

FBiH WORKING GROUP

**DRAFT PROGRAMME FOR IMPROVEMENT OF WATER SUPPLY
SERVICES IN THE FEDERATION OF BOSNIA AND HERZEGOVINA AND
UTILISATION OF THE ANNOUNCED FINANCIAL AND TECHNICAL
SUPPORT**

DRAFT

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Acronyms

Acronym	Meaning
WA	Watershed agencies
BiH	Bosnia and Herzegovina
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FMPVŠ	Ministry of Agriculture, Water Management and Forestry of the Federation of Bosnia and Herzegovina
FEPF	Environmental Protection Fund of the Federation of BiH
IFI	International financial institutions
IPA	Instrument for Pre-accession Assistance
LSU	Local self-governance unit
UC	Utility company
MoFTER	Ministry of Foreign Trade and Economic Relations
AMC	Association of Municipalities and Cities of FBiH
SAA	Stabilisation and Association Agreement
SSPP	Single Sector Project Pipeline for Environment Sector
FBiH WMS	Water Management Strategy of the Federation of BiH
UPKP	Association of the Employers of Utility Companies in FBiH
WWTP	Waste water treatment plant
WB	World Bank

1 Introduction

In 2008, Bosnia and Herzegovina (BiH) signed the Stabilisation and Association Agreement (SAA) with the EU and thus established its first contractual relation with the EU. SAA came into force in June 2015 and it represents the main framework for the relations between the EU and BiH, further preparing the country for future EU membership. The SAA states that BiH is obliged to gradually approximate its legislation with the EU *acquis*. The transposition of the EU Water Framework Directive into entity legislation had started even before the SAA was signed, with the adoption of the Law on Waters of the Federation of Bosnia and Herzegovina (FBiH) in 2006. The process of transposition and implementation of the EU Water Framework Directive and other water directives is still ongoing. The last unofficial assessment of the level of alignment of this Law was made in 2016 (EU Screen Project) and the level of alignment has not increased since.

Since 2011, a number of strategic documents have been adopted - water management strategies and watershed management plans in both entities. The planning period of these strategic documents ends in 2022, so that the FBiH is in the phase of preparing plans and strategy for the new planning period. The strategic objectives of the water management strategies and management plans are in line with the aims of the EU legislation and the main objective of the EU Water Framework Directive – achieving a good ecological status of all water bodies during the period concerned. However, the analysis of data collected for the new planning period shows a low level of implementation of the planned measures that would lead towards achieving the objectives.

In addition to the mentioned strategic documents, the Environmental Approximation Strategy of Bosnia and Herzegovina was drafted and adopted in 2017. The main objectives of this strategy include that **the existing substantial delay of necessary investment in the water sector** must be solved in order to ensure an increase of the level of services available to the public and that, until there is full alignment, when the cost recovery should be 100%, the cost recovery should at least cover the operational expenses, which must fit into the limits of affordability.

The new Water Management Strategy of FBiH is in preparation within the preparation of ESAP BiH 2030+, i.e. the Environmental Strategy and Action Plan of BiH, which should also include water related sustainable development goals from the 2030 Agenda. The FBiH Development Strategy also promotes water services as one of the priority measures for achieving the resource-efficient environmental development, which is one of the strategic objectives of FBiH.

At the moment, 75% of the BiH population have safe access to potable water (connected to the controlled public water supply systems, while others mainly use tap water, but from poorly controlled rural water supply system), 41% of the population is connected to the public sewerage system, and less than 15% of the population is connected to waste water treatment plants. The mentioned percentages are much lower than the EU average and should increase in the process of BiH's accession to the EU. Therefore, **considerable investments will be required** in this sector in the near future in order to increase the coverage of the population with all the three mentioned public services. The funds that will be used include the FBiH and local budgets and loans and grants provided by international financial institutions.

Successful achievement of these goals will also require strengthening of the programming and project implementation capacities.

The public water utility companies (PWUC) are expected to efficiently manage the new infrastructure. However, at the moment, most of the PWUCs do not earn sufficient income for a full financial self-sustainability, even when it comes to regular maintenance, and they have a very inefficient assets management, which leads to further deterioration of the existing infrastructure. The tariffs are not set to enable full cost recovery, the record of assets is quite incomplete and does not enable adequate calculation of depreciation and collection of funds for regular maintenance, and some of the PWUCs have not even secured the funds for operational expenses, which causes the need for additional transfers and subsidies from the local budgets. A good tariff policy would encourage sustainable use of resources.

According to Article 9 of the Water Framework Directive, recovery of costs of water services should be ensured by stimulating sustainable and effective use of waters, with prior improvement of efficiency of service providers (utility companies), i.e. optimisation of these costs. Assigning additional responsibilities (and thus also additional costs) for development of new infrastructure would lead the PWUCs to collapse (or the new infrastructure would not function adequately, as several latest investments of international financial institutions have shown), unless a comprehensive reform is implemented first.

Also, the costs of PWUCs have still not been optimised. Many companies have still not established the standards that the utility companies must meet and their work is not adequately monitored (there is no performance assessment system, business transparency, adequate human resources policy etc.). Due to insufficient maintenance of the existing water supply system and administrative losses, there is a high level of non-revenue water. In addition to the expected high non-revenue unjustified water costs of excessive water extraction, purification, transport and delivery (caused by the aforementioned lack of funds, as well as a lack of regular operational asset management procedures), the staff costs are considerably higher than defined by the international standards. The number of employees in utility services is far above the international standards, which leads to extremely high cost of labour. In order to optimise the staff costs and decrease the losses in the water supply system to a reasonable level, significant financial investments in renovation and modernisation of the water supply facilities management system are required, in addition to the aforementioned activities.

Since 2010, several projects have been implemented in the water supply services sector, including development of utility infrastructure. These projects have started the process of improvement in the sector and traced the directions for future activities to ensure systematic and long-term improvements. However, some of the projects have resulted in infrastructure and services that are not financially sustainable and thus pointed to the necessary reforms of water supply services in FBiH.

The water sector reform requires a harmonised regulatory framework, functional institutional framework (through reorganisation of the existing or establishment of new structures), as well as controlled financial flows. The working group established with the task to develop a Programme for improvement of water supply services in FBiH and utilisation of the announced financial and technical support has therefore:

- Conducted preliminary assessment of the shortcomings in the existing regulatory framework of the sector (laws, bylaws, regulations, decisions etc.), which have caused the mentioned main challenges, and proposed appropriate solutions for improvement of the existing and/or development of new regulations. It has been taken into consideration that such changes should not only enable, but must practically create the necessary preconditions (procedures, bodies/institutions) and define individual responsibilities, as well as possible consequences of a failure to fulfil the stipulated responsibilities (monitoring the established measurement system and selection of key performance indicators).
- Assessed the existence of appropriate bodies or institutions, capacities and shortcomings, in order to propose the most efficient solutions for overcoming the identified shortcomings. They have taken into consideration that there is already a high level of employment in the public sector that has not been adequately utilised, which violates the principle of efficiency and effectiveness, with employees not having 40 hours of full work engagement per week. Therefore, the restructuring of the existing capacities and development of good quality capacities for new responsibilities have been given a very high priority in every new employment.
- Assessed the shortcomings of the current financing and maintenance of processes and the required sector investments (by local self-governance units, using the local budgets, loans or grants provided by international financial institutions, cantonal or entity funds etc.) and proposed the most efficient models for overcoming such shortcomings.

The issue of the financing of tariffs will be partially solved by the ongoing regulatory changes, for example, the Regulation on methodology for setting the lowest basic price of water services in the Federation of Bosnia and Herzegovina, the adoption of which is expected in 2021. The Regulation will also include establishment of regulatory bodies that will oversee the implementation.

In addition to that, the mentioned Regulation will include establishment of new procedures for assessment of coverage of the operational costs of new investments (in order to avoid/postpone investments that the citizens of the local community can still not fully finance), with the aim of verifying whether the budgets of the local self-governance units have fully included the needs for local investments in this sector, whether the tariffs are adjusted to marginal costs related to new investments etc. Although this financial component is actually included in the legislative and institutional reforms, it should be additionally emphasised, because it has a potentially very high influence on sustainability and efficiency of major investments expected in the near future, on BiH's path towards the EU.

Significant increase of annual allocations from the budget of the FBiH Government is proposed. These funds would be allocated to LSUs for investment projects in the water supply and waste water drainage and treatment sector. The LSUs would apply for funds to the FMPVŠ, which would conduct the selection procedures according to selection criteria. New infrastructure, as well as reconstruction of the existing one requires considerable investments, and relying only on the capacities of LSUs and PUCs will not give the expected results without additional support.

Below is the Draft Action Programme for improvement of water supply services in the Federation of Bosnia and Herzegovina and utilisation of the announced financial and technical support, which contains:

- Brief description of activities that will be implemented.
- Precise assignment of responsibilities (by position in an institution, i.e. individual person and not the whole institution). The lead responsible person will define the sub-activities and the implementation team.
- Deadline for the implementation of activities (ultimate deadline and deadlines for achieving the specific objectives).
- Brief risk assessment of the implementation of activities, including the measures to minimise the risks.
- Definition of the expected results, as well as indicators and intermediate results enabling progress monitoring.
- Backup plan (alternative transfer of responsibilities, if not fulfilled) with the consequences for the responsible person not fulfilling the assigned responsibilities.
- Brief overview of financial funds required for the implementation of activities.
- Explanation of the proposed activities.

Legend of priorities:

Short-term priority
Mid-term priority
Long-term priority
Undetermined priority

2 Activities pertaining to regulatory and institutional framework

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and monitoring indicators	Backup plan	Funds required (+the source)
	Adoption of the Regulation on methodology for setting the lowest basic price of water services in the Federation of Bosnia and Herzegovina	FMPVŠ	0+6 months	The Regulation should be adopted by the FBiH Government, efforts to mitigate the risk of slow adoption through support of IFI to sector reforms	Adopted Regulation on methodology for setting the lowest basic price of water services in implementation	-	-	MEG project technical support secured, no significant financial cost anticipated
A1	<p>Explanation:</p> <p>The Draft Regulation was prepared by the working group established by the end of 2018, composed of the representatives of FMPVŠ, AMC FBiH, UPKP FBiH, Sava River Basin WA and Adriatic Sea WA and the FBiH Ministry of Environment and Tourism. Draft text of the Regulation prepared by the working group was submitted for public debate on 19 October 2020 (https://fmpvs.gov.ba/2020/10/19/javna-rasprava-nact-uredbe-o-metodologiji-utvrdjivanja-najnize-osnovne-cijene-vodnih-usluga/). The call for participation in the public debate was sent to all the institutions concerned (at all levels of administration in FBiH, including the institutions that had delegated their representatives in the working group that had developed the Draft Regulation), with a request to submit their remarks and comments to the Draft Regulation on the prescribed form at the latest by Friday 27 November 2020. However, FMPVŠ also took into consideration the remarks submitted until the beginning of March, when the materials were submitted to the relevant institutions of the FBiH administration for opinion, in line with the legal procedure. In addition to the Draft Regulation, the following documents were also prepared: the rationale for the Regulation, Statement of Alignment (with the EU Directive), Form A. - the table of alignment of a regulation, Reply document to comments and remarks (46 pages in total; UPKP FBiH had been particularly active and submitted a large number of very useful proposals, most of which were adopted), while the Regulation Impact Assessment (RIA) adopted by the Legislative Office had been prepared earlier. During the preparation of this report, the answers of the relevant institutions of the FBiH administration are still arriving (e.g. the FBiH Ministry of Justice sent their reply on 18 March 2021, saying that they had no objections according to Article 27 of the FBiH Rules of Procedure), and the next stipulated steps will follow. The Regulation is very important for all the future activities, and this is why it is additionally emphasised herewith as the first on the list.</p>							
A2	Law on Amendments to the FBiH Law on Waters	FBiH Parliament FMPVŠ	0 + 9 months	High risk of slow consideration and adoption of the Law on Amendments to	The FBiH Law on Waters with the mentioned	The Law on Amendments to the Law on Waters included	Consider alternative options for conducting a	MEG project technical support secured, no significant

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and monitoring indicators	Backup plan	Funds required (+the source)
				the Law on Waters in the FBiH Parliament; backup plan to be activated in case of failure of adoption in the first four months.	amendments in force	in the FBiH Parliament agenda within four months, if not, backup plan to be activated.	separate process of development of the Law on Amendments to the Law on Waters, which would be sent to the FBiH Parliament according to accelerated procedure. Lead - FBiH Government at the initiative of FMPVŠ.	financial cost of the activities is anticipated, except the cost of labour of the working body for this task (about BAM XXXX)
<p>Explanation: In its 132nd session held on 14 December 2017, at the proposal of FMPVŠ as the processor, the FBiH Government agreed on the Draft Law on Amendments to the Law on Waters¹ and forwarded it to the FBiH Parliament on 15 December 2017 for their consideration and adoption. This Draft contains amendments of a significant</p>								

¹The Amendments to the Law on Waters that are in the procedure include the following:

Article 28b. Cost recovery for water supply services

- 1) Recovering the costs of water supply services, including the cost of environment protection and preservation of resources, in accordance with the economic analysis referred to in Article 29, paragraph (2) of this Law, and in particular in accordance with the principles „polluter pays“ and „consumer pays“, ensures:
 - a) That the water pricing policy encourages consumers to use the water rationally and thus contribute to achieving the environmental objectives of this Law;
 - b) That the appropriate participation of consumers of water intended for industry, households and agriculture in the cost recovery for water services takes into account the social, environmental and economic effects of the fee, as well as the geographic and climate conditions.

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and monitoring indicators	Backup plan	Funds required (+the source)
	<p>number of articles of the current FBiH Law on Waters. However, it had not been discussed by the FBiH Parliament House of Peoples until the day of preparation of this report and it is unknown when this could take place.</p> <p>There is a realistic risk that this activity will not be completed any time soon. In case this activity is not implemented in the next four months, the possible actions of FMPVŠ are:</p> <ul style="list-style-type: none"> • Preparing a written Petition on the urgent need for consideration of this Law, which would be forwarded to the FBiH Parliament through the FBiH Government as the proposing body; • Withdrawing the current Draft Law on Amendments to the Law on Waters from parliamentary procedure and preparing and carrying out the accelerated procedure to prepare Draft Law on Amendments to the Law on Waters, only with regard to the part related to assigning the following responsibilities in the field of water supply services to FMPVŠ: <ul style="list-style-type: none"> ○ water services development planning; ○ development of water services policy and regulating the method of pricing in the water services sector; ○ reviewing economic analyses of new investments in the water services sector; ○ analysing the financing possibilities in the water services sector; ○ defining standards, guidelines and instructions for new investments in the water services sector etc. 							
A3	Develop a Pre-draft Law on Water Services of FBiH, conduct a public debate and	MPVŠ FBiH Minister	0+48 months	Establish in advance who has the constitutional	Pre-draft Law prepared	The constitutional competence should be		MEG project technical support secured, the financial cost of

- 2) The water management plan referred to in Article 25 of this Law provides an overview of the planned steps for the implementation of the provisions of paragraph (1) of this Article, which will contribute to achieving the objectives of this Law, as well as of participation of different forms of water consumption in the recovery of costs for water services.
- 3) The provisions of this Article are not an obstacle for the financing of preventive or recovery measures, in order to achieve the objectives of this Law.
- 4) At the proposal of the FBiH Minister in charge of environment, the Government of the Federation shall adopt a regulation on methodology for setting the lowest basic price of water services.

Explanation: In order to standardise the water services practice and legal framework (water supply and sewerage services and waste water treatment) on the level of the Federation of BiH, stipulate the adoption of a single water services tariff setting methodology on the level of the Federation of BiH and the parameters for setting the lowest water services prices at the cantonal level, with the local self-governance unit deciding on the final price of the water service for its water supply system, with the aim of gradually ensuring protection of waters from pollution by urban waste waters and excessive exploitation and meeting the requirements of the EU water and utility directives in this segment, which is a prerequisite for use of EU funds.

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and monitoring indicators	Backup plan	Funds required (+the source)
	adopt the Law on Water Services of FBiH			competence to develop this law.		established before the beginning of the implementation of this activity Pre-draft Law on Water Services of FBiH 0+12 months		the activity pertains only to possible labour cost of the working body for this task (about BAM XXXX)
<p>Explanation: Development of the Law on Water Services of FBiH, which would integrate the existing and expected regulations legally regulating the provision of water services, is considered the best and integrated response to the challenges of the required sector reforms. This legal document would integrate responses to the issues of tariff methodology, agreements on provision of public services, i.e. direct competences and responsibilities of LSUs and UCs in the provision of water services, competences and responsibilities for the subsidising needed for the payment of these services, competences and responsibilities for full inventory of utility infrastructure, calculation of its depreciation and, based on that, allocation of funds for regular replacement of infrastructure, and other currently unanswered (or insufficiently answered) issues. Taking into consideration numerous specificities of water services compared to other utility services, this option is considered better than amendments of the current cantonal laws on utility services.</p>								
A4	Align the cantonal laws on utility services and other regulations with the Regulation on methodology for setting the lowest basic price of water services (if needed)	The competent cantonal ministries, governments and cantonal assemblies Ministers in charge of utility services	A1+12		Aligned cantonal regulations have come into force			MEG project technical support secured, the financial cost of the activity pertains only to possible cost of labour of the working body for this task (about

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and monitoring indicators	Backup plan	Funds required (+the source)
								BAM XXXX per canton)
<p>Explanation: This activity is proposed only as a conditional activity, in case the final adopted Regulation on methodology for setting the lowest basic price of water services requires alignment of the cantonal laws on utility services or other regulations.</p>								
A5	Adopt the required regulations for establishment of a Regulatory Body for water services in line with the amended cantonal laws, following their alignment with the Regulation, and establishment of a regulatory mechanism for support to the Regulation though the financing of LSUs/PUCs (that join the reform) from the cantonal water fees.	Cantonal governments Ministers in charge of utility services	A1+12		Regulatory bodies established and monitoring the implementation of the Regulation		Until the body is established, the opinion can be given by an independent cantonal commission or an audit company.	MEG project technical support secured, members of the body to be delegated from the public sector (the source of financing stipulated by the Regulation).
<p>Explanation: The Regulation on methodology for setting the lowest basic price of water services stipulates that the cantons shall within one year from the day the Regulation comes into force stipulate the establishment of a regulatory body for water tariffs and the tariff procedure before the regulatory body, and that they shall establish a regulatory body for water services within one year from the day the mentioned regulations come into force. It is expected that the cantons will need support in these processes, which will be provided by MEG project, with the supervision of the cantonal ministers in charge of utility services.</p>								
A6	Analysis of effectiveness and adjustment of the existing	LSU, AMC	A1+12	The risk of poor quality decisions on	Limited access to public and IFI			Direct cost of LSU, possible cost

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and monitoring indicators	Backup plan	Funds required (+the source)
	decisions on water supply (including decisions on waste water drainage) of LSUs to the needs of LSUs, with preparation of guidelines and Decision template.	Heads of organisational units in LSUs in charge of utility services		new investments in the water supply services infrastructure, not based on basic assessments of needs and future operational and investment maintenance expenses.	funds for those who do not have adequate decisions			of the working body for this task at LSU level.
<p>Explanation: The further financial and technical support to development of the water services sector in FBiH fully depends of the success of previous investments. Therefore, special attention should be given to assessment of the future operational costs and investment maintenance costs for potential new investments in the water services infrastructure. An important part of such assessment is analysis of effectiveness of the existing decisions on water supply of LSUs and their adjustment to the current needs of LSUs. The activity will also result in development of guidelines and model/template Decision, which would help better quality implementation of this activity by LSUs. It is expected that AMC will promote the activity in LSUs and support training for the implementation of this type of analysis.</p>								
A7	Prepare a proposal for concentrating the competences for water services in FBiH Activity is closely linked with A3	FMPVŠ + FBiH Ministry of Environment and Tourism	Parallel with A3	In the preparation of the proposal it is necessary to bear in mind the existing deployment of capacities in the ministries and their adjoined public institutions	Draft Law on Amendments to the Law on Federal and Cantonal Ministries	Prior assessment of interest in FMPVŠ and the FBiH Ministry of Environment and Tourism		MEG project technical support secured, the financial cost of the activity pertains to the work of the working body for this task
<p>Explanation:</p>								

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and monitoring indicators	Backup plan	Funds required (+the source)
<p>Because of the current organisation and assignment of responsibilities for water services to several different bodies at different levels of government, it can be proposed to merge the tasks in the field of waters and a part of water services from FMPVŠ, the tasks in the field of environment from the FBiH Ministry of Environment and Tourism and the rest of the water services tasks from the FBiH Ministry of Spatial Planning, so that the tasks currently located in three ministries at the FBiH level and two ministries in each of the cantons, the total of 23 ministries in charge of this issue, would all be located in one ministry in each of the cantons and one at the FBiH level. It would reduce these tasks to 11 bodies and it would be significant for the concentration and more efficient use of capacities. This reorganisation could be ensured through amendments to the laws on federal and cantonal ministries. This activity must be implemented within preparation of the Draft Law on Water Services, and, if this law enters the adoption procedure, amendments to the laws on federal, i.e. cantonal ministries should be prepared and “adopted” parallel to that.</p>								
A8	Align the cantonal laws on waters with amendments to the FBiH Law on Waters (if needed)	Cantonal ministries in charge of the water sector, governments and cantonal assemblies Ministers in charge of utility services	A2+12	Activity needed only in case the adopted amendments to the Law on Waters refer to the water services sector	Aligned cantonal laws on waters in force			MEG project technical support secured, no additional cost
<p>Explanation: This activity is proposed as a conditional one, in case the final adopted amendments to the Law on Waters of FBiH imply the need for alignment of the cantonal laws on waters.</p>								
A9	Carry out mutual alignment of regulations on LSUs and other regulations containing provisions on water services	FBiH Ministry of Justice Minister	12 months after the adoption of the regulations	The activity needed only in case such alignment is required	Aligned regulations on LSUs have come into force			MEG project technical support secured, no additional cost

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and monitoring indicators	Backup plan	Funds required (+the source)
<p>Explanation: This activity is proposed only as a conditional one, in case of adopted regulations containing provisions on water services.</p>								
A10	Initiate activity for amendment of the Law on Public Companies and/or the Law on Companies	FMPVŠ + UPKP Minister FBiH Ministry of Energy, Industry and Mining	Immediately after the adoption of the programme	Requiring a detailed explanation of the reasons for the amendments, risk of a lack of understanding	Precisely regulated recording of the water and utility infrastructure			MEG project technical support secured, no additional cost
	<p>Explanation: The amendments of these laws may be needed to facilitate and more precisely regulate the recording of fixed assets used in provision of water services, as well as to more precisely regulate recapitalisation of water companies. At present, a significant part of the communal infrastructure which is in function of provision of water services is not recorded in the fixed assets records, avoiding the legally prescribed calculation of depreciation. The consequence of this is a lack of sufficient funds, collected based on calculated depreciation, for regular rehabilitation and replacement of infrastructure, which therefore deteriorates over time and causes high percentages of non-revenue water and thus unjustifiably high costs of water pumping and distribution, water supply cuts and decrease of quality of water (potential risk for public health). It is therefore very important to legally regulate and stipulate the appropriate procedures for this clearly identified problem of comprehensive recording of fixed assets used for provision of water supply services.</p>							
A11	Initiate amendment of Article 20 of the Law on VAT	Parliamentary Assembly of BiH FBiH Ministry of Finance	Immediately	High risk of slow consideration and adoption of the Law on Amendments to the Law on VAT in the Parliamentary Assembly of BiH; the backup plan to be activated in case of failure	Clearly stated that special water fees shall not be included in the basis for calculation of VAT	Cessation of forced collection of these fees by ITA BiH	Initiating an administrative procedure and cessation of further collection of the waters protection fee from the users not connected	No additional cost, only one article of the Law on VAT is amended

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and monitoring indicators	Backup plan	Funds required (+the source)
							to the sewerage system managed by UCs	
<p>In its notification of 9 December 2005, ITA BiH instructed UPKP FBiH not to calculate VAT on special water fees, however, it has been calculating it retroactively for the past several years with default interest and fines for the company and the responsible person. On 22 August 2019, the FBiH Government through its conclusion tasked the FBiH Ministry of Finance and the FBiH Tax Administration to ensure that within the ongoing amendment of the Law on VAT Article 20 is more precisely defined to exempt the PUCs from payment of VAT on collected special water fees. The mentioned amendment of Article 20 of the Law on VAT has not taken place yet, and ITA BiH by its official document of 21 March 2019 informed UPKP FBiH and the Association of RS Waterworks that it would use the second instant decision as the final official document of ITA BiH as its final opinion, i.e. that it will include the special water fees in the basis for calculation of VAT. This position of ITA BiH has created uncertainty of companies, because some of them calculate VAT on special water fees, while the others are still not doing that. The inspected companies had to pay the “stipulated” VAT on special water fees retroactively, as well as default interests and fines (whether voluntarily or though forced collection), and some of them have initiated administrative procedures.</p>								
A12	Amendments of the Law on Public Procurement of BiH	Parliamentary Assembly of BiH UPKP though the FBiH Government and Public Procurements Agency is advocating for the adoption of the existing draft	Immediately	The risk of slow consideration and/or failure to adopt the new Law on Public Procurement	Amendments to the Law on Public Procurement of BiH adopted	The Draft submitted by the Council of Ministers into urgent procedure on 16 March 2021		

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and monitoring indicators	Backup plan	Funds required (+the source)
	The activity of amendment of Article 10.c. of the Law on Public Procurement of BiH is already ongoing, only monitoring and reporting on results of this activity is additionally required.							
	Initiative in case of extension of validity of the current Decision on mandatory application of preferential domestic treatment or adoption of a new one	FMPVŠ + UPKP Public Procurement Agency and Council of Ministers of BiH	Immediately	The risk of adoption of new or extension of the existing decision in the same form	Exemption from the preferential domestic treatment if the contractor is a PUC	Written request to the Public Procurement Agency and the Council of Ministers of BiH		No additional cost
A13	<p>On 29 May 2020, the Council of Ministers of BiH adopted the Decision on mandatory application of preferential domestic treatment with the aim of mitigating the consequences of the Corona virus pandemic (COVID 19) and protecting the BiH economy, with the validity until 1 June 2021, imposing the obligation on contracting authorities to decrease the prices of domestic offers for the preferential domestic treatment factor of 30% when calculating the price of offers for comparison purposes in the public procurement procedures.</p> <p>This decision discriminates PUCs as contracting authorities compared to the private companies as bidders, because it has not taken into consideration that they both operate on commercial grounds and that the mentioned decision enables unjustified transfer of funds from public to private sector, i.e. the preferential domestic treatment is done at the expense of the public companies. It should be mentioned that PUCs have been exempted from any form of assistance or incentives during the pandemic. Bearing in mind the negative trends of the pandemic, there is a big probability that this decision will be extended or a new one adopted in the same or similar form, which would have very negative consequences for the financial stability and further operation of PUCs. It is necessary to address an initiative to the Public Procurement Agency and the Council of Ministers to stipulate exemption from application of preferential domestic treatment if the contracting party is a PUC, or that they be refunded by the state, in case the decision is extended or a new one adopted.</p>							

3 Activities pertaining to operational actions

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and success monitoring indicators	Backup plan	Funds required (+source)
B1	Establish and maintain a good/continuous exchange of data and implementation of the Central Information System for Waters (CISV), establish a common benchmarking system for water companies with defined data to be collected and key performance indicators (KPI) to be taken into consideration	WAs are the lead institutions for development of a software platform. Cantons, LSUs and UCs are responsible for preparation and entry of data	0+6 months to establish a benchmarking for water companies, followed by continuous activity	It is necessary to select a relevant and well explained set of data to be submitted by PUCs, avoid multiple reporting	A functional benchmarking for water companies, which will enable better quality and more efficient financing in the sector	The platform for receiving and presentation of data developed in WAs; the data to be collected and the formulas for calculation of KPI in 2021 selected.	-	Leadership and expert and financial assistance of the World Bank is expected for establishment of the system
<p>Explanation:</p> <p>The aim of the benchmarking for water companies is to encourage more efficient performance, monitoring the results of improvement measures and implementation of the financing programme based on achieved results. The benchmarking is very important for the functioning of future regulatory bodies, as well as for decision-making on management at the level of LSUs and UCs.</p> <p>By the conclusion of the Government of the Federation of BiH Ref. 1786/2016 of 22 September 2016, WAs and FEPP were tasked to initiate the activities for development of the Central Information System for Waters (CISV) with the aim of providing a platform for entry of data by the competent institutions, monitoring the implementation of plans by individual water directives, monitoring the fulfilment of the assumed EU <i>acquis</i> requirements and reporting on the level of transposition and implementation of water directives. According to the conclusion of the FBiH Government, the activities on development of the system have been</p>								

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and success monitoring indicators	Backup plan	Funds required (+source)
	<p>completed. WAs have held workshop/training for entry of data into CISV – module KI (Utility Infrastructure) for all registered representatives of municipalities/cities and the representatives of public utility companies in charge of water and sewerage system.</p> <p>The WB Project for Danube Watershed had organised collection and presentation of the selected set of success indicators, in which a large number of water companies from FBiH also took part, and, recently, the FBiH WAs developed the software platforms for collection and presentation of data on the work of water companies. The transfer of already collected data from the Danube Watershed System to the new information system managed by WAs should be organised to avoid re-entering of all the data. A software routine should also be developed for the LSUs and UCs that participated in the first phase of MEG project that would enable extraction of data collected in XLS files and format them for automated entry into the benchmarking system managed by the watershed agencies (WAs).</p> <p>The full operability of the established CISV will primarily depend on the entry of data of the cantonal, municipal/city institutions and their responsible services and the public utility/water companies. The data that should be entered is related to economic and technical data and capital development investments, public water and sewerage systems, urban waste water treatments, as well as the benchmarking of public companies (operator success indicators), local water systems (for all water sources which according to DWD supply settlements with more than 50 inhabitants), sewerage systems and waste water disposal.</p> <p>If an LSU assesses that they cannot enter the data themselves and that they need help for entry of data, they can find another solution and give their access to CISV to a consultant (e.g. authorise AMC to enter its data).</p> <p>WA shall save this data in the utility infrastructure model (KI) and enable public access (develop a protocol to define who can see the entered data or make all the data publicly available – this must be a decision of the canton, LSU and UC as owners of the entered data).</p> <p>The cantonal ministries in charge of utility services shall, with the support of AMC, establish a system for the monitoring of water companies' performance indicators with clearly defined measurable progress indicators and the plan of measures for improvement of operations with a time frame. It shall be responsible, in cooperation with AMC, for continuous monitoring and reporting on progress based on adopted indicators.</p> <p>The collected data should also include the official number of inhabitants per populated area and assessment of demographic changes of the number of inhabitants for a long term planning period, so that the sector studies would have a starting point. Special attention is to be given to realistic assessment of the number of inhabitants in a planning period (increase or decrease). These data shall be collected periodically (e.g. annually).</p>							
B2	Preparation of guidelines for development and improvement of water services, in particular from	FMPVŠ with advisory support of WAs	0+15 months	The activity to be implemented parallel with development of the draft text of the Law on Water Services	Guidelines for the procedure of assessing the cost-effectiveness of	Draft Guidelines by the end of 2021		MEG project technical support secured, no significant financial cost of activity is

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	the cost-effectiveness point of view	Minister AMC		or amendments of the existing sectoral regulations	new investments Template of the master plan for development of water and sewerage systems with optimum solutions for LSU			anticipated, except the cost of the working body for this task (about BAM XXXX)
<p>Explanation: LSUs have a direct responsibility for ensuring the provision of water services for all their inhabitants, including those in the LSU's rural area. To facilitate this task for them, FMPVŠ, with the advisory support of WAs, shall prepare the guidelines for development and improvement of water services, which will include detailed description of procedures for assessing the cost-effectiveness of new investments (e.g. how to assess the cost-effectiveness of connecting new/remote settlements to the central sewerage system), how to solve the problem of waste water drainage and treatment in small settlements, how to analyse the effects of possible connection of buildings with a significantly lower or higher altitude, how to efficiently manage disposal of septic tank contents or disposal of waste sludge etc. AMC, as the institution representing all LSUs shall comment and guide the contents of the guidelines and promote their application among its members. The guidelines will contain the template of the master plan for development of water and sewerage systems with optimum solutions for LSUs.</p>								
B3	Preparation of master plans for development of water and sewerage systems with optimum solutions for each LSU	LSUs are leading the activity with the support of cantons and FMPVŠ	If needed by the LSU, following the implementation of activity B2	The risk is a possible lack of capacities for preparation of the necessary analyses and/or master plans at the level of LSUs, support is required	Identify the investment priority, as well as the overall financial potential for investments in the sector,	Individual LSU master plans developed according to the LSU priorities		LSUs shall estimate according to their own needs, a part of cost to be covered from

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					which will not jeopardise the affordability of services			the collected water fees
<p>Explanation:</p> <p>In order to achieve the aim of detailed assessment of both the needs and capacities of LSUs, it is necessary to first prepare a master plan for development of water and sewerage system with optimum solutions for each LSU. It is especially important to emphasise the need for identification of priorities and phases of investments, which would be fully aligned with the financial and credit capacities of the LSU. In addition, the investments, as well as operational costs must be determined as realistically as possible, and the effects of implementation of the investment on the price of water services and their overall affordability must be analysed. It is advisable to avoid investments that would cause increase of the prices of services to the level above the limit of affordability (4% of the total monthly family income for water and sewerage bill). Since all the related costs should also be covered, if the higher price would reach the limit of affordability, the difference above that limit should be covered by the LSU (from its own budget or in some other way the LSU manages to implement).</p> <p>The results of the master plans may serve as input for development of the BiH Master Plan of Agglomerations, or the results of the Master Plan of Agglomerations in BiH must be incorporated in these master plans. The solutions must be in line with good technical and international practices. These activities shall be implemented by LSUs according to their own needs and with the expert assistance of AMC (with respect to exchange of experience and best practices) and the cantons. If needed, FMPVŠ shall explain the details of the previously provided template of the master plan for development of water and sewerage systems with optimum solutions for LSUs.</p>								
B4	Decision that projects cannot be included in the SSPP list without analysis of the effects of investment implementation on the price of water services	MoFTER BiH FMPVŠ FBiH Ministry of Environment and Tourism WAs AMC	FUTURE A1 + 3 months	Resistance of LSUs is a risk, but the activity is needed in order to avoid financially and/or operationally unsustainable investments in the sector	Potential unrealistic plans of new investments in the sector eliminated			MEG project technical support secured, no other significant financial cost of the activity

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and success monitoring indicators	Backup plan	Funds required (+source)
		Cantons EPF						
<p>Explanation: The aim of this activity is to filter the investment projects for which the analysis of effects of implementation of the investment on the price of water services has clearly proven the future sustainability of the investment, with full coverage of all operational and investment maintenance costs. Previously, the procedure for selection of projects that could be included in the SSPP list did not include this requirement, and this requirement will improve the efficiency of all new investments in the sector. A part of this task is the preparation of a priority list of projects from the water services sector in line with the strategic objective from this sector and both AMC and the cantons will contribute to this, as well as WAs from the viewpoint of influence on water quality. EPF should be involved with the purpose of assessing the possibility of co-financing.</p>								

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4 Activities pertaining to sector financing

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and success monitoring indicators	Backup plan	Funds required (+source)
C1	Strengthening the capacities of institutions at all levels, including UCs, for applying for funding and project implementation procedures of international financing institutions, as well as for carrying out tender procedures	FMPVŠ (Water Sector and PMU) + WAs, LSUs, AMC, UPKP, EPF	Continuous activity	The interest of end beneficiaries for these types of financing should be increased and capacities for effective application strengthened	Better quality application for funds of the international financial institutions	Monitor the number of successful applications to calls for proposals of international institutions		To be implemented by the existing institutions as part of their regular activities, with the support of IFIs and other interested international institutions
<p>Explanation:</p> <p>From time to time there are financial programmes for support to development of the water services sector in FBiH (e.g. WatSan, WB programme, EBRD etc.), for which a good quality application needs to be prepared. The lack of capacities for preparation of such applications, especially at the local level, was one of the main reasons of slow implementation of the financing programme and longer duration than expected. The identified low effectiveness of applications can be changed through continuation of the existing support in preparation of applications and carrying out of project implementation procedures provided to LSUs/UCs by the established Project Implementation Unit (PIU), as well as through higher engagement of AMCs, which can prepare the available examples of best practices (adjusted to the potential source of financing, as the procedures differ), and the support in this can also be provided by UPKP as the representative of the UCs, which are the end users of the infrastructure built with such funds. EPF should get involved in the processes in the similar way as before, through support for the commonly requested own co-financing of such projects. FMPVŠ shall be the first point of contact in communication with international financing institutions that could offer such financing programmes. It is proposed that expert teams (PIU) be established for every source of financing, which will deal exclusively with the preparation of those proposals and their implementation. The members of PIU shall be the employees of LSUs/UCs, while WAs shall provide technical support according to available time (this activity is not permanent and it is limited by WA's activities and workload), at the same time strengthening the capacity of AMC and UPKP to provide better future support to their members.</p>								

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<p>Once LSUs/UCs are awarded the funds (from international financial institutions or local sources of financing) for improvement of infrastructure for provision of water services, as well as when they secure their own funds for such purposes, the next step is the preparation of good quality tender documentation and publication of the call for proposals. The lack of capacities at the local level frequently prevents preparation of good quality descriptions of the technical requirements the bidders should meet, but the possibility that during the tender preparation the criteria that is more favourable for a targeted bidder is consciously sought should not be excluded either. Public procurement in the sector can be carried out according to the lowest price method or the best offer method. It would also be good to prepare guidelines for development of matrix for evaluation of the set criteria.</p>								
C2	Preparing economic analyses with additional sources of financing	FMPVŠ (PMU) Support of WAs Support of EPF CANTONS Support of AMC	Periodic activity	Good coordination and exchange of information of all participants in the activity should be ensured	Updated information on potential new sources of financing and grant funds FBiH investment programme in the sector	Monitor the availability and up-to-dateness of information on available loans and grants		MEG technical support secured in the initial phase, and, in a long term, possible cost of consultants for preparation/updating of economic analysis
	<p>Explanation: The Programme of implementation of projects in the field of water services with analysis of possible sources of financing should be periodically updated, the information on potential new sources of financing, as well as on grant funds, should be consolidated and made publicly available, (FMPVŠ shall lead the activity with the support of WAs and EPF). The role of AMC is to share all information among its member LSUs. FMPVŠ shall periodically update the economic analyses of the needs for financing in the water services sector in FBiH (with the support of consultants).</p>							
C3	Development of the programme of support to financing and monitoring	FBiH Government FMPVŠ	Continuous activity		Accelerated development of the water utility infrastructure required on the	Monitor the related allocations		

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and success monitoring indicators	Backup plan	Funds required (+source)
	of utility infrastructure projects	FMF			path towards the EU			
	<p>FMPVŠ, through the FBiH Government, shall ensure increased annual allocations from the budget of the FBiH Government and these funds should be allocated to LSUs for investment projects in the water supply sector and waste water drainage and purification. LSUs shall apply for funds to FMPVŠ, which shall carry out the selection procedures according to the selected criteria. The new infrastructure, especially the waste water treatment plants the construction of which is BiH's obligation on its path towards the EU, as well as reconstruction of the existing infrastructure, requires considerable investments and relying only on the capacities of LSUs and PUCs will not give the expected results without additional support of FBiH. The respective cantonal ministries shall monitor the implementation of projects in their territory and participate with allocation of the funds collected from the water fees. AMC shall present examples of best practices to LSUs implementing similar projects and record the information for its own needs.</p>							
C4	Analysis of effects of implementation of EU water services directives transposed by Bosnia and Herzegovina on its path to the EU	AMC	0+12		Assessment of whether the implementation of directives implicates increase of activity of utility companies and LSUs and their expenses			MEG project support
	<p>Explanation: Assessment of whether the implementation of EU directives implicates increase of activity of utility companies and LSUs and their expenses and how to cover these new needs is required.</p>							

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and success monitoring indicators	Backup plan	Funds required (+source)
D1	Prepare a guide for preparation of feasibility studies to define the contents and the methodology of preparation and the sources of data that must be used	FMPVŠ (PMU)	0+12 months	No risk	A guide for preparation of feasibility studies which will increase the quality of new investments	Draft guide after 6 months		MEG technical support secured, no other significant financial cost of the activity
	<p>Explanation: Good quality feasibility studies are a very important tool for prevention of implementation of financially unsustainable investments. Before starting to invest into a new utility infrastructure (sometimes also rehabilitation), it is very important to assess all the financial consequences. In addition to assessing the level of investment itself and the sources of financing, this also refers to the subsequent operational expenses, as well as investment maintenance expenses. The guide for preparation of feasibility studies which will define the contents and methodology of preparation and the sources of data that must be used for the preparation will help the LSUs that are just starting to consider the possibility of such investments. This activity should be coordinated with the RS (and possibly BD) through MoFTER.</p>							
D2	Preparation of guidelines and a guide for support in selection of technologies for urban waste water treatment and disposal of sludge, in line with requirements on quality of effluents according to the valid rulebooks	FMPVŠ and FBiH Ministry of Environment and Tourism Support of AMC	0+12 months with periodical updating	No risk	The guide for support in selection of technologies for urban waste water treatment and disposal of sludge	Draft guide after 6 months		MEG project technical support secured, no other significant financial costs of the activity
	<p>Explanation: The guide will in the first place contain advice on the cost elements, both the investment costs and the subsequent operational costs and costs of investment maintenance for waste water treatment plants. Special attention will be given to possibilities and related costs for different methods of sludge disposal, for which there is still no appropriate regulation (belonging to environment sector). The guide will not presume the priority or propose specific treatment technology, but the emphasis is on the cost aspects and their effects on the price of water service. The activity can also be viewed as part of D1, but due to a very high level of expected</p>							

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<p>investments in construction of waste water treatment plants in FBiH, it needs to be listed separately. AMC shall promote the guide among its members and provide examples of good practices (of their members and those learned through exchange of experience with RS AMC) during its preparation.</p> <p>The technical requirements and standards to be met by already constructed or planned urban waste water treatment plants are regulated by water related documents (prior water approval, water approval and water permit) issued by WAs and thus everything that is important from the aspect of water, i.e. the aspect of water management, is rounded up.</p>								
D3	Defining the activities to redesign the system of economic instruments in the water sector	MPVŠ FBiH Support of AMC and UPKP Cantons	0+18 months	The risk is a possible resentment towards redefining the level of water fees; a detailed explanation of the needs defining the level of fees is required	Improved water fees system, more efficient spending of collected funds	Draft Decision on the level of water fees ² 0+10 months Amendments to the Law on Waters based on this decision		Joint technical assistance of MEG project and WB project is expected
<p>Explanation: The existing system of collection and distribution of water fees is not assessed as satisfactory. The activity is aimed at redefining the level of water fees according to their purpose, collection method and distribution, as well as the final allocation to LSUs and UCs. According to their purpose, the part of the inflow collected from the water protection fees distributed to cantons should be transferred to the LSUs that are building the waste water purification plants. It is also necessary to integrate at the level of FBiH and make publicly available the reports on utilisation of funds collected from water fees at the cantonal level. The activity shall be led by MPVŠ, with the support and participation of WAs, EPF and representatives of the cantons, through which the water fees funds are utilised. AMC and UPKP shall be consulted about the level and utilisation of the funds collected through water fees.</p>								
D4	Preparing guidelines for development of UCs'	Cantonal ministries	0+9 months	The risk is a possible	The UCs' planning	Draft business plan template for UC		MEG project technical

² Rulebook on the method of calculation, procedure and deadlines for calculation, and payment and control of payment of general water fee and special water fees (Official Gazette of the Federation of BiH, No. 92/07, 46/09, 79/11 and 88/12)

Code	Activity	Competence	Time frame	Risk assessment	Expected result	Milestones with deadlines and success monitoring indicators	Backup plan	Funds required (+source)
	business plans that will define the contents, preparation methodology and data that will be used	FMPVŠ monitors the implementation Support of AMC and UPKP		resentment of UCs towards development of business plans of a wider format than that stipulated by laws on companies	system improved			support secured, no other significant financial cost of the activity
<p>Explanation: The guidelines for development of UCs' business plans, which will define the contents, preparation methodology and data that will be used, will help UCs to also plan the activities which so far have mainly not been a part of the existing business plans, such as plans for improvement of non-revenue water management, plans for improvement of energy efficiency, plans for optimisation of the number and competences of employees. Business plans should also contain the values of key business success indicators for several previous years, as well as their targeted/projected values for the next 3 years at least, which would enable the monitoring of the plan implementation and success and its regular updating as needed. The overview of these values and their trends will be an important tool for improvement of management in UCs, as well as a tool for management assessment. FMPVŠ shall lead the activity, but the key contributions will actually be provided by AMC and UPKP.</p>								
D5	Carrying out surveys of household incomes in the LSU area, in order to assess the affordability and develop a methodology for assessment of affordability	LSUs AMC	Periodic activity	The risk is a lack of knowledge about the assessment methodology and definition of total incomes; it will be mitigated through training of LSUs	Affordability assessment	Assessment of affordability before filing the next request for setting the price of services		MEG project advisory assistance provided, LSUs can individually assess the cost of survey
<p>Explanation: With the support of AMC in the form of guidelines and instructions for efficient implementation of income survey, LSUs shall periodically carry out a survey on total income of an average family on their territory (including direct and indirect income). The survey shall be conducted with the purpose of assessing affordability, which implies that it should be carried out at the initial consideration of new and major investments in the water services sector at the level of LSU (e.g. when considering</p>								

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	the construction of waste water treatment plants and selecting the capacity and the type of treatment, with assessment of coverage of the population with the waste water disposal service and the possibility to connect them to the waste water treatment plant).							
	Prepare a study on the possibility of consolidation of the existing UCs	FMPVŠ, canton, LSUs, AMC	0+18 months	The risk is a political opposition to consolidation of several UCs, especially if at that time the governments in the neighbouring LSUs do not belong to the same political option	Decreasing indirect costs of UCs; improved management	Pilot study upon expressed interest		Subsequent assessment, not an urgent activity MEG project support
D6	<p>Explanation: Development of the study on consolidation of the existing UCs was a measure defined by the 2016-2022 Sava River Basin Management Plan for FBiH, but it was given up on in a subsequent report, because it was assessed that major results could not be achieved during that planning period. Still, in a long term, the interest and consequent initiatives can be expected from the neighbouring LSUs that may identify the need for a common part of water and waste water disposal system and joint construction of a waste water treatment plant. Also, LSUs with a small number of inhabitants may have high unit cost of their UC and therefore have interest in consolidation with the neighbouring and bigger UC. It is also realistic to expect such requirements on the path towards the EU (as they have already appeared in Croatia as an EU member state), and it would be good to plan this activity, which will still not be given priority over the other activities. The realistic risk is opposition of mayors and/or LSU councils, because in that case they would have to share their management responsibility with other LSUs.</p> <p>From the economic point of view, it is extremely important and justified to encourage the process of transfer to consolidation of the system, i.e. regional approach to water systems, wherever this is technically and technologically justified. This issue has been elaborated in the Long Term Water Supply Study from the aspect of water management. Based on the data collected by utility companies, the Study recommended to first solve other issues in this sector (non-revenue water, surplus of employees in the companies etc.), and then plan the consolidation. Technical support of WAs is also expected based on the previous experiences in this field and in accordance with the measures defined by the Draft Water Management Plan for the Water Areas in the Federation of Bosnia and Herzegovina (2022-2027).</p>							