION BiH	NUMBER OF MUNICIPALITIES IN BiH	AVERAGE AREA OF MUNICIPALITY IN BiH (km ²)	AVERAGE POPULATION OF MUNICIPALITY IN BiH
1952	51221*	2791000**	418	122,54	6677
1962	51197	3336000**	122	419,65	27344
1991	51197	4377033	109	469,70	40156
2007	51197	3873000	142	360,54	27275
* BiH area in 1953					
** Population, mid-year – estimate					

Table 2 – Economic position of local-self governance in BiH from the aspect of public spending and revenues/expenditures

	in % GDP BiH	in % GDP RS	in % GDP FBiH
Municipalities in FBiH	1,56%	-	2,27%
Municipalities in RS	2,73%	7,28%	-
Total municipalities in BiH	4,29%	-	-
Cantons in FBiH	8,49%	-	12,34%
Entity FBiH	5,45%	-	7,92%
Funds FBiH	9,64%	-	14,00%
Entity RS	6,31%	16,83%	-
Funds RS	4,92%	13,12%	-
BiH level	4,84%	-	-
Brčko District	0,98%	2,61%	-
TOTAL	45%	39,84%	36,53%

Source: Data on public spending in 2006 for all levels of authority (Directorate for Economic Planning, Ministries of Finance, Macroeconomic Analysis Unit)

Table 3 - Status quo (municipal revenues, population in the Republic of Srpska)

		VAT	Budget	Population	Budget per capita
32	BANJA LUKA	58.996.032	137.340.218	224.647	611,36
33	BERKOVIĆI	292.005	845.732	2.799	302,16
34	BIJELJINA	17.971.569	33.648.105	109.211	308,10
35	BILEĆA	1.988.730	5.941.782	12.282	483,78
36	BRATUNAC	2.084.210	3.427.265	23.006	148,97
37	ČAJNIČE	528.706	1.345.786	5.311	253,40
38	ČELINAC	1.898.031	4.698.639	17.536	267,94
39	DERVENTA	4.886.656	10.336.283	42.747	241,80
40	DOBOJ	9.755.615	20.326.182	80.464	252,61
41	DRINIĆ-PETROVAC	263.247	1.046.993	189	5539,65
42	GACKO	2.933.321	9.034.073	10.300	877,09
43	GRADIŠKA	6.663.019	19.207.054	61.440	312,61
44	HAN PIJESAK	1.106.079	2.348.448	4.902	479,08
45	JEZERO	194.670	548.118	1.316	416,50
46	KALINOVIK	548.615	1.125.725	4.871	231,11
47	KNEŽEVO	1.137.049	4.389.646	12.278	357,52
48	KOTOR VAROŠ	2.030.761	5.091.445	20.025	254,25
49	KOZARSKA DUBICA	4.112.401	8.325.876	34.916	238,45
50	KRUPA NA UNI	207.943	465.977	1.949	239,09
51	KUPRES	55.304	256.173	483	530,38
52	LAKTAŠI	11.246.610	19.801.447	40.311	491,22
53	LOPARE	1.539.662	2.516.260	16.983	148,16
54	LJUBINJE	860.529	1.323.978	4.258	310,94
55	MILIĆI	1.577.268	4.355.033	10.214	426,38
56	MODRIČA	3.995.157	7.536.531	28.581	263,69
57	MRKONJIĆ GRAD	2.592.649	9.406.227	20.004	470,22
58	NEVESINJE	2.019.700	4.594.909	18.955	242,41
59	NOVI GRAD	3.603.605	7.339.284	31.144	235,66
60	OSMACI	625.684	1.440.685	4.807	299,71
61	PALE	3.349.207	7.808.239	26.959	289,63
62	PELAGIĆEVO	831.771	1.513.148	6.435	235,14

Source: municipal budgets, RS Ministry of Finance, personal calculations

		VAT	Budget	Population	Budget per capita
32	PETROVO	783.137	1.624.943	12.044	134,92
33	PRIJEDOR	9.948.073	28.633.860	98.570	290,49
34	PRNJAVOR	6.457.288	12.066.378	49.821	242,19
35	RIBNIK	1.028.653	2.290.953	9.008	254,32
36	ROGATICA	2.032.973	4.038.945	14.850	271,98
37	RUDO	1.002.107	3.995.622	9.801	407,67
38	SOKOLAC	1.906.880	4.220.677	17.449	241,89
39	SRBAC	2.371.433	18.024.323	24.739	728,58
40	FOČA	2.663.438	5.717.987	25.489	224,33
41	SREBRENICA	1.895.819	4.008.984	21.879	183,23
42	ISTOČNA ILIDŽA	1.869.273	6.699.793	16.754	399,89
43	KOSTAJNICA	769.831	1.505.052	7.874	191,14
44	BROD	2.716.530	5.331.384	20.424	261,04
45	ISTOČNI DRVAR	221.216	623.273	62	10052,79
46	NOVO GORAŽDE	486.675	2.172.150	3.095	701,83
47	ISTOČNI MOSTAR	39.819	198.323	794	249,78
48	ISTOČNON.SARAJEVO	1.541.874	5.884.221	9.129	644,56
49	DONJI ŽABAR	1.336.143	1.692.586	2.912	581,25
50	OŠTRA LUKA	683.557	1.343.926	3.319	404,92
51	ISTOČNISTARI GRAD	234.489	1.004.561	3.185	315,40
52	ŠAMAC	2.636.892	5.774.010	23.339	247,40
53	ŠEKOVIĆI	856.105	1.514.808	10.167	148,99
54	ŠIPOVO	1.234.384	2.430.249	10.585	229,59
55	TESLIĆ	5.072.477	9.691.401	49.021	197,70
56	TREBINJE	4.422.103	18.498.373	31.299	591,02
57	TRNOVO	183.609	839.651	2.594	323,69
58	UGLJEVIK	2.336.038	8.505.063	17.005	500,15
59	VIŠEGRAD	1.853.788	7.243.427	19.419	373,01
60	VLASENICA	1.698.937	2.599.652	20.437	127,20
61	VUKOSAVLJE	309.702	612.371	5.454	112,28
62	ZVORNIK	5.992.735	13.016.966	51.688	251,84

Table 4 – Functional budget expenditures and most significant indicators for 5 large and 5 small municipalities in the Republika Srpska

	Banjaluka		Bijeljina		Prijedor		Doboj		Trebinje	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
	Expenditures by functional classification									
General public services	93,265,467	114,065,000	6,365,865	7,636,421	2,651,624	4,002,584	5,257,784	6,287,400	2,982,665	4,983,390
Defence					16,621	19,127	78,903	135,860		
Public order and security		5,276,496	2,614,032	3,128,390	3,216,409	3,877,643	3,012,901	2,432,664	1,784,563	6,242,398
Economic activities			662,000	480,324	7,179	12,203	9,550	567,960	989,938	1,215,187
Environmental protection										
Housing and general issues			10,776,219	12,616,083	3,968,069	13,580,642	4,307,053	2,733,831	426,572	809,105
Health care sector		851,289	747,820	1,175,042	141,256	151,629	9,500	150,200	150,000	192,250
Recreation, culture and religion			3,039,913	3,179,153	1,242,435	1,341,593	1,977,545	2,780,604	1,164,428	1,769,585
Education	11,319,734	12,225,550	3,347,087	3,278,192	1,994,022	2,712,409	1,165,211	1,461,840	379,628	1,007,256
Social welfare	7,113,600	4,921,883	2,712,271	2,154,500	1,803,826	2,232,414	3,914,127	3,775,823	1,375,986	1,817,469
Total	111,698,801	137,340,218	30,265,207	33,648,105	15,614,770	28,633,860	20,302,877	20,326,182	9,511,447	18,498,373
	Structure of expenditures (per capita)									
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
General public services	415,16	507,75	58,29	69,92	26,85	40,53	65,34	78,14	95,30	159,22
Defence	0,00	0,00	0,00	0,00	0,17	0,19	0,98	1,69	0,00	0,00
Public order and security	0,00	0,00	0,00	0,00	5,81	7,13	7,09	7,06	8,23	14,75
Economic activities	0,00	23,49	23,94	28,65	32,57	39,27	37,44	30,23	57,02	199,44
Environmental protection	0,00	0,00	6,06	4,40	0,07	0,12	0,12	0,00	31,63	38,83
Housing and general issues	0,00	0,00	98,67	115,52	40,18	137,53	53,53	33,98	13,63	25,85
Health care sector	0,00	3,79	6,85	10,76	1,43	1,54	0,12	1,87	4,79	6,14
Recreation, culture and religion	0,00	0,00	27,84	29,11	12,58	13,59	24,58	34,56	37,20	56,54
Education	50,39	54,42	30,65	30,02	20,19	27,47	14,48	18,17	12,13	32,18

Social welfare	31,67	21,91	24,84	19,73	18,27	22,61	48,64	46,93	43,96	58,07
Total	497,22	611,36	277,13	308,10	158,12	289,96	252,32	252,61	303,89	591,02
Revenues, expenditures, financing (municipal budget excerpt)										
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Revenues derived from taxation	80.900.154	85.667.944	24.127.808	26.324.751	14.706.325	16.740.246	13.015.228	14.212.568	6.030.262	6.940.677
VAT	57.193.154	66.889.337	17.377.132	20.651.628	11.363.457	13.055.750	8.956.230	10.559.160	4.146.981	4.910.335
Property tax	13.987.775	6.344.579	3.736.096	2.087.143	1.445.410	1.125.804	2.015.605	1.028.482	732.686	588.370
Income tax	9.527.335	12.285.489	2.879.475	3.352.318	1.852.238	2.493.218	1.974.215	2.561.483	1.143.966	1.431.924
Revenues not derived from taxation	35.036.463	42.326.650	6.501.676	6.585.362	4.436.198	6.003.903	7.324.878	6.396.692	6.000.416	6.548.591
Current to capital assistance	243.939	338.640	186.102	645.407	432.085	559.228	203.063	112.791	187.348	335.110
Salaries and fees	15.828.623	18.571.846	5.857.860	6.886.312	4.660.175	5.429.500	4.023.432	4.788.864	2.203.838	2.820.406
Current costs	77.901.481	96.280.486	22.807.463	23.701.893	14.499.789	20.069.719	12.682.193	13.734.103	7.023.077	10.536.803
Capital costs	33.750.020	41.049.032	7.454.744	9.942.912	497.941	7.964.141	7.620.684	6.592.079	1.190.870	3.382.347
Credit	1.301.920	1.263.747	7.409	192.906	0	7.000.000	0	0	262.621	296.893
Revenues, expenditures, financing (per capita)										
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Revenues derived from taxation	360,12	381,34	220,93	241,04	149,20	169,83	161,75	176,63	192,67	221,75
VAT	254,59	297,75	159,12	189,10	115,28	132,45	111,31	131,23	132,50	156,88
Property tax	62,27	28,24	34,21	19,11	14,66	11,42	25,05	12,78	23,41	18,80
Income tax	42,41	54,69	26,37	30,70	18,79	25,29	24,54	31,83	36,55	45,75
Revenues not derived from taxation	155,96	188,41	59,53	60,30	45,01	60,91	91,03	79,50	191,71	209,23
Current to capital assistance	1,09	1,51	1,70	5,91	4,38	5,67	2,52	1,40	5,99	10,71
Salaries and fees	70,46	82,67	53,64	63,06	47,28	55,08	50,00	59,52	70,41	90,11
Current costs	346,77	428,59	208,84	217,03	147,10	203,61	157,61	170,69	224,39	336,65
Capital costs	150,24	182,73	68,26	91,04	5,05	80,80	94,71	81,93	38,05	108,07
Credit	5,80	5,63	0,07	1,77	0,00	71,02	0,00	0,00	8,39	9,49

	Banjaluka		Bijeljina		Prijedor		Doboj		Trebinje	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
	Revenues, expenditures, financing (by participation in budget)									
Revenues derived from taxation	72,43%	62,38%	79,72%	78,24%	94,18%	58,46%	64,11%	69,92%	63,40%	37,52%
VAT	51,20%	48,70%	57,42%	61,38%	72,77%	45,60%	44,11%	51,95%	43,60%	26,54%
Property tax	12,52%	4,62%	12,34%	6,20%	9,26%	3,93%	9,93%	5,06%	7,70%	3,18%
Income tax	8,53%	8,95%	9,51%	9,96%	11,86%	8,71%	9,72%	12,60%	12,03%	7,74%
Revenues not derived from taxation	31,37%	30,82%	21,48%	19,57%	28,41%	20,97%	36,08%	31,47%	63,09%	35,40%
Current to capital assistance	0,22%	0,25%	0,61%	1,92%	2,77%	1,95%	1,00%	0,55%	1,97%	1,81%
Salaries and fees	14,17%	13,52%	19,36%	20,47%	29,84%	18,96%	19,82%	23,56%	23,17%	15,25%
Current costs	69,74%	70,10%	75,36%	70,44%	92,86%	70,09%	62,47%	67,57%	73,84%	56,96%
Capital costs	30,22%	29,89%	24,63%	29,55%	3,19%	27,81%	37,53%	32,43%	12,52%	18,28%
Credit	1,17%	0,92%	0,02%	0,57%	0,00%	24,45%	0,00%	0,00%	2,76%	1,60%

Source: Municipal budgets for 2005 and 2006 (budget implementation)

Note: Some municipalities do not break all expenditures by functions, thus there are some variations (for example, in Banja Luka, environmental protection, recreation, religion and culture, housing and general issues, defence, security and public order are merged under "denominator" as classified general public services)

	Berkovići			Jezero			Istočni Stari Grad			Osmaci			Trnovo	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
	Expenditures by functional classification													
General public services	384,025	541,681	189,382	252,829	417,880	411,713	1,641,529	1,369,479	500,611	491,090				
Defence								9,247						
Public order and security					1,537	408								
Economic activities	50,506	45,925	178,517	191,751										
Environmental protection					114,728	103,713								
Housing and general issues	805,794	196,882	17,240	726	500	392,871			70,046	304,606				
Health care sector			423	74	6,430	7,000	4,928	5,064	2,000	4,000				
Recreation, culture and religion	3,245	7,238	7,824	9,300	14,600	26,900	2,200	4,534	17,459	23,149				
Education	69,456	41,652	1,276	3,191	4,460	4,034	3,191	2,824	25,397	2,940				
Social welfare	4,371	12,354	10,818	22,713	33,989	57,922	38,933	49,537	13,449	13,866				
Total	1,317,397	845,732	405,480	480,584	594,124	1,004,561	1,690,781	1,440,685	628,962	839,651				
	Structure of expenditures (per capita)													
General public services	137,20	193,53	143,91	192,12	131,20	129,27	341,49	284,89	192,99	189,32				
Defence	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1,92	0,00	0,00				
Public order and security	0,00	0,00	0,00	0,00	0,48	0,13	0,00	0,00	0,00	0,00				
Economic activities	18,04	16,41	135,65	145,71	0,00	32,56	0,00	0,00	0,00	0,00				
Environmental protection	0,00	0,00	0,00	0,00	0,16	123,35	0,00	0,00	0,00	0,00				
Housing and general issues	287,89	70,34	13,10	0,55	0,16	2,20	1,03	1,05	27,00	117,43				
Health care sector	0,00	0,00	0,32	0,06	2,02	8,45	0,46	0,94	0,77	1,54				
Recreation, culture and religion	1,16	2,59	5,95	7,07	4,58	1,27	0,66	0,59	6,73	8,92				
Education	24,81	14,88	0,97	2,42	1,40	1,27	0,66	0,59	9,79	1,13				
Social welfare	1,56	4,41	8,22	17,26	10,67	18,19	8,10	10,31	5,18	5,35				
Total	470,67	302,16	308,12	365,19	186,54	315,40	351,73	299,71	242,47	323,69				

	Berkovići		Jezero		Istočni Stari Grad		Osmaci		Trnovo	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
	Revenues, expenditures, financing (municipal budget excerpt)									
Revenues derived from taxation	294.168	352.515	163.101	222.439	246.647	306.626	491.046	707.478	274.265	273.121
VAT	253.950	307.366	142.065	201.508	197.711	254.330	439.419	646.180	181.465	201.576
Property tax	12.740	8.564	7.257	5.341	7.436	5.167	4.543	6.367	55.027	26.478
Income tax	27.372	36.546	13.779	15.566	41.257	47.015	45.743	52.293	37.643	44.958
Revenues not derived from taxation	760.626	104.391	162.732	161.179	166.601	190.973	85.360	59.650	181.035	252.483
Current to capital assistance	75.000	189.340	92.000	101.741	233.526	348.725	925.604	382.837	253.001	232.914
Salaries and fees	220.079	236.451	160.584	212.389	200.235	250.553	318.133	380.120	250.843	330.187
Current costs	499.689	544.510	226.963	288.833	586.390	605.673	642.627	781.477	543.161	535.045
Capital costs	817.708	301.222	178.517	191.751	7.734	398.888	1.048.154	659.208	85.801	304.606
Credit	50.000	200.000	0	0	0	190.000	0	99.048	0	0
	Revenues, expenditures, financing (per capita)									
Structure (per capita)	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Revenues derived from taxation	105,10	125,94	123,94	169,03	77,44	96,27	102,15	147,18	105,73	105,29
VAT	90,73	109,81	107,95	153,12	62,08	79,85	91,41	134,42	69,96	77,71
Property tax	4,55	3,06	5,51	4,06	2,33	1,62	0,95	1,32	21,21	10,21
Income tax	9,78	13,06	10,47	11,83	12,95	14,76	9,52	10,88	14,51	17,33
Revenues not derived from taxation	271,75	373,30	123,66	122,48	52,31	59,96	17,76	12,41	69,79	97,33
Current to capital assistance	26,80	67,65	69,91	77,31	73,32	109,49	192,55	79,64	97,53	89,79
Salaries and fees	78,63	84,48	122,02	161,39	62,87	78,67	66,18	79,08	96,70	127,29
Current costs	178,52	194,54	172,46	219,48	184,11	190,16	133,69	162,57	209,39	206,26
Capital costs	292,14	107,62	135,65	145,71	2,43	125,24	218,05	137,14	33,08	117,43
Credit	17,86	71,45	0,00	0,00	0,00	59,65	0,00	20,60	0,00	0,00

Revenues, expenditures, financing (by participation in budget)												
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Revenues derived from taxation	22,33%	41,68%	40,22%	46,29%	41,51%	30,52%	28,97%	49,11%	43,61%	32,53%		
VAT	19,28%	36,34%	35,04%	41,93%	33,28%	25,32%	25,93%	44,85%	28,85%	24,01%		
Property tax	0,97%	1,01%	1,79%	1,11%	1,25%	0,51%	0,27%	0,44%	8,75%	3,15%		
Income tax	2,08%	4,32%	3,40%	3,24%	6,94%	4,68%	2,70%	3,63%	5,98%	5,35%		
Revenues not derived from taxation	57,74%	12,34%	40,13%	33,54%	28,04%	19,01%	5,04%	4,14%	28,78%	30,07%		
Current to capital assistance	5,69%	22,39%	22,69%	21,17%	39,31%	34,71%	54,61%	26,57%	40,23%	27,74%		
Salaries and fees	16,71%	27,96%	39,60%	44,19%	33,70%	24,94%	18,77%	26,38%	39,88%	39,32%		
Current costs	37,93%	64,38%	55,97%	60,10%	98,70%	60,29%	37,92%	54,24%	86,36%	63,72%		
Capital costs	62,07%	35,62%	44,03%	39,90%	1,30%	39,71%	61,85%	45,76%	13,64%	36,28%		
Credit	3,80%	23,65%	0,00%	0,00%	0,00%	18,91%	0,00%	6,88%	0,00%	0,00%		

Source: Municipal budgets for 2005 and 2006 (budget implementation)

Tables 5 – Fragmentation of municipalities (spatial and demographic aspect)

Table 5a. Fragmentation of Prijedor meso-region into smaller municipalities

MUNICIPALITY	Area (km ²)	Population 2006*	Number of pupils in primary schools 2006 - end of school year**	Number of settlements	Population density 2006 (inhabitants / km ²)
Budimlić Japra	63.94	620	52	13	9.70
Donja Kozica	63.86	680	61	6	10.65
Oštra Luka	78.43	2700	280	8	34.43
Krupa na Uni	95.06	1500	130	12	15.78
Dobrljin	72.71	3700	333	9	50.89
Donji Agići	154.83	4200	345	14	27.13
Novi Grad	108.53	17000	1550	12	156.64
Svodna	134.31	4600	405	13	34.25
Kostajnica	86.23	5800	457	12	67.26
Draksenić	116.60	2850	219	8	24.44
Knežica	129.24	4500	300	19	34.82
Koz. Dubica	261.14	20150	1612	34	77.16
Brežičani	94.64	3469	289	8	36.65
Busnovi	91.97	3479	290	4	37.83
Kozarac	106.83	8315	756	8	77.83
Ljubija	107.25	3818	347	12	35.60
Omarska	171.98	9750	886	9	56.69
Prijedor	260.85	55246	5052	30	211.79
TOTAL	2198.41	152377	13364	231	69.31

* Estimate based on the electorate and number of pupils in primary schools.

** Estimated number of pupils in primary schools.

Table 5b – Categorisation of small municipalities in RS (identified by the RS SP), by area

CATEGORISATION OF SMALL MUNICIPALITIES IN RS, BY AREA	
Area category (km²)	Number of municipalities
0 - 50	17
50 - 100	50
100 - 200	42
200 - 300	26
300 - 500	14
> 500	5
TOTAL	154

Table 5c - Categorisation of small municipalities in RS (identified by the RS SP), by population

CATEGORISATION OF SMALL MUNICIPALITIES IN RS, BY POPULATION	
Category – number of inhabitants	Number of municipalities
0 - 100	2
100 - 500	7
500 - 1000	9
1000 - 2000	15
2000 - 5000	63
5000 - 10000	25
10000 - 20000	19
20000 - 50000	10
> 50000	4
TOTAL	154

Table 5d – Fragmentation of Prijedor municipality into smaller municipalities – radical fragmentation

MUNICIPALITY	Area (km ²)	Population 2006*	Number of pupils in primary schools 2006 - end of school year**	Number of settlements	Population density 2006 (inhabitants km ²)
Brežičani	94.70	3469	289	8	36.63
Busnovi	92.03	3479	290	4	37.80
Čela (Petrovo)	40.95	2907	264	4	70.99
Donji Orlovci	48.20	4190	419	5	86.93
Hambarine	27.88	3028	275	5	108.61
Kozarac	106.90	8315	756	8	77.78
Lamovita	90.68	3212	292	3	35.42
Ljubija	107.32	3818	347	12	35.58
Omarska	81.41	6538	594	6	80.31
Prijedor	92.19	42996	3901	10	466.38
Rasavci	51.79	2125	193	6	41.03
TOTAL	834.05	84077	7620	71	100.81

* Estimate based on the electorate and number of pupils in primary schools.
** Estimated number of pupils in primary schools.

Table 5e – Fragmentation of Prijedor municipality into smaller municipalities

MUNICIPALITY	Area (km ²)	Population 2006*	Number of pupils in primary schools 2006 - end of school year**	Number of settlements	Population density 2006 (inhabitants km ²)
Kozarac	106.9	8315	831	8	77.78
Ljubija	107.32	3818	381	12	35.58
Omarska	264.12	13229	1400	13	50.09
Prijedor	355.71	58715	5008	38	165.06
TOTAL	834.05	84077	7620	71	100.81

* Estimate based on the electorate and number of pupils in primary schools.
** Estimated number of pupils in primary schools.

Table 5f – Fragmentation of Gacko municipality into smaller municipalities

MUNICIPALITY	Area (km ²)	Population 2006*	Number of pupils in primary schools 2006 - end of school year**	Number of settlements	Population density 2006 (inhabitants km ²)
Avtovac	216.19	2119	191	23	9.80
Fojnica	121.82	367	31	9	3.01
Gacko	389.32	7014	994	39	18.02
TOTAL	727.33	9500	1216	71	13.06
* Estimate based on the electorate and number of pupils in primary schools.					

Table 5g – Fragmentation of Tešanj municipality into smaller municipalities

MUNICIPALITY	Area (km ²)	Population 2006*	Number of pupils in primary schools 2006 - end of school year**	Number of settlements	Population density 2006 (inhabitants km ²)
Jelah	60.24	16833	2441	20	279.43
Karadaglije	23.26	2668	368	5	114.70
Lepenica	55.27	7900	1138	6	142.93
Tešanj	26.5	14599	2117	12	550.91
TOTAL	165.27	42000	6064	43	254.13
* Estimate based on the electorate and number of pupils in primary schools.					
** Estimated number of pupils in primary schools.					

Tables 6 – Fragmentation of municipalities (economic-financial aspect)

Table 6a – Fragmentation of meso-region Prijedor into smaller municipalities (municipal revenues, budget, population)

	VAT	Budget	Population	Budget per capita
Budimlić Japra	224.768	321.098	620	517,90
Donja Kozica	234.424	334.891	680	492,49
Oštra Luka	592.805	846.864	2700	313,65
Krupa na Uni	428.705	996.987	1500	664,66
Dobrljin	745.261	1.064.659	3700	287,75
Donji Agići	985.498	1.407.855	4200	335,20
Novi Grad	3.691.134	8.584.032	17000	504,94
Svodna	1.011.292	1.444.703	4600	314,07
Kostajnica	1.335.071	3.104.816	5800	535,31
Draksenić	690.995	987.136	2850	346,36
Knežica	985.158	1.407.368	4500	312,75
Kozarska Dubica	4.187.137	9.737.528	20150	483,25
Brežičani	749.819	1.071.170	3469	308,78
Busnovi	746.306	1.066.151	3479	306,45
Kozarac	1.565.651	2.236.644	8315	268,99
Ljubija	831.220	1.187.457	3818	311,02
Omarska	1.926.002	2.751.431	9750	282,20
Prijedor	11.956.192	27.805.098	55246	503,30

Source: Municipal budgets (personal calculations)

Table 6b – Fragmentation of Prijedor municipality into smaller municipalities – radical fragmentation

	VAT	Budget	Population	Budget per capita
Brežičani	749.933	1.071.333	3469	308,83
Busnovi	746.415	1.066.307	3479	306,50
Čela (Petrovo)	554.314	791.877	2907	272,40
Donji Orlovci	778.071	1.111.530	4190	265,28
Hambarine	548.872	784.103	3028	258,95
Kozarac	1.565.779	2.236.827	8315	269,01
Lamovita	700.156	1.000.223	3212	311,40

Ljubija	831.349	1.187.641	3818	311,06
Omarska	1.226.053	1.751.504	6538	267,90
Prijedor	9.627.868	22.390.391	42.996	520,76
Rasavci	447.381	639.115	2.125	300,76

Source: Forecasts based on Prijedor municipal budget and participation of revenues with respect to the degree of urbanisation (personal calculations)

Table 6c – Fragmentation of Prijedor into smaller municipalities

	VAT	Budget	Population	Budget per capita
Brežičani	749.933	1.071.333	3469	308,83
Busnovi	746.415	1.066.307	3479	306,50
Ćela (Petrovo)	554.314	791.877	2907	272,40
Donji Orlovci	778.071	1.111.530	4190	265,28
Hambarine	548.872	784.103	3028	258,95
Kozarac	1.565.779	2.236.827	8315	269,01

Source: Forecasts based on Prijedor municipal budget and participation of revenues with respect to the degree of urbanisation (personal calculations)

Table 6d – Fragmentation of Gacko municipalities into smaller municipalities

	VAT	Budget	Population	Budget per capita
Avtovac	763.686	1.090.980	2119	514,86
Fojnica	295.109	421.585	367	1148,73
Gacko	2.201.385	5.119.499	7014	729,90

Source: Forecasts based on Gacko municipal budget and participation of revenues with respect to the degree of urbanisation (personal calculations)

Table 6e – Fragmentation of Tešanj municipality into smaller municipalities

	VAT	Budget	Population	Budget per capita
Jelah	1.730.489	4.326.223	16833	257,01
Kardagije	273.480	455.800	2668	170,84
Lepenica	812.976	1.354.960	7900	171,51
Tešanj	1.507.084	4.566.921	14599	312,82

Source: Forecasts based on Tešanj municipal budget and participation of revenues with respect to the degree of urbanisation (personal calculations)

Tables 7 – Enlargement/mergers of municipalities (spatial-demographic aspect)

Table 7a - Merged (large) municipalities in RS (RS SP)

MUNICIPALITY	Area (km ²)	Population 2006*	Number of pupils in primary schools 2006 - end of school year**	Number of settlements	Population density 2006 (inhabitants km ²)
BANJA LUKA	1239.05	201600	17040	54	162.71
BIJELJINA	736.15	110000	10326	60	149.43
BILEĆA	906.16	14500	1637	82	16.00
BRATUNAC	294.10	18500	1725	50	62.90
VIŠEGRAD	450.91	14000	1092	163	31.05
VLASENICA	217.80	12000	1053	38	55.10
GACKO	731.42	9500	1216	71	12.99
GRADIŠKA	764.29	54000	5240	68	70.65
DERVENTA	516.57	30510	2756	57	59.06
DOBOJ	811.70	77000	7083	87	94.86
ZVORNIK	452.58	61600	5684	79	136.11
KALINOVIK	680.48	2600	173	71	3.82
KNEŽEVO	325.97	11500	1355	21	35.28
KOZ. DUBICA	506.98	27500	2131	61	54.24
KOTOR VAROŠ	554.73	19500	2262	43	35.15
LAKTAŠI	388.43	41000	3731	37	105.55
LOPARE	299.51	14000	1256	36	46.74
LJUBINJE	342.97	4000	406	21	11.66
MILIĆI	277.11	9000	933	54	32.48
MODRIČA	409.98	31800	3003	39	77.56
MRKONJIĆ GRAD	1458.30	30233	2698	91	20.73
NEVESINJE	966.68	14080	1415	60	14.57
NOVI GRAD	565.44	31000	2763	60	54.82
PALE	571.01	23397	2233	82	40.97
PELAGIĆEVO	161.22	8600	821	20	53.34
PETROVO	113.56	8500	616	8	74.85
PRIJEDOR	1039.76	88077	8013	98	84.71
PRNJAVOR	630.71	41000	4103	63	65.01
ROGATICA	718.99	14100	1261	158	19.61
RUDO	344.02	8000	709	89	23.25
SOKOLAC	676.03	14003	1317	101	20.71
SREBRENICA	531.96	7500	599	81	14.10
SRBAC	454.56	19500	1803	39	42.90

FOČA	1116.38	20300	1882	100	18.18
IST. SARAJEVO	67.12	24100	2262	15	359.06
KOSTAJNICA	86.23	5800	457	12	67.26
BROD	231.02	15500	1376	23	67.09
TESLIĆ	844.35	45000	4476	55	53.30
TREBINJE	863.14	34000	3046	150	39.39
TRNOVO	112.68	2000	182	26	17.75
UGLJEVIK	170.31	16500	1658	24	96.88
HAN PIJESAK	343.92	4000	370	26	11.63
ČAJNIČE	322.87	5100	567	62	15.80
ČELINAC	364.03	17800	1963	30	48.90
ŠAMAC	172.22	17000	1761	20	98.71
ŠEKOVIĆI	242.83	8500	883	38	35.00
ŠIPOVO	589.78	12300	1139	50	20.86
TOTAL	24666	1300000	120475	2773	52.70

* Population corrected with respect to number of pupils in primary schools and data from development documents.

** Estimate based on education statistics and population age structure.

Table 7b - Merged (large) municipalities in Tuzla Canton (TK SP)

MUNICIPALITY	Area (km ²)	Population 2006*	Number of pupils in primary schools 2006 - end of school year**	Population density 2006 (inhabitants km ²)
BANOVIĆI	185.00	24500	2850	132.43
GRAČANICA	257.00	60600	7310	235.80
GRADAČAC	218.00	42000	4850	192.66
KALESIJA	348.00	54400	6920	156.32
KLADANJ	331.00	13500	1750	40.79
LUKAVAC	337.00	48000	5100	142.43
SREBRENİK	248.00	41000	5000	165.32
TUZLA	434.00	142700	14250	328.80
ŽIVINICE	291.00	59000	7800	202.75
TOTAL	2649	485700	55830	183.35

* Population estimated on basis of electorate body.

** Estimate based on population age structure and data from development documents.

Table 7c – Merged Prijedor municipality

MUNICIPALITY	Area (km ²)	Population 2006*	Number of pupils in primary schools 2006 - end of school year**	Number of settlements	Population density 2006 (inhabitants km ²)
Prijedor	976.27	87125	7961	98	89.24
* Estimate based on electorate and number of pupils in primary schools.					
** Estimated number of pupils in primary schools.					

Table 7d – Merged Zvornik municipality

MUNICIPALITY	Area (km ²)	Population 2006*	Number of pupils in primary schools 2006 - end of school year**	Number of settlements	Population density 2006 (inhabitants km ²)
Zvornik	452.60	61647	5211 (5000)	89	136.21
* Estimate based on electorate and number of pupils in primary schools.					
** Estimated total school-aged population in municipality.					

Table 7e – Merged Tešanj municipality

MUNICIPALITY	Area (km ²)	Population 2006*	Number of pupils in primary schools 2006 - end of school year**	Number of settlements	Population density 2006 (inhabitants km ²)
Tešanj	218.11	52387	7230	57	240.19
* Estimate based on electorate and number of pupils in primary schools.					
** Estimate based on population age structure.					

Tables 8 – Enlargement/mergers of municipalities (economic-financial aspect)

Tables 8a - Merged (large) municipalities in RS (RS SP)

		VAT	Budget	Population	Budget per capita
1	BANJA LUKA	46.858.578	108.973.438	201600	540,54
2	BIJELJINA	24.530.444	46.283.857	110000	420,76
3	BILEĆA	4.801.876	11.167.154	14500	770,15
4	BRATUNAC	4.317.929	7.078.572	18500	382,63
5	VIŠEGRAD	3.827.291	9.568.229	14000	683,44
6	VLASENICA	2.981.593	4.587.066	12000	382,26
7	GACKO	3.502.068	8.144.344	9500	857,30
8	GRADIŠKA	12.816.124	29.804.940	54000	551,94
9	DERVENTA	7.538.885	16.040.182	30510	525,74
10	DOBOJ	18.039.854	37.583.030	77000	488,09
11	ZVORNIK	13.722.059	29.830.562	61600	484,26
12	KALINOVIK	1.873.132	3.822.717	2600	1470,28
13	KNEŽEVO	3.008.704	6.996.985	11500	608,43
14	KOZARSKA DUBICA	6.484.805	13.234.295	27500	481,25
15	KOTOR VAROŠ	5.022.181	12.555.453	19500	643,87
16	LAKTAŠI	8.345.549	14.641.315	41000	357,11
17	LOPARE	3.455.367	5.664.536	14000	404,61
18	LJUBINJE	1.508.090	2.320.138	4000	580,03
19	MILIĆI	2.463.481	5.729.025	9000	636,56
20	MODRIČA	7.337.259	13.843.884	31800	435,34
21	MRKONJIĆ GRAD	9.029.806	20.999.549	30233	694,59
22	NEVESINJE	4.913.418	11.166.859	14080	793,10
23	NOVI GRAD	7.574.427	15.458.014	31000	498,65
24	PALE	6.129.178	14.253.902	23397	609,22
25	PELAGIĆEVO	1.906.091	3.465.621	8600	402,98
26	PETROVO	1.912.177	3.983.702	8500	468,67
27	PRIJEDOR	20.859.222	41.718.444	88077	473,66
28	PRNJAVOR	9.641.105	17.853.898	41000	435,46
29	ROGATICA	4.329.133	8.658.267	14100	614,06
30	RUDO	2.333.709	5.427.231	8000	678,40
31	SOKOLAC	4.328.149	9.618.110	14003	686,86
32	SREBRENICA	2.791.869	5.940.146	7500	792,02
33	SRBAC	4.877.817	11.343.760	19500	581,73
34	FOČA	6.564.158	13.966.293	20300	687,99

35	ISTOČNO SARAJEVO	5.543.005	18.476.684	24100	766,67
36	KOSTAJNICA	1.472.042	2.886.357	5800	497,65
37	BROD	3.652.429	7.161.625	15500	462,04
38	TESLIĆ	10.978.859	21.113.190	45000	469,18
39	TREBINJE	9.084.572	22.711.430	34000	667,98
40	TRNOVO	589.950	1.474.876	2000	737,44
41	UGLJEVIK	3.817.150	9.542.874	16500	578,36
42	HAN PIJESAK	1.513.974	3.221.220	4000	805,31
43	ČAJNIČE	1.708.724	4.271.810	5100	837,61
44	ČELINAC	4.320.098	10.800.245	17800	606,76
45	ŠAMAC	3.864.379	8.400.825	17000	494,17
46	ŠEKOVIĆI	2.216.082	3.887.862	8500	457,40
47	ŠIPOVO	3.741.936	7.337.129	12300	596,51

Source: municipal budgets for 2006, personal calculations

Table 8b - Merged (large) municipalities in Tuzla Canton (TK SP)

	VAT	Budget	Population	Budget per capita
Banovići	2.428.065	5.170.663	24500	211,05
Gračanica	6.762.746	14.401.542	60600	237,65
Gradačac	4.063.948	8.654.341	42000	206,06
Kalesija	5.478.313	11.666.288	54400	214,45
Kladanj	1.479.452	3.150.553	13500	233,37
Lukavac	4.599.359	9.794.520	48000	204,05
Srebrenik	4.081.156	8.690.986	41000	211,98
Tuzla	15.071.701	32.095.795	142700	224,92
Živinice	5.887.576	12.537.830	59000	212,51

Source: municipal budgets (personal calculations)

Table 8c – Merged Prijedor municipality

	VAT	Budget	Population	Budget per capita
Prijedor	18.549.003	43.137.217	87125	495,12

Source: municipal budgets (personal calculations)

Table 8d – Merged Zvornik municipality

	VAT	Budget	Population	Budget per capita
Zvornik	13.722.059	29.830.562	61600	484,26
Source: municipal budgets (personal calculations)				

Table 8e – Merged Tešanj municipality

	VAT	Budget	Population	Budget per capita
Tešanj	5.267.567	15.962.326	52387	304,70
Source: municipal budgets (personal calculations)				

Tables 9 – Municipalities in RS, by the size of territory

Description	Categories	Total
Municipalities with territory size up to 200 km ²	10 (up to 100 km ²) 10 (from 100 to 200 km ²)	20
Municipalities with territory size from 200 to 500 km ²	9 (from 200 to 300 km ²) 7 (from 300 to 400 km ²) 5 (from 400 to 500 km ²)	21
Municipalities with territory size exceeding 500 km ²	5 (from 500 to 600 km ²) 6 (from 600 to 700 km ²) 3 (from 700 to 800 km ²) 4 (from 800 to 900 km ²) 0 (from 900 to 1000 km ²) 3 (exceeding 1000 km ²)	21

Table 10 – Keep and Improve in RS (abolishment of municipalities of Istočni Drvar, Kupres and Istočni Mostar)

		VAT	Budget	Population	Budget per capita
1	BANJA LUKA	58.996.032	137.340.218	224.647	611,36
2	BERKOVIĆI	292.005	845.732	2.799	302,16
3	BIJELJINA	17.971.569	33.648.105	109.211	308,10
4	BILEĆA	1.988.730	5.941.782	12.282	483,78
5	BRATUNAC	2.084.210	3.427.265	23.006	148,97
6	ČAJNIČE	528.706	1.345.786	5.311	253,40
7	ČELINAC	1.898.031	4.698.639	17.536	267,94
8	DERVENTA	4.886.656	10.336.283	42.747	241,80
9	DOBOJ	9.755.615	20.326.182	80.464	252,61
10	DRINIĆ-PETROVAC	263.247	1.046.993	189	5539,65
11	GACKO	2.933.321	9.034.073	10.300	877,09
12	GRADIŠKA	6.663.019	19.207.054	61.440	312,61
13	HAN PIJESAK	1.106.079	2.348.448	4.902	479,08
14	JEZERO	194.670	548.118	1.316	416,50
15	KALINOVIK	548.615	1.125.725	4.871	231,11
16	KNEŽEVO	1.137.049	4.389.646	12.278	357,52
17	KOTOR VAROŠ	2.030.761	5.091.445	20.025	254,25
18	KOZARSKA DUBICA	4.112.401	8.325.876	34.916	238,45
19	KRUPA NA UNI	207.943	465.977	1.949	239,09
20	LAKTAŠI	11.246.610	19.801.447	40.311	491,21
21	LOPARE	1.539.662	2.516.260	16.983	148,16
22	LJUBINJE	860.529	1.323.978	4.258	310,94
23	MILIĆI	1.577.268	4.355.033	10.214	426,38
24	MODRIČA	3.995.157	7.536.531	28.581	263,69
25	MRKONJIĆ GRAD	2.592.649	9.406.227	20.004	470,22
26	NEVESINJE	2.059.519	4.793.232	19.749	242,71
27	NOVI GRAD	3.603.605	7.339.284	31.144	235,66
28	OSMACI	625.684	1.440.685	4.807	299,71
29	PALE	3.349.207	7.808.239	26.959	289,63
30	PELAGIĆEVO	831.771	1.513.148	6.435	235,14
31	PETROVO	783.137	1.624.943	12.044	134,92
32	PRIJEDOR	9.948.073	28.633.860	98.570	290,49
33	PRNJAVOR	6.457.288	12.066.378	49.821	242,19
34	RIBNIK	1.249.869	2.914.226	9.070	321,30
35	ROGATICA	2.032.973	4.038.945	14.850	271,98

36	RUDO	1.002.107	3.995.622	9.801	407,67
37	SOKOLAC	1.906.880	4.220.677	17.449	241,89
38	SRBAC	2.371.433	18.024.323	24.739	728,58
39	FOČA	2.663.438	5.717.987	25.489	224,33
40	SREBRENICA	1.895.819	4.008.984	21.879	183,23
41	ISTOČNA ILIDŽA	1.869.273	6.699.793	16.754	399,89
42	KOSTAJNICA	769.831	1.505.052	7.874	191,14
43	BROD	2.716.530	5.331.384	20.424	261,04
44	NOVO GORAŽDE	486.675	2.172.150	3.095	701,83
45	ISTOČNO NOVO SARAJEVO	1.541.874	5.884.221	9.129	644,56
46	DONJI ŽABAR	1.336.143	1.692.586	2.912	581,25
47	OŠTRA LUKA	683.557	1.343.926	3.319	404,92
48	ISTOČNI STARI GRAD	234.489	1.004.561	3.185	315,40
49	ŠAMAC	2.636.892	5.774.010	23.339	247,40
50	ŠEKOVIĆI	856.105	1.514.808	10.167	148,99
51	ŠIPOVO	1.289.688	2.686.422	11.068	242,72
52	TESLIĆ	5.072.477	9.691.401	49.021	197,70
53	TREBINJE	4.422.103	18.498.373	31.299	591,02
54	TRNOVO	183.609	839.651	2.594	323,69
55	UGLJEVIK	2.336.038	8.505.063	17.005	500,15
56	VIŠEGRAD	1.853.788	7.243.427	19.419	373,01
57	VLASENICA	1.698.937	2.599.652	20.437	127,20
58	VUKOSAVLJE	309.702	612.371	5.454	112,28
59	ZVORNIK	5.992.735	13.016.966	51.688	251,84

Source: municipal budgets for 2006, personal calculations

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