

2008 Baseline Survey on Monitoring Adherence to Paris Declaration Principles Bosnia and Herzegovina

MoFT BiH/SCIA

Sarajevo, October 2010

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List of Acronyms

| | |
|-----------------|---|
| ADC | Austrian Development Cooperation |
| AECID | Spanish Agency for International Development Cooperation |
| BHAS | the Agency for Statistics of Bosnia and Herzegovina |
| BiH | Bosnia and Herzegovina |
| CDF | World Bank's Comprehensive Development Framework analysis |
| CEB | Council of Europe Bank |
| CIDA | Canadian International Development Agency |
| CPIA | World Bank's Country Policy and Institutional Analysis |
| DCF Secretariat | Donor Coordination Forum Secretariat |
| DEI | Directorate for European Integration |
| DEP | Directorate for Economic Planning Council of Ministers |
| DFID | UK Department for International Development |
| EBRD | European Bank for Regional Development |
| EFSE | European Fund for South-east Europe |
| EIB | European Investment Bank |
| EU | European Union |
| EU27 | 27 members of European Union |
| FBiH | Federation of BiH |
| FZS | the Federal Institute of Statistics |
| GAP | Governance Accountability Project |
| GDP | Gross Domestic Product |
| HBS | Household Budget Survey |
| IC | Italian Cooperation |
| IDA | International Development Association |
| IFAD | International Fund for Agricultural Development |
| ILO | International Labour Organisation |
| IMF | International Monetary Fund |
| IPA | Instrument for Pre Accession Assistance |
| IRAI | the overall country score in IDA Performance Based Allocations |
| IOM | International Organisation for Migration |
| ISTAT | the Italian National Institute of Statistics |
| ITA | Indirect Tax Authority |
| JICA | Japan International Cooperation Agency |
| KfW | Kreditanstalt für Wiederaufbau |
| LSMS | Living Standard Measurements Survey |
| M&E | monitoring and evaluation |
| MoERC | RS Ministry of Economic Relations and Regional Cooperation |
| MoFT | BiH Ministry of Finance and Treasury |
| MoFTER | Ministry of Foreign Trade and Economic Relations |
| MTDS | Medium Term Development Strategy |
| MTEF | Medium Term Expenditure Framework |
| ODA | Official Development Assistance |
| OECD-DAC | Organisation for Economic Co-operation and Development-Development Assistance Committee |
| PAR | Public Administration Reform |
| PBAs | Programme based approaches |
| PFM | Public Financial Management |

| | |
|-------------------|---|
| PIP | Public Investment Programme |
| PIUs | Parallel implementation units |
| PPA | Public Procurement Agency |
| PPS | Purchasing power standards |
| PRB | Procurement Review Body |
| RS | Republic of Srpska |
| RZSRS | the Republic Institute of Statistics of the Republic of Srpska |
| SAA | Stability and Association Agreement |
| SCIA | Sector for the Coordination of International Economic Aid |
| SDC/SECO | the Swiss Agency for Development and Cooperation/the State Secretariat for Economic Affairs |
| SIDA | Swedish International Development Cooperation Agency |
| SPEM | Strengthening Public Expenditure Management project |
| UNDP | United Nation Development Programme |
| UNFPA | United Nation Population Fund |
| UNHCR | United Nation High Commissioner for Refugees |
| UNICEF | United Nations Children's Fund |
| USA/USAID | United States of America/United States Agency for International Development |
| USD | US dollar |
| WB | World Bank |
| WB/IFC Trust Fund | World Bank/International Finance Corporation Trust Fund |
| WHO | World Health Organization |

INTRODUCTION

A defining moment in global aid effectiveness occurred in March 2005 with the endorsement of the **Paris Declaration on Aid Effectiveness**, when bi-lateral and multi-lateral donor agencies, representatives of developing national governments and foundations agreed to the channelling of resources increasingly through national governments and to only fund programmes and services aligned with national strategic plans, and thereby to improve aid effectiveness. The Paris Declaration sets out practical actions to improve the quality of aid and its impact on development by promoting changes to external assistance delivery and management practice, based on the principle of partnership. Declaration signatories committed their countries and organisations to continue to increase efforts in harmonisation, alignment and managing for results with a set of monitorable actions and indicators.

In December 2009 Bosnia and Herzegovina officially endorsed the Paris Declaration on Aid Effectiveness, effectively committing itself to the 56 partnership obligations aimed at improving aid effectiveness in the five major areas of: ownership, alignment, harmonisation, management for results and mutual accountability.

This baseline survey on Paris Declaration adherence in BiH has been conducted with the purpose of providing a first general overview of current donor coordination systems in the country against which future progress may be monitored. This report provides a historical overview of aid coordination in BiH, brief information on the main principles and indicators of the Paris Declaration, information on report preparation methodology, as well as an analysis of the results for each of the 12 indicators of the Paris Declaration in BiH.

The Ministry of Finance and Treasury/SCIA in BiH would like to thank all those who kindly contributed to this study; including the donor community in BiH as well as the Governments of BiH, Republika Srpska (RS) and Federation of BiH (FBiH) for providing data from which the findings in this study have been determined. Acknowledgement is also made to DFID for its financial and technical support.

BACKGROUND

Bosnia and Herzegovina has an estimated population of 3.84 million¹, with a GDP of 24,716 KM and GDP per capita of 6,435 KM² in 2008³. In 2008 the Gross Domestic Product (GDP) per inhabitant expressed in purchasing power standards (PPS) in BiH was 31 percent of the European average (EU27), placing BiH in the penultimate position (to Albania) in Europe⁴. The governance structure of Bosnia and Herzegovina comprises the Council of Ministers at the State-level and two Entity Governments: the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) as well as the autonomous Brcko District. The FBiH is divided into ten cantons and 79 municipalities, while Republika Srpska is divided into 62 municipalities⁵.

Bosnia and Herzegovina is a potential EU candidate country as well as a country that receives substantial International Development Association (IDA)⁶ assistance. In June 2008 BiH signed the Stability and Association Agreement (SAA) with the EU and has entered a new phase of development towards EU membership. The largest bilateral donors are USA, the Netherlands, Sweden, Germany, and Norway; and the largest multilaterals are the EU, the World Bank, as well as the EIB and the EBRD. The trend observed since 2006 is that the availability of grant-based Official Development Assistance (ODA) to the country is in gradual decline, whereas the percentage of concessional and commercial loans is increasing. This is partly due to the fact that some bilateral agencies, such as Canada/CIDA, the Netherlands, Spain/AECID and UK/DFID, are

¹ Estimated (06.03.2008)

² 1 KM = 0,975 Euros

³ Source: BiH Agency for Statistics, <http://www.bhas.ba/eng/Default.asp?>

⁴ Information published by Eurostat on December 15, 2009; http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-15122009-BP/EN/2-15122009-BP-EN.PDF

⁵ Total number of municipalities in BiH is 141 plus Brcko District.

⁶ The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people's living condition

gradually withdrawing from the provision of direct financial assistance to BiH, preferring to provide support indirectly through multilateral agencies. Furthermore, the scope and area of donor assistance to BiH has evolved over the time from support to infrastructure and peace building projects to cross-cutting issues across all areas receiving assistance.

PARIS DECLARATION ON AID EFFECTIVENESS

More than 100 representatives of donor and partner countries, international development organisations and civil society organizations and foundations endorsed *the Paris Declaration on Aid Effectiveness* in March 2005, committing themselves to 56 partnership obligations for greater aid effectiveness organized around five key principles: ownership by countries, alignment with countries' strategies, systems and procedures, harmonisation of donors' actions, management for results and mutual accountability. Each of these five principles has a set of indicators of achievement.

The Paris Declaration also sets targets for 11 (out of 12) indicators for the year 2010⁷ to provide a measurable and evidence-based way to track progress. Eight of the indicators (3 to 10) primarily relate to donor performance and four (1, 2, 11 and 12) to aid recipient country performance. Indicators 1 and 11 can be based on World Bank's Comprehensive Development Framework (CDF) analysis; Indicator 2a is based on the World Bank Country Policy and Institutional Assessment (CPIA) data in 135 partner country; Indicator 2b is based on the measurement framework developed by the OECD-DAC's Joint Venture on Procurement; Indicators 3 and 7 on IMF analysis (if available for country) and Indicator 8 can be drawn from reporting by DAC donors to the annual DAC Questionnaire collected by the OECD-DAC. All other indicators have to be analysed based on information provided by donors in-country and from relevant country governmental agencies.

All major donors in BiH and all members of the Donor Co-ordination Forum are signatories of the Paris Declaration on Aid Effectiveness.

HISTORY OF AID COORDINATION IN BOSNIA AND HERZEGOVINA

Improvements to the aid coordination process date back to 2006, when the Council of Ministers of BiH approved an Information Note on "strengthening the efficiency of the International Aid Coordination System in Bosnia and Herzegovina". This defined a number of planned changes to the aid coordination process, including the transfer of responsibility for international aid coordination from the state Ministry of Foreign Trade and Economic Relations (MoFTER) to the state Ministry of Finance and Treasury (MoFT) and the establishment of a Board for the Coordination of International Aid.

In October 2007 the Parliament of BiH approved the transfer of responsibility for "International Aid Coordination, excluding EU Aid", to BiH MoFT. Accordingly, the coordination of international aid previously conducted in different institutions or directly between beneficiaries and donors is now done by MoFT (for general economic and technical assistance), and the Directorate for European Integration for EU assistance, primarily the EU's Instrument for Pre-Accession Assistance (IPA). In line with these changes, MoFT established a new Sector for the Coordination of International Economic Aid (SCIA) in October 2008, comprising two units; (i) the Unit for Public Investment Programme Preparation and Implementation and (ii) the Unit for the Coordination and Mobilization of International Aid. As of January 2009 the Donor Coordination Forum (DCF) Secretariat is managed by MoFT/SCIA, having previously been run by UNDP and the Office of the UN Resident Coordinator.

With the establishment of the new Sector the BiH Government intends to achieve better coordination of aid activities, stronger partnerships between donors and the BiH Government, and improved alignment of aid with national development priorities. Taken together these amendments are intended to result in greater effectiveness in the use of international aid to BiH.⁸

⁷ To download Paris Declaration 2010 targets please visit. <http://www.oecd.org/dataoecd/11/41/34428351.pdf>

⁸ "Donor Mapping Report 2008-2009"

http://www.trezorbih.gov.ba/bos/images/stories/medjunarodna%20saradnja/koordinacija_medjunarodne_pomoci/Donor%20Mapping%20Report%202008-2009.pdf or www.donormapping.ba

BASELINE SURVEY METHODOLOGY

Various methods were used to collect the data, including a review of available documents, donors' survey questionnaire, telephone contacts and visits to donors' agencies, and official information provided by the governments of BiH state, FBiH and RS. The donor questionnaire was prepared in accordance with the OECD 2008 Survey Guidelines for the Questionnaires covering the principles of donor harmonization and alignment through the set of defined questions for each indicator. Additional explanations on the indicators' criteria were provided upon demand.

The questionnaire was sent to 24 of the largest donor agencies/financial institutions which are active in BiH. Out of that number 20 donors/financial institutions are members of the Donor Coordination Forum (DCF) whereas UNHCR and UN agencies IOM, ILO, WHO and UNFPA are non-DCF members. A total of 16 donors replied to the questionnaire, which represents a response rate of 66.6%. In addition to these donor agencies/financial institutions information obtained by the governmental sources contained figures for other donors active in Bosnia and Herzegovina⁹. The results presented in this report are calculated based on information provided by donor agencies as well as respective governmental sources at state and entity level and publicly available documents.

Due to the fact that DCF data base is maintained in Euros the BiH baseline survey is using Euros rather than US Dollars for the calculation of results.

⁹ Some of other donors active in BiH for which data were provided by the governmentnal sources include: Belgium, Korea, Kuwait, Portugal, Saudi Arabia, Turkey, IFD, OSCE.

OWNERSHIP

Indicator 1 – Operational Development Strategies are in place

Indicator 1 global target for 2010 is to raise, to at least 75%, the proportion of partner countries having operational development strategies; where operational development strategies equates to a score of A or B.

Ownership is the first and central principle of the Paris Declaration reflecting the recognition that aid is most effective when countries exercise strong and effective leadership over their development policies and strategies, and co-ordinate development actions. However, if a country is dependant on aid to finance its development, achieving ownership is the most challenging task. In the context of the Paris Declaration, ownership assesses the ability of the aid recipient country to exercise effective leadership over its development policies and strategies and co-ordinate the efforts of various development actors working in the country.

Given that the issue of ownership has many dimensions it cannot be captured by a simple measure. Indicator 1 is a qualitative proxy to assess the issue of ownership, focusing on the operational value of a country's national development strategy around which donors can organise their development support.

The results for Indicator 1 are derived from the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead*. The World Bank assesses the operational value of a country's development strategy and policy against three criteria: (i) existence of a unified strategic framework, (ii) prioritisation within that framework, and (iii) strategic link to the budget (World Bank, 2007). Based on these assessments the WB rates the operational value of a country's development strategy against a five point scale running from A (very strong), via B, C (Intermediate), and D to E (very weak).

A rating for Bosnia and Herzegovina is not available since the Country Development Strategy is yet to be adopted. BiH did have a Medium-Term Development Strategy, but this expired at the end of 2007. This is to be replaced by a Country Development Strategy and Social Inclusion Strategy, both of which are currently under preparation. At the time of writing this report the documents are in their final draft stages, with the formal approval process at different levels of Government expected to commence imminently.

In the absence of an approved country strategy many donors seek to align their assistance to sector strategies, where they exist. However, strategies at the country level are not in place for all sectors. Whilst more sector strategies have been prepared at the entity level, no consistent infrastructure or framework is in place.

ALIGNMENT

As a second principle of the Paris Declaration, alignment with a country's national development strategies and plans depends on the ability of the aid recipient country to produce development strategies and reliable country systems and procedures. Donors are encouraged to strengthen country systems to international standards by aligning with and using national systems in: public financial management, procurement, auditing, results framework, environmental/social assessment, monitoring, statistical and evaluation systems, use of programme based-approaches in budgeting, as well as untying of aid. Indicators 2 to 8 of the Paris Declaration aim to assess the degree of alignment attained by examining a number of dimensions of alignment.

Indicator 2 covers two aspects of country systems: **public financial management (PFM)** and **procurement**. The Paris Declaration recognises that successful development depends on how effectively the state raises, manages and spends public resources. Although this is not a sufficient condition it is a necessary one to ensure a recipient country's ability to

manage its development process (OECD 2008a). Existence of credible country owned PFM and procurement systems will encourage the donors to channel and manage their development assistance via governmental institutions. This approach will help to align aid with national development strategies and enhances aid effectiveness.

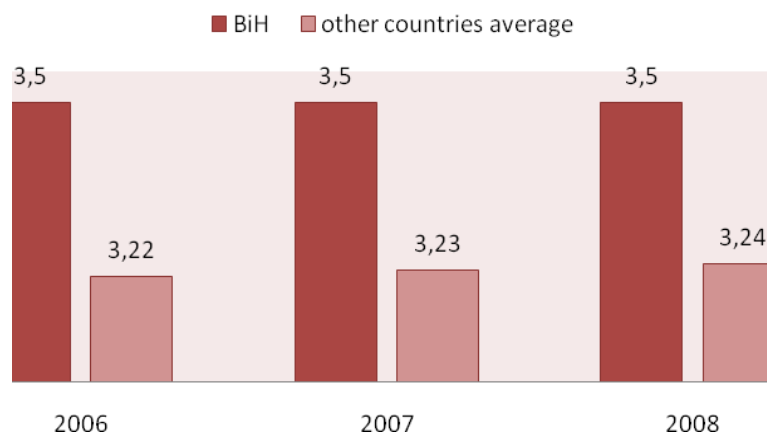
*The Paris Declaration invites donors to significantly increase their use of country financial management systems where these are at least moderate/ strong. **Indicator 2a global target for 2010:** Half of partner countries move up at least one measure (i.e. 0.5 points) on the PFM/CPIA scale of performance.*

Indicator 2a - How reliable are country public financial management systems?

The assessment of Indicator 2a is based on the World Bank's Country Policy and Institutional Analysis (CPIA)¹⁰ score for the quality of PFM systems¹¹, which uses a scale running from 1 (very weak) to 6 (very strong) with half-point increments. To score highly, a country needs to meet all three of the following criteria: (i) a comprehensive and credible budget linked to policy priorities; (ii) effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and (iii) timely and accurate accounting and fiscal reporting, including timely and audited public accounts.

Bosnia and Herzegovina had a score of 3.5 - "moderately strong" (on a scale of 1 to 6) under the World Bank's CPIA for 2008 for the quality of its public financial management systems. This places the country just above the average of 3.2 for all IDA countries. In BiH the same scoring was also observed in 2006 and 2007. Figures 1 shows the comparison of BiH scoring and all other countries' average in the World Bank's CPIA 2006-2008.

Figures 1: Comparison - BiH and average for all countries in the World Bank's CPIA 2006-2008



The State as well as both Entities have their own legislation regulating financial management. The state level Law on Financing the Institutions of Bosnia and Herzegovina¹² regulates the preparation, enactment, execution, accounting, reporting and supervision of the budget, the Treasury Single Account, and the investment of public monies at state level. In Republika Srpska the Law on the Budget System¹³ sets the regulations for preparation, planning, development,

¹⁰ The annual CPIA exercise covers IDA eligible countries. The CPIA rates countries against a set of 16 criteria grouped in four clusters: (a) economic management; (b) structural policies; (c) policies for social inclusion and equity; and (d) public sector management and institutions. The *criteria* are focused on balancing the capture of the key factors that foster growth and poverty reduction, with the need to avoid undue burden on the assessment process. To fully underscore the importance of the CPIA in the IDA Performance Based Allocations, the overall country score is referred to as the IRAI.

¹¹ Based on the results of Indicator 13 in the CPIA

¹² Law on Financing the Institutions of Bosnia and Herzegovina adopted on December 2, 2004

¹³ adopted in October 2003

adoption and execution of the budget, as well as budget accounting, control and audit. The Law on Budgets in FBiH¹⁴ regulates the planning, development, enactment and execution as well as debt management, accounting, reporting, supervision and revision of the budget. (*Public Expenditure Management System BiH Sigma Report, May 2009*)

Enhancing the transparency, efficiency and effectiveness of public financial management (PFM) is an important element of BiH governments' institutional modernization plan. The government has carried out several initiatives to further improve the PFM system in BiH. In 2008, the Fiscal Council of BiH was established to help implement the Law on Fiscal Council and to set up coordination of fiscal policies in order to ensure macroeconomic and fiscal sustainability of the State and Entities; the Indirect Tax Authority (ITA) Governing Board took the decision that final consumption is to be used as the basic economic criterion for the allocation of indirect taxes between entities; efforts have been made to strengthen the capacity of the MoFT in BiH regarding public expenditure management in the areas of improvements in budgeting and in particular the development of medium-term budgeting, the better integration of investment and current budgets, and some progress in the development of programme budgeting.

Even though several initiatives to enhance the public financial management systems have been carried out since 2008, reform processes need to be continuously furthered. Most importantly, the emphasis should be on improving fiscal co-ordination by establishing fiscal parameters to be adopted at state and entity levels; harmonisation of budgeting and statistical methodologies; and the establishment of a medium-term fiscal framework to accommodate annual budgetary policies. The technical operation of the treasury systems would benefit from enhanced co-operation. Extra-budgetary funds should be reviewed in order to establish their long-term solvency. Given the rising cost of transfer payments in the Federation and Republika Srpska, special attention should be given to ensuring that those transfer payments are managed in the most efficient and effective way. Also, the sequencing of various development activities in public finance should be thoroughly assessed and planned. Although work on the medium-term expenditure frameworks (MTEF) is under way, at this stage in their development they are not linked to the annual budgetary process.

State-level donor co-ordination mechanisms and agreed regulations for managing foreign funds are crucial precondition for managing foreign funds in a sustainable manner¹⁵.

Indicator 2b - How reliable are country procurement systems?

Indicator 2b global target for 2010: One third of partner countries move up at least one measure on the four-point scale to measure this indicator. (i.e., from D to C, C to B or B to A)

The quality of the aid recipient country's procurement system is assessed through the Joint Venture on Procurement's Methodology for the Assessment of National Procurement Systems¹⁶. The results of the procurement systems assessment are expressed as grades on a four-point scale running from A (the highest) to D (the lowest) score.

A thorough assessment of BiH baseline position with respect to the quality of procurement legislation, institutions and practices has not yet been performed.

A BiH Law on Public Procurement¹⁷ was adopted in 2004. Article 48 of this law mandates the establishment of a Public Procurement Agency (PPA). The PPA is an independent administrative organisation, reporting to the BiH Council of Ministers and its establishment has been a cornerstone in the development of fair and transparent public procurement process. Also, Article 49 provides for the establishment of a Procurement Review Body (PRB). The PRB is an independent administrative organisation, reporting to the Parliament of BiH. In 2008 the largest share of public expenditure, and consequently of public procurement, was managed by the two entities of Bosnia and Herzegovina (Federation of BiH

¹⁴ adopted in April 2006

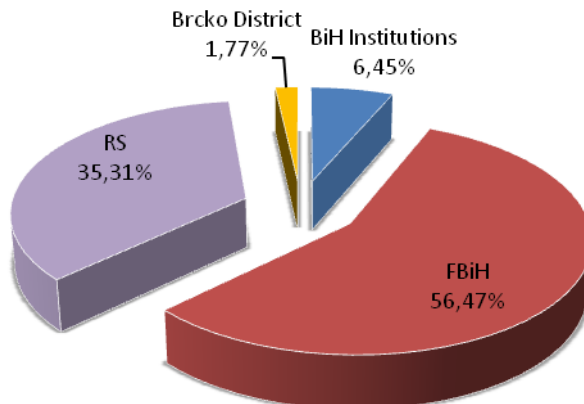
¹⁵ The analysis of the PFM and procurement systems presented here is based on the World Bank's CPIA for 2008 and Support for Improvement in Governance and Management (Sigma) Report on BiH PFM and Procurement System Assessment (May 2009) <http://www.oecd.org/dataoecd/0/61/43910455.pdf>

¹⁶ The first pilot exercise of the methodology was conducted on voluntary basis and has involved 22 partner countries.

¹⁷ ("SgBiH" broj 49/04- BiH Official Gazettes 49/09)

(FBiH) – 56.47%; Republika Srpska (RS) – 35.31%) while there was little expenditure at the state level 6.45% or in the District of Brčko 1.77%.¹⁸ (Figures 2)

Figure 2: Percentage of agreements signed in procurement of goods, services or works in 2008



Reforms are being undertaken to increase transparency in public procurement. Thus, for instance, the Law on Public Procurement has been amended in 2009¹⁹. This amendment increased the ceiling for application of the competitive request for quotations for public supplies, services, contracts and public works. Donors have financed further reforms such as the establishment of an e-procurement system, which will be available as of January 2010, and strengthening the capacity of procurement officials.

Since the first Law on Public Procurement in Bosnia and Herzegovina (2004) was based on the previous generation of EC Procurement Directives and as such it complied with the then EU requirements, this Law should be further amended in order to ensure a higher level of compliance with EC Directives 2004/18 and 2004/17. Further amendments of this Law would accordingly require improvements in the provision of public-private partnerships as well as of concessional services and works. These conditions should be universal for the entire country. Thus, introducing competitive and transparent procedures and practices which also take into account the *acquis* and good international practices. Hence, amendments are likewise needed in the area of concessions and review systems where no legal protection is provided. Furthermore, there is a need to further strengthen the capacity of both leading institutions, the PPA and the PRB.

Indicator 3– Aid flows are aligned on national priorities (being reported on national budget)

Indicator 3 global target for 2010: Halve the proportion of aid flows to government sector not reported on government's budget (s) (with at least 85% reported on budget).

This connects aid programmes with recipient country strategic policies and processes and their accurate and comprehensive reporting in the national budget and accounting systems. Indicator 3 measures how realistic is the country budget and whether the government budget estimates agree with actual donors' disbursement. This indicator is a combined measure of two components: (i) the degree to which donors report aid flows in timely fashion and in the suitable form to partner countries; and (ii) the degree to which partner countries accurately record aid. It is calculated by dividing total aid recorded in the government budget (in USD), by total aid disbursed by donors for the government sector

¹⁸ Godišnji izvještaj o zaključenim ugovorima u postupcima javnih nabavki u 2008. godini (Annual Report on Procurement Agreements Signed in 2008) (<http://www.javnenabavke.gov.ba/home/dokumenti/vijesti/Godisnji%20izvjestaj%20R2008.pdf>)

¹⁹ Law on Amendments of the Law on Public Procurement in BiH" Official Gazettes f BiH, No. 12/09 - Zakon o izmjenama Zakona o javnim nabavkama BiH, SG BiH broj 12/09

(in USD), to derive the percentage of disbursed aid that is reported in government budgets by donor, by recipient country²⁰.

Currently the system of reporting aid flows on the budget is not satisfactory in BiH. The majority of donors' programmes and projects were not reported in the government budget. Rules and regulations for reporting of aid to the central government require further improvement. Consequently, donors directly approach the appropriate governmental institutions entering into agreements with them directly which results in a large proportion of aid not being reported to MoFT, nor reported in a timely fashion for inclusion in the preparation of the budget.

Projections for what is termed "*current monetary donations*" in the BiH state-level budget for 2008 amounted to approximately €2.086million²¹. The total value of "*current monetary donations*" in 2008 that was recorded in the BiH Budget Execution Report amounted to approximately €11.52 million. These are grant monies. When account is taken of grants and loans in respect to the multi-year capital investments, the planned loan funds for 2008 amounted to €25.56 million whereas executed loan funds amounted to € 1.73 million. Additionally, projected donations for multi-year capital investments on December 31, 2008 amounted to €11.57 million. Executed donations amounted to approximately €0.799 million²².

In accordance with Article 12 of the Regulation on Establishment of Coordination Mechanisms in FBiH (Official Gazettes of FBiH No. 48/03) the Ministry of Finance of FBiH is mandated to prepare a report on the implementation of development projects in FBiH based on inputs received by the cantonal project implementation agencies as well as federal ministries and PIUs. Information is collected centrally in a database within the FBiH Ministry of Finance. Total aid flows projected in the budget of the FBiH government for 2008 were approx. €209.7 million, out of which €199.1 million were in the form of loans (both concessional and commercial) and €10.6 million in the form of grants. Total funds disbursed for development projects implemented in FBiH in 2008 amounted to some €138 million out of which €117 million (85%) were provided by international donor/financial institutions and €21 million (15%) by domestic institutions/companies. Out of the total international assistance invested in 2008 in FBiH €16.5 million were grants (12%), €100.05 million (73%) were loans; €12.8 million (9%) were from the budget at all levels of government and €7.9 million (6%) were investments from public companies funds. Sectors which most benefited from these investments were transportation, health, social sector and energy sector. However, it should be noted that total aid (loans and donations) included in the final calculation in this report does not include commercial loans provided by financial institutions (EIB, EBRD and CEB). Therefore total projected aid that was capture by this survey is €89.20million, while total disbursement was €67.69 million, at the level of FBiH.

In the RS the legal framework is regulated by the Law on Donations in Public Sector²³ which mandates the RS Ministry of Economic Relations and Regional Cooperation (MoERC) to maintain a public sector Donation Register, while line ministries control the spending of grant funds for institutions within their authority. The Donation Register is linked to the Department for Audit. MoERC is responsible for preparation of half-yearly and annual reports on registered donations to the RS Government which reports to the RS National Assembly once a year on the type and effects of donations received. Even though the RS budget has a donation budget line, in the 2008 budget projection it was zero (0). Apart from the direct budget support line, the 2008 budget did not include other budget items related to donations. Principally, the main reason for this lies in the inability of projecting grants flows due to their uncertainty related to the lack of information on approved donations. Similarly, loans by creditors are not shown in the budget projections and only cumulative projections are possible due to the likely differences between planned and disbursed loan funds. The total amount of grants disbursed in RS in 2008 was €2.74 million while the total amount of loans disbursed was €10.65 million²⁴.

Due to the variations in the data and lack of consistent recording by the state and entity governments, and the inability to relate this to the donors' information captured by the questionnaire, there is an insufficient basis on which to determine the baseline ratio for Indicator 3. Therefore, no assessment can currently be made for this indicator.

²⁰ Due to the fact that DCF BiH database is maintained in Euros the BiH baseline survey will use Euros and not USD for calculation of results.

²¹ According to the *Law on Budget of the BiH Institutions and International Obligations for 2008*, pg XXX
http://www.trezorbih.gov.ba/bos/index.php?option=com_content&task=view&id=144&Itemid=111

²² Report on Budget Execution *Budget of the BiH Institutions and International Obligations in 2008*, pg.49,
http://www.trezorbih.gov.ba/bos/images/stories/budzet/izvrsenje_budzeta_2008_BS.pdf

²³ Службени гласник Републике Српске" број: 96/05; the law is available for download from <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/meoi/PAO/Pages/Splash.aspx>

²⁴ Excluding the commercial loans from financial institutions EIB, EBRD and CEB

Indicator 4 - Technical cooperation is aligned and coordinated

Indicator 4 global target for 2010 is that 50% of technical co-operation flows are implemented through coordinated programmes that are consistent with national development strategies.

Indicator 4 assesses the degree of coordinated donor technical co-operation in aid recipient countries. The Paris Declaration requires donors to provide their capacity-development support through co-ordinated programmes consistent with partners' national development strategies. This approach provides the changes from donor-driven and very often fragmented support to country driven capacity development processes aligned with country objectives in this field. Indicator 4 is calculated using total donor technical cooperation flows and total donor coordinated technical cooperation to derive a percentage of technical cooperation that is coordinated by donors, or by the recipient country.

Since there was no Country Development Strategy in place in BiH for the baseline period donors focused their efforts on the existing state, entity or sectoral strategies for the programming of their aid. All donors assert that their support is consistent with the approved strategy and policy documents of the country. However there is currently no mechanism in place for the BiH Government to ensure that this is the case. This issue is being addressed by the new Sector for the Co-ordination of International Economic Aid in the Ministry of Finance and Treasury.

Indicator 5 - Using Country Systems

Paris Indicator 5 global target: 90% of donors use partner countries' PFM systems and a one third reduction in the % of aid to the public sector not using partner countries' PFM systems (Score 3.5-4.5); 90% of donors use partners' countries procurement systems and a one third reduction in the % of aid to the public sector not using partner countries' procurement systems.

Indicator 5 assesses the extent to which donors are using country PFM and procurement systems when funding is provided to the government sector. The Paris Declaration invites all donors to use aid recipient country systems and procedures "to the maximum extent where possible," and where it is not feasible "to work with the partner country to address concerns and strengthen country systems" (OECD 2005b and OECD 2008d).

Indicator 5 is directly linked to Indicator 2 on the quality of PFM and procurement systems, and is divided into two measures: Indicator 5a calculates the volume of aid that uses partner country PFM systems (budget execution, financial reporting, and auditing) as a percent of total aid disbursed to the government sector; and Indicator 5b assesses the volume of aid flows that use recipient country procurement systems as a percent of total aid disbursed to the government sector.

The 2010 target is relative to Indicator 2b; thus, targets are indicated only for those countries that established scores for Indicator 2b in the context of the 2006 Baseline Survey. BiH scores 3.5 on Indicator 2a, falling into the "B" category of countries (countries that received a rating of 3.5 to 4.5).

Indicator 5a – Use of aid recipient country PFM system

The baseline assessment on use of PFM systems was subdivided into four parts in the donors' questionnaire: (1) use of BiH budget treasury system, (2) use of BiH budget financial reporting, (3) use of national audit systems and (4) all three systems together. Only those projects which satisfy three out of four requirements are counted.

In 2008 only a small percentage of Sweden/SIDA's of aid completely used BiH PFM systems. Questionnaires completed by donors indicate that no aid delivered in 2008 by EC, Hungary, UK/DFID, UNFPA, IOM, ILO, WHO or the World Bank passed through BiH treasury systems. Spain/AECID and UNICEF used only national budget execution procedure in 2008. A similar pattern was observed for the use of national financial reporting systems for aid disbursement. No aid provided by Spain/AECID and UNICEF was included in national financial reporting systems. Austria/ADC and UNDP provided aid using

national reporting procedures only for some of their projects. National auditing procedures were used only by some of Sweden/SIDA aid assistance programs. Some volume of aid provided by Sweden/SIDA, Switzerland/SDC/SECO, USA/USAID and UNICEF used all three national procedures.

Out of 16 donors who responded to the donor questionnaire seven use some elements of national PFM systems. However, only one donor stated that some of its projects are fully on budget whilst eight donors do not use PFM systems at all. *The baseline ratio for Indicator 5a was therefore very low, at just 0.71%. (Table 1)*

Table 1 - How much aid for the government sector uses country systems?

| Donor Country | Aid disbursed by donors for the governmental sector in 2008 (€ million) a | Public financial management (PFM) | | | | Procurement | | |
|----------------------|--|-----------------------------------|-----------------------------------|------------------------|---|---------------------------|---|---------------|
| | | Budget execution (€ mill) b | Financial reporting (€ mill) c | Auditing (€ mill) d | All three national procedures (€ mill) e | 2008 (%) Avg (b,c,d)/a | Procurement systems in 2008 (€ mill) e | 2008 % e/a |
| | | | | | | | | |
| Austria/ADC | 1.97 | 0 | 0.2 | 0 | 0 | 0% | 0.62 | 34.12% |
| Belgium | - | - | - | - | - | - | - | - |
| Canada/CIDA | - | - | - | - | - | - | - | - |
| France | - | - | - | - | - | - | - | - |
| Greece | - | - | - | - | - | - | - | - |
| Germany | - | - | - | - | - | - | - | - |
| Hungary | 0.215 | 0 | 0 | 0 | 0 | 0% | 0.1 | 46.42% |
| Italy/IC | - | - | - | - | - | - | - | - |
| Japan/JICA | - | - | - | - | - | - | - | - |
| Korea | - | - | - | - | - | - | - | - |
| Kuwait | - | - | - | - | - | - | - | - |
| The Netherlands | - | - | - | - | - | - | - | - |
| Norway | - | - | - | - | - | - | - | - |
| Portugal | - | - | - | - | - | - | - | - |
| Saudi Arabia | - | - | - | - | - | - | - | - |
| Spain/AECID | 4.23 | 0.19 | 0 | 0 | 0 | 0% | 0.19 | 4.49% |
| Sweden/SIDA | 5.63 | 0.365 | 2.304 | 2.304 | 0.20 | 29.43% | 3.552 | 63.06% |
| Switzerland/SDC/SECO | 6.27 | 0 | 0 | 0 | 0.205 | 0% | 0.2185 | 3.48% |
| UK/DFID | 3,354 | 0 | 0 | 0 | 0 | 0% | 0 | 0% |
| USA/USAID | 20.45 | 0 | 0 | 0 | 0.025 | 0% | 0.025 | 0.12% |
| Turkey | - | - | - | - | - | - | - | - |
| EC | 190.58 | - | - | - | - | - | - | - |
| UNFPA | 0.152 | - | - | - | - | - | - | - |
| UNICEF | 0.383 | 0.383 | 0 | 0 | 0 | 0% | 0 | 0% |
| IOM | 4.04 | - | - | - | - | - | - | - |
| ILO | 0.28 | - | - | - | - | - | - | - |
| WHO | 0.29 | - | - | - | - | - | - | - |
| UNDP | 17.92 | 0 | 0.0415 | 0 | 0 | 0% | 0.0415 | 0,23% |
| World Bank | 17 | 0 | 0 | 0 | 0 | 0% | 0 | 0% |
| IFAD | - | - | - | - | - | - | - | - |
| OSCE | - | - | - | - | - | - | - | - |
| Other donors | - | - | - | - | - | - | - | - |
| TOTAL | 272.78 | 0.94 | 2.54 | 2.30 | 0.81 | 0.71% | 4.53 | 1.74% |

Indicator 5b – use of aid recipient country procurement system

Currently there is no thorough assessment of the BiH baseline position with respect to the quality of procurement legislation, institutions and practices. Multilateral donors in BiH (such as the WB, the EC, UNFPA, UNICEF and IOM) did not use BiH procurement rules for any of their projects, along with bilateral donor UK/DFID. Other donors' use of BiH procurement systems for their project activities ranged from 0.12% to 63.06%. The volume of aid captured by the questionnaire that used BiH national procurement system was just 1.74% (see Table 1)

Indicator 6 – Avoiding parallel implementation structures (PIUs)

Indicator 6 global target for 2010: To reduce by two-thirds the stock of parallel implementation units (PIUs) in each partner country.

Project Implementation Units (PIUs) are special units for management of project or programme implementation that donors are establishing when providing development assistance to the aid recipient countries. A PIU is said to be "parallel" when it is created at the behest of the donor outside of existing country institutions and administrative structures. PIUs are classified as being "outside of the existing structure of the national implementing agency" when at least three out of the four following criteria are met: (i) staff are mainly not on the payroll of the national implementing agency; (ii) parallel PIUs are accountable to external funding agencies, rather than to national implementing agency; (iii) parallel PIUs have terms of reference for externally appointed staff that are determined by the external funding agency, rather than by the national implementing agency and (iv) the salary structure of national staff is higher than those of civil service personnel.

In the short term, parallel PIUs can play a useful role in establishing good practice and promoting effective project management. However, parallel PIUs often tend to undermine national capacity building efforts, distort salaries and weaken accountability for development. (OECD 2008) In order to avoid their negative impact, strengthen governmental systems and make aid more effective the Paris Declaration invites donors to minimise the number of parallel PIUs. Indicator 6 is a count of the number of parallel PIUs being used in partner countries.

Table 2 - How many PIUs are parallel to country structure?

| Donor Agency | Parallel PIUs Units |
|----------------------|---------------------|
| Austria/ADC | 4 |
| Belgium | - |
| Canada/CIDA | - |
| France | - |
| Greece | - |
| Germany | - |
| Hungary | 0 |
| Italy/IC | - |
| Japan/JICA | - |
| Korea | - |
| Kuwait | - |
| The Netherlands | - |
| Norway | - |
| Portugal | - |
| Saudi Arabia | - |
| Spain/AECID | 0 |
| Sweden/SIDA | 2 |
| Switzerland/SDC/SECO | 21 |
| UK/DFID | 5 |
| USA/USAID | 4 |
| Turkey | - |
| EC | 0 |
| UNFPA | - |
| UNHCR | - |
| UNICEF | 0 |
| IOM | 0 |
| ILO | 0 |

| | |
|--------------|-----------|
| WHO | 1 |
| UNDP | 22 |
| World Bank | 0 |
| IFAD | - |
| OSCE | - |
| Other donors | - |
| TOTAL | 59 |

Overall, the total number of project implementation units (PIUs) captured by the questionnaire in 2008 was 79, out of which 59 were classified as parallel PIUs.

According to the information provided in the questionnaires PIUs are used by the following donors: WB (16 of which 0 are parallel), UNDP (22, all parallel), Switzerland/SDC/SECO (24 of which 21 are parallel), UK/DFID (5, all parallel), Austria/ADC (4, all parallel), USA/USAID (4, all parallel) and Sweden/SIDA (2, all parallel), WHO (1, parallel), UNFPA (1, not parallel). Spain/AECID, Hungary, UNICEF, ILO, IOM and JICA did not have project implementation units in BiH for any of their projects. This may be due to the size of the projects concerned or the financing modality.

Indicator 7 – Providing more predictable aid

Indicator 7 global target for 2010: *Halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.*

Development assistance constitutes a key source of revenue and resources for many aid recipient countries. In order to optimise allocation of resources and make the best use of development assistance within and across sectors an aid recipient country has to be in position to prepare medium-to long-term plans. To that effect, the Paris Declaration calls on donors to provide reliable, indicative commitments of aid over a multi-year framework and to disburse aid in a timely and predictable fashion according to agreed schedules. (OECD 2008). The aim of Indicator 7 is the improvement of predictability of actual disbursements as well as accuracy of how they are recorded in the government system.

Indicator 7 specifically focuses on within-year predictability of aid to the government sector, measuring the proportion of planned disbursements (as reported by donors) that are recorded in the country accounting system as actually disbursed. To derive the percentage of scheduled aid that is disbursed according to government accounting systems, total aid disbursements recorded by governments (in USD) is divided by total aid scheduled for disbursement by donors for the government sector (in USD).

Table 3: Are disbursements on schedule and recorded by government?

What was the percentage of aid for the government sector disbursed against your scheduled commitments in calendar year 2008?

| Donor Agency | Disbursement recorded by the government in 2008 (State + entities) | Aid scheduled by donors for disbursement in 2008 | Aid disbursed by donors for government sector in calendar year 2008 (€) <i>(for reference only)</i> | Baseline ratio* (%) | |
|----------------------------|--|--|--|------------------------|-------|
| | a | b | | c=a/b | c=b/a |
| | (€ mill) | (€ mill) | (€ mill) | | |
| Austria/ADC | - | 2 | 1.97 | - | |
| Belgium | - | - | - | - | |
| Canada/CIDA | - | - | - | - | |
| France | - | - | - | - | |
| Greece | - | - | - | - | |
| Germany | - | - | - | - | |
| Hungary | - | 0,215 | 0,215 | - | |
| Italy/IC | - | - | - | - | |
| Japan/JICA | - | - | 4.79 | - | |
| Korea | - | - | - | - | |
| Kuwait | - | - | - | - | |
| The Netherlands | - | - | - | - | |
| Norway | - | - | - | - | |
| Portugal | - | - | - | - | |
| Saudi Arabia | - | - | - | - | |
| Spain/AECID | - | 4 | 4.23 | - | |
| Sweden/SIDA | - | 6 | 5.63 | - | |
| Switzerland/SDC/SECO | - | 10.90 | 6.27 | - | |
| UK/DFID | - | 3.354 | 3.354 | - | |
| USA/USAID | - | 26.48 | 20.45 | - | |
| Turkey | - | - | - | - | |
| EC | - | 247.07 | 190.58 | - | |
| UNFPA | - | 0.21 | 0.15 | - | |
| UNHCR | - | - | - | - | |
| UNICEF | - | 0.383 | 0.383 | - | |
| IOM | - | 4.04 | 4.04 | - | |
| ILO | - | 0.28 | 0.28 | - | |
| WHO | - | 0.35 | 0.29 | - | |
| UNDP | - | 21.92 | 17.91 | - | |
| World Bank | - | 112.2 | 17 | - | |
| IFAD | - | - | - | - | |
| OSCE | - | - | - | - | |
| Other donors | - | - | - | - | |
| <i>Average donor ratio</i> | | | | 0% | |
| TOTAL | 95.03²⁵ | 439.40 | 277.57 | 21.63% | |

*Baseline ratio is c=a/b except where disbursement recorded by the government are greater than aid scheduled for disbursement (c=b/a)

Presently, most of the donors active in BiH disburse their assistance flow in accordance with their agencies schedules and not with BiH budget cycles, which has important implications on budget planning. The fact that most aid is not recorded on the budget nor uses national systems means that there is no practical barrier to donors maintaining these practices.

Ex-post monitoring of Indicator 7 is not an easy task since most donor agencies do not provide information on disbursement flows. Since it was not possible to get clear information on aid flows per agency from governmental sources, cumulative totals were used for the calculation. *Therefore, no average donor ratio is available, but rather a baseline ratio, which in 2008 was 21.63%.*

²⁵ This figures include grants and loans

The disbursement ratio ranges from 15.7% to 106%. Spain /AECID disbursed more funds than planned (106%) while UK/DFID, Hungary, UNICEF, IOM and ILO disbursed all assistance scheduled for disbursement in 2008. Other donors/financial institutions disbursement ratios in 2008 were: Austria/ADC (98.66%); Sweden/SIDA (93.88%); Switzerland/ADC/SECO (57.52%); USA/USAID (77.2%); EC (77.14%); UNFPA (72.69%); WHO (83.40%); UNDP (81.74%); the World Bank (15.15%).

Indicator 8 – Untied aid

Indicator 8 global target for 2010: *To continue progress towards untying aid over time.*

Indicator 8 assesses the degree to which donors' aid is tied. Tied aid is aid provided on condition that the recipient country will use it to purchase goods and services from suppliers based in the donor country. (OECD 2008) However, donors' country or donors' development agencies policies have a strong influence on this indicator. Practice shows that this type of aid increases the costs of goods and services provided to partner countries as well as administrative costs for donors and aid recipient countries. In contrast, untying aid helps the development of partner country's own capacities for the provision of goods and services. Country figures for untying aid are based on voluntary self-reporting by donors that are members of the OECD Development Assistance Committee (OECD-DAC).

All aid provided to BiH in 2008 by Austria/ADC, UK/DFID, Spain/AECID, Hungary, and Switzerland/SDC/SECO was untied, while 97.2% of aid provided by Sweden/SIDA was untied. Aid from UNDP, UNICEF, IOM, WHO and the World Bank in 2008 was reported as tied aid within the definition of this indicator. EC assistance does not count towards the calculation of this indicator while other donors did not provide information. Other donors did not provide information on this indicator.

Total average untied aid captured by the questionnaire was 7.89% (see Table 4)

Table 4: The amount of aid in 2008 that was untied (%)

| Donor Agency | Aid disbursed by donors for governmental sector in 2008 (€ million) a | What was amount of aid in 2008 that was untied (€ million) b | % of untied aid in 2008 c= b/a |
|----------------------|--|---|--------------------------------------|
| Austria/ADC | 1.97 | 1.97 | 100% |
| Belgium | - | - | - |
| Canada/CIDA | - | - | - |
| France | - | - | - |
| Greece | - | - | - |
| Germany | | | |
| Hungary | 0.215 | 0,215 | 100% |
| Italy/IC | - | - | - |
| Japan/JICA | - | - | - |
| Korea | - | - | - |
| Kuwait | - | - | - |
| The Netherlands | - | - | - |
| Norway | - | - | - |
| Portugal | - | - | - |
| Saudi Arabia | - | - | - |
| Spain/AECID | 4.22 | 4.22 | 100% |
| Sweden/SIDA | 5.63 | 5.47 | 97.2% |
| Switzerland/SDC/SECO | 6.27 | 6.27 | 100% |
| UK/DFID | 3.35 | 3.35 | 100% |
| USA/USAID | 20.45 | - | - |
| Turkey | - | - | - |
| EC | 190.58 | 0 | 0% |
| UNFPA | 0.15 | 0.01 | 7% |
| UNHCR | - | - | - |
| UNICEF | 0.38 | 0 | 0% |
| IOM | 4.04 | 0 | 0% |
| ILO | 0.28 | - | - |
| WHO | 0.29 | 0 | 0% |
| UNDP | 17.92 | 0 | 0% |
| World Bank | 17 | 0 | 0% |
| IFAD | - | - | - |
| OSCE | - | - | - |
| Other donors | - | - | - |
| TOTAL | 272.78 | 21.52 | 7.89% |

HARMONISATION

Harmonisation of aid delivered to developing countries promotes the principle of coordination between donors' activities and reduces the transaction cost for donors as well as for recipient countries, while increasing the value added of aid. Improved harmonisation in terms of implementation of common arrangements and procedures help reduce duplication of effort and lower the steep transaction costs of managing aid. The Paris Declaration focuses on two dimensions of aid as a proxy for assessing overall harmonisation: the use of common arrangements within programme-based approaches (PBAs) (Indicator 9) and the level of joint donor missions and shared analysis (Indicators 10a and 10b respectively).

Indicator 9 – Using common arrangements or procedures

Indicator 9 global target for 2010: 66% of aid flows are provided in the context of programme-based approaches.

Indicator 9 assesses the extent to which donors disburse their funds through programme-based approach (PBAs). There are different modalities for the implementation of PBAs. The partner country is responsible for defining a clear country – owned programme (i.e. sectoral policy) and the establishment of a single budget framework that capture all resources (domestic and external). The Paris Declaration calls on donors to increase the use of PBAs, in order to encourage greater coordinated donor assistance in terms of common arrangements for planning, funding, disbursement, monitoring, evaluation and reporting (OECD 2005b). Donors and partner countries are jointly responsible for the establishment of formal processes for donor coordination and the harmonisation of donor procedures.

Indicator 9 is calculated by using total aid disbursed by donors in support of PBAs (by either direct budget support or other assistance) and total aid disbursed by donors.

Table 5: Percent of aid disbursed in support of initiatives adopting programme-based approaches (PBAs) in calendar year 2008

| Donor Agency | Programme-based approaches (PBAs) | | | Total aid disbursed (€ mill) d | % |
|----------------------|--|---|-------------------------------------|--------------------------------------|---------------|
| | Direct budget support provided in support of PBAs (€ mill) a | Other forms of assistance provided in support of PBAs (€ mill) b | Total for PBAs (€ mill) c=a+b | | |
| Austria/ADC | - | - | 0.27 | 1.97 | 13.68% |
| Belgium | - | - | - | - | - |
| Canada/CIDA | - | - | - | - | - |
| France | - | - | - | - | - |
| Greece | - | - | - | - | - |
| Germany | - | - | - | - | - |
| Hungary | 0 | 0 | 0 | 0.215 | 0% |
| Italy/IC | - | - | - | - | - |
| Japan/JICA | - | - | - | - | - |
| Korea | - | - | - | - | - |
| Kuwait | - | - | - | - | - |
| The Netherlands | - | - | - | - | - |
| Norway | - | - | - | - | - |
| Portugal | - | - | - | - | - |
| Saudi Arabia | - | - | - | - | - |
| Spain/AECID | 0 | 0 | 0 | 4.23 | 0% |
| Sweden/SIDA | 0.25 | 0 | 0.25 | 5.63 | 4.44% |
| Switzerland/SDC/SECO | 0.01 | 0 | 0.014 | 10.90 | 2.29% |
| UK/DFID | - | - | 0.55 | 3.35 | 16.40% |
| USA/USAID | 0 | 0 | 5.85 | 20.45 | 28.60% |
| Turkey | - | - | - | - | - |
| EC | - | - | - | - | - |
| UNFPA | - | - | - | - | - |
| UNHCR | - | - | - | - | - |
| UNICEF | - | - | 0 | 0.38 | 0% |
| IOM | - | - | 4.04 | 4.04 | 100% |
| ILO | - | - | - | 0.28 | - |
| WHO | 0 | 0 | 0 | 0.29 | 0% |
| UNDP | - | - | 0 | 17.92 | 0% |
| World Bank | - | - | 0 | 17 | 0% |
| IFAD | - | - | - | - | - |
| OSCE | - | - | - | - | - |
| Other donors | - | - | - | - | - |
| TOTAL | 0.264 | - | 10.97 | 39.92 | 13.78% |

In 2008 donors' assistance in support of PBAs ranged from 2.29% to 100%. Generally donors do not use PBAs, since this approach is rather underdeveloped in the country, and those who use it allocate a small amount of funds to support these initiatives. During 2008 only 13.78% of aid flows captured by the questionnaire used PBAs satisfying the full criteria.

According to donors responses among bilateral donors, PBAs were used by Sweden/SIDA for two of their programmes which were led by the government (Public Administration Reform and the State Court basket Fund), USA/USAID for their projects (ELMO and TARA and US Treasury); UK/DFID for one of their projects (Sub-national competitiveness project channeled via a WB/IFC Trust Fund used by other donors) and Switzerland/SDC/SECO for one project - DEP Support to the Country Development Strategy and Social Inclusion Strategy. Clearly the extent to which donors were able to use such approaches also depended on the extent to which the BiH Government supports and established such approaches.

Indicator 10 – Conducting joint missions and sharing analysis

Indicator 10 global targets for 2010: 40% of donor missions to the field are conducted jointly and that 66% of country analytical work is carried out jointly.

Indicator 10 assesses the degree to which donors coordinate their activities in the partner country. Enhanced donor cooperation will likely result in a decrease of duplicative missions to the field and analytical reviews, while at the same time reducing the associated costs for partner countries in respect of planning, implementing, monitoring and evaluating of donor related activities. The Paris Declaration recognises that donors have a responsibility to ensure that, to the greatest extent possible, the missions and analytical work they commission are undertaken jointly – *i.e.* that the burden of such work is shared.(OECD 2008).

Indicator 10 is divided into two separate measures: Indicator 10a assesses the percentage of joint donor missions in partner country; and Indicator 10b reports the percentage of joint analytical work at the country level – either with country partner authorities or amongst the donor community (or both).

Indicator 10a – Joint Missions

TABLE 6: Percentage of donor missions to the field undertaken in calendar year 2008

| Donor Agency | Number of missions coordinated with other donors a | Number of missions to BiH b | 2008 % c = a / b*100 |
|----------------------|--|-----------------------------------|----------------------------|
| Austria/ADC | 0 | 4 | 0% |
| Belgium | - | - | - |
| Canada/CIDA | - | - | - |
| France | - | - | - |
| Greece | - | - | - |
| Germany | - | - | - |
| Hungary | 0 | 2 | 0% |
| Italy/IC | - | - | - |
| Japan/JICA | 0 | 5 | 0% |
| Korea | - | - | - |
| Kuwait | - | - | - |
| The Netherlands | - | - | - |
| Norway | - | - | - |
| Portugal | - | - | - |
| Saudi Arabia | - | - | - |
| Spain/AECID | 0 | 0 | 0% |
| Sweden/SIDA | 1 | 5 | 20% |
| Switzerland/SDC/SECO | 0 | 7 | 0% |
| UK/DFID | 0 | 1 | 0% |
| USA/USAID | 1 | 10 | 10% |
| Turkey | - | - | - |
| EC | 0 | 6 | 0% |
| UNFPA | 0 | 1 | 0% |
| UNHCR | - | - | - |
| UNICEF | 0 | 1 | 0% |
| IOM | 0 | 1 | 0% |
| ILO | 1 | 6 | 16.67% |
| WHO | 0 | 1 | 0% |
| UNDP | 0 | 6 | 0% |
| World Bank | 6 | 28 | 21.43% |
| IFAD | - | - | - |
| OSCE | - | - | - |
| Other donors | - | - | - |
| TOTAL | 9 | 84 | 10.71% |

Indicator 10a assesses the percentage of joint donor missions in the partner country. The *total number of donor missions captured by the questionnaire in 2008 was 84 out of which 9 were coordinated with other donors making average ratio of 10.7%.*

According to the results derived from the donor questionnaire the World Bank conducted the largest number of missions to BiH (28) out of which 6 were coordinated with other donors. Sweden/SIDA conducted 5 missions out of which one was coordinated with another donor and ILO conducted 6 missions out of which one was coordinated with another donor. UNDP conducted 6 missions, WHO (1), IOM (1), Austria/ADC (5), EC (6), UNFPA (1), UK/DFID one (1), Hungary two (2), UNICEF one (1) and Switzerland/SDC/SECO (7) and none of these missions were joint.

Indicator 10b – Joint country analytic work

TABLE 7: Percentage of country reports/reviews/evaluations/assessments undertaken in calendar year 2008 which was coordinated

| Donor Agency | Number of these coordinated with other donors a | Number of reports/reviews/evaluations/assessments b | 2008 % c = a / b |
|----------------------|--|--|---------------------|
| Austria/ADC | 0 | 4 | 0% |
| Belgium | - | - | - |
| Canada/CIDA | | | |
| France | | | |
| Greece | - | - | - |
| Germany | | | |
| Hungary | 0 | 2 | 0% |
| Italy/IC | | | |
| Japan/JICA | 0 | 0 | 0% |
| Korea | - | - | - |
| Kuwait | - | - | - |
| The Netherlands | | | |
| Norway | | | |
| Spain/AECID | 0 | 0 | 0% |
| Sweden/SIDA | 0 | 6 | 0% |
| Switzerland/SDC/SECO | 0 | 5 | 0% |
| UK/DFID | 0 | 2 | 0% |
| USA/USAID | 0 | 3 | 0% |
| Turkey | - | - | - |
| EC | 1 | 10 | 10% |
| UNFPA | 0 | 1 | 0% |
| UNHCR | - | - | - |
| UNICEF | 0 | 15 | 0% |
| IOM | 0 | 17 | 0% |
| ILO | 0 | 3 | 0% |
| WHO | 0 | 6 | 0% |
| UNDP | 1 | 8 | 12.5% |
| World Bank | 2 | 5 | 40% |
| IFAD | - | - | - |
| OSCE | - | - | - |
| Other donors | - | - | - |
| TOTAL | 4 | 87 | 4.60 |

The total number of reports/ reviews/evaluations/assessments conducted by donors in 2008 was 87 out of which 4 were conducted with other donors, making an average ratio of 4.60%. UNDP conducted 8 analytical studies out of which 1 was coordinated with another donor; the World Bank conducted 5 analytical works out of which 2 were with other donors; the EC organised 10 analytical mission out of which one was carried out with other donor while none of 6 studies carried out

by Sweden/SIDA (6), nor 2 carried out by UK/DFID, (5) by Switzerland/SDC/SECO, (15) by UNICEF, (4) by Austria/ADC, (3) by USA/USAID, (17) by IOM, (3) by ILO, (6) by WHO and 2 carried out by Hungary were in collaboration with any other donor. Spain/AECID did not organise any analytical studies in BiH in 2008.

MANAGING FOR RESULTS

Managing for results (MfR) is the fourth principle of the Paris Declaration which calls on donors and aid recipient countries to make a joint commitment to “managing and implementing aid in a way that focuses on the desired results and uses information to improve decision making” (paragraph 43, Paris Declaration). It suggests using: (i) a comprehensive, vertically integrated monitoring and evaluation (M&E) system; (ii) data use in program adjustments, budget allocations as well as policy, (iii) data flow directed to decision makers at appropriate levels; and (iv) generating accurate data via statistical systems. Furthermore, it also includes strengthening capacity to undertake such management approaches as well as the adoption of a results-based monitoring framework. Overall the indicator measures the number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programmes.

Indicator 11- Do countries have a results-based monitoring framework?

Indicator 11 global target for 2010: to reduce by one-third the proportion of countries lacking transparent, results-based monitoring frameworks (i.e. reduce by one-third the number of countries not attaining at least a B rating).

Indicator 11 is assessing the quality of recipient country result-based monitoring frameworks. It uses data collected as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead*. The review focuses on three particular aspects of the results-based monitoring framework: the quality of the information generated; stakeholder access to the information; and the extent to which such information is utilised within a country-level monitoring and evaluation system. The assessments are expressed in scores running from A (high) to E (low), with B representing a “largely developed results-based monitoring framework.” (OECD 2008b).

According to the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead* from December 2007²⁶ BiH was rated with a C (score 2.6 – 3.5) meaning “that progress is being made, although not yet enough, and the basis exists for even more substantive progress”.

The MTDS was concluded in January 2008 since when work has begun on the new Country Development Strategy (2008-2013) and a Social inclusion Strategy. Neither of these strategies were finalised or approved in 2008 or 2009. However, as noted above, at the time of writing this report they have been completed in final draft form. Various initiatives are in the stage of planning for establishing a country-managed monitoring and evaluation system (M&E), particularly within the Directorate for Economic Planning (DEP) and in relation to the delivery of donor assistance by SCIA.

Quality of development data

The quality of statistical data in BiH needs strengthening, also in relation to poverty measurement. The last population census took a place in 1991 and the next census is planned to be conducted in 2011²⁷

A Survey – “*Living in BiH*”²⁸ which compiled socio-economic data of individuals and households for more than 3,000 households in urban and rural areas in both entities of BiH was carried out in 2002. It is based on the Living Standards Measurement Survey (LSMS) that was carried out in 2001 by the World Bank in cooperation with statistical institutions.

²⁶ <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:21790579~pagePK:41367~piPK:51533~theSitePK:40941,00.html>

²⁷ <http://www.swissbih.com/v1/index.php/vijesti/bosna-i-hercegovina/4770-popis-stanovnitva-2011-uz-pitanja-o-vjeri-i-naciji>

²⁸ “*Living in BiH*” is conducted by RS Agency for Statistics, FBiH Agency for Statistics and BiH Statistical Agency in cooperation with Birks Sinclair (BSAL), Independent Bureau for Humanitarian Issues (IBHI) and Institute for socio-economic research of the Essex University (ISER) with financial support from DFID.

The last follow-up survey was conducted in 2004, especially as a tool for monitoring the MTDS conducted by the Directorate for Economic Planning. The BiH Statistics Agency conducted a *Multiple Indicators Cluster Survey* which provided useful data on poverty and household welfare for 2006. The 2007 Bosnia and Herzegovina (BiH) *Household Budget Survey (HBS)* was implemented in partnership by the Agency for Statistics of Bosnia and Herzegovina (BHAS), the Federal Office of Statistics (FOS) and the Republika Srpska Institute for Statistics (RSIS). This HBS survey is the second of its kind held in BiH, the first being implemented in 2004. It contains the analysis of the 2007 HBS results, providing insight and analysis of socio-economic characteristics of households in BiH, labour market participation, housing conditions, the level and structure of household expenditure and poverty analysis as well as a chapter comparing the 2007 and 2004 HBS results. Micro-data files and a data warehouse containing aggregated data will be available on the Statistical Institutions' websites: www.bhas.ba, www.fzs.ba and www.rzs.rs.ba. A research project - *The Labour Force Survey* was carried out in April 2006, for the first time by Statistical institutions in Bosnia and Herzegovina (the Agency for Statistics of Bosnia and Herzegovina - BHAS, the Federal Institute of Statistics - FZS, and the Republic Institute of Statistics of the Republic of Srpska - RZSRS).²⁹

The HBS together with this *Labour Force Survey (LFS)*, which started in 2006 and is presently carried out annually, should provide the Statistical System of BiH with reliable and comparable information from the household side. The survey results should provide further incentive to the governments to invest resources and continuously support the implementation of annual and periodic surveys, in line with European standards.

MUTUAL ACCOUNTABILITY

Indicator 12 Mutual accountability

Indicator 12 global target for 2010: *All partner countries have mutual assessment reviews in place.*

The fifth principle of the Paris Declaration assesses whether the country has transparent and monitorable performance assessment frameworks in place for mutual assessment of progress on partnership commitments. Mutual assessments of progress are based on the Rome or Paris Declaration, or a local harmonisation and alignment plan. Currently, there is no developed mechanism on mutual accountability in Bosnia and Herzegovina, although this report may be regarded as the first step toward the establishment of one. The country plans to work with donors to establish and implement an Action Plan that covers both government and donor commitments and actions which will be evaluated each year and discussed and agreed between the government and donors. This will provide a starting point for mutual assessment and mutual accountability.

The study process uses the following criteria to determine whether mutual assessments of progress have been undertaken by both partner countries and donors: (i) *a broad-based dialogue* involving a broad range of country stakeholders (various government departments including line ministries, and relevant departments and donors (bilateral, multilateral and global initiatives) and possibly civil society; (ii) *country mechanisms for monitoring progress* (i.e. a formal process of measuring progress and following up the assessment on a regular basis), (iii) *country targets* (i.e. establishing a country targets for improvements and/or donors and governments may agree to add indicators relevant to the specific situation of the country), and (iv) *high-level support* (i.e. the assessment should be transparent, country-led and supported by a country's leadership, and being sufficiently well resourced. (OECD 2008).

²⁹ http://www.bhas.ba/ANKETE/hbs_07/hbs_07_000-en.pdf

BASELINES AND OECD TARGETS

THE TABLE BELOW presents the 2008 baseline survey summary for Bosnia and Herzegovina with the OECD Paris Declaration targets for 2010.

Table 8: Comparison of BiH Baseline Survey Results and OECD Targets

| Paris Declaration Principles | INDICATORS | | BiH | PARIS DECLARATION 2010 TARGET |
|------------------------------|------------|--|-------------------------------|--|
| | | | 2008 BASELINE | |
| OWNERSHIP | 1 | Operational development strategy | Not in place | At least 75% of partner countries have operational development strategies |
| ALIGNMENT | 2a | Reliable public financial management (PFM) systems | 3.5 (moderately strong) | Public financial management – Half of partner countries move up at least one measure (i.e., 0.5 points) on the PFM/ CPIA (Country Policy and Institutional Assessment) scale of performance |
| | 2b | Reliable procurement systems | No assessment available | Procurement – One-third of partner countries move up at least one measure (i.e., from D to C, C to B or B to A) on the Four-point scale used to assess performance for this indicator |
| | 3 | Aid flows are aligned on national priorities | No assessment possible | Halve the gap — halve the proportion of aid flows to government sector not reported on government's budget(s) with at least 85% reported on budget) |
| | 4 | Strengthen capacity by co-ordinated support | No national strategy in place | 50% of technical co-operation flows are implemented through coordinated programmes consistent with national development strategies |
| | 5a | Use of country PFM systems (aid flows) | 0.71% (very low) | 90% of donors use partner countries PFM systems and one third reduction in the % of aid to the public sector not using countries' PFM systems (Score 3,5-4,5) |
| | 5b | Use of country procurement systems (Aid flows) | 1.74% (very low) | 90% of donors use partners' countries procurement systems and one third reduction in the % of aid to the public sector not using partner countries' procurement systems. |
| | 6 | Strengthen capacity by avoiding parallel PIUs | 59 parallel PIUs (high) | Reduce by two-thirds the stock of parallel project implementation units (PIUs). |
| | 7 | Aid is more predictable | 21.63% (low) | Halve the gap — halve the proportion of aid not disbursed within the fiscal year for which it was scheduled |
| | 8 | Aid is untied | 7.89% (good) | Continued progress over time. |
| HARMONISATION | 9 | Use of common arrangements or procedures | 13.78% (low) | 66% of aid flows are provided in the context of programme based approaches |
| | 10a | Joint missions | 10.71% (low) | 40% of donor missions to the field are joint |
| | 10b | Joint country analytical work | 4.60% (very low) | 66% of country analytic work is joint |
| MANAGING FOR RESULTS | 11 | Results based monitoring framework | Not currently in place | Reduce the gap by one-third — Reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third |
| MUTUAL ACCOUNTABILITY | 12 | Mutual accountability | Baseline survey is first step | All partner countries have mutual assessment reviews in place |

CONCLUSIONS

The baseline survey shows that a great deal of effort is required from BiH institutions and donors alike to ensure greater adherence to the application of Paris Declaration principles in the country.

Donors are adhering to very few of the Paris Declaration principles in Bosnia and Herzegovina. The high volume of donor assistance delivered in the country since 1995 has had a profound impact on development. However, the survey suggests that the majority of this assistance continues to be delivered in a manner which is not country-owned, is not aligned with country systems, is not particularly harmonised between donors, nor is effectively monitored.

In the area of **ownership**, the country development strategy is in the adoption phase, therefore, an analytical assessment of this principle is not possible. It is also noticeable that many sectors also lack country-wide or entity strategies.

Bosnia and Herzegovina shows positive signs regarding the quality of public financial management systems and improvements in procurement policy, both of which are required to improve conditions for greater **alignment** of external assistance. However, donors exhibit very little tendency to make use of these systems, preferring to use their own financial management and procurement systems in the vast majority of cases. There is also a proliferation of the use of parallel project implementation units.

Whilst it is known from the Donor Mapping Report that some donors do work together on joint projects or pooled funding mechanisms, this continues to be the exception rather than the rule. The survey shows that the main indicators of **harmonisation** remain low, in that very few donor missions or analytical work is conducted jointly and that the use of programme based approaches is in its infancy.

BiH does not yet have an established and comprehensive results-based monitoring framework, although there are plans to put one in place as part of the implementation arrangements of the Country Development Strategy. Consequently it is not possible to report positively at the current time on the principle of **managing for results**. Generally, donors rely on their own monitoring and evaluation procedures in the absence of a country-led framework.

Finally, this survey itself may be regarded as the first step in moving towards **mutual accountability** between donors and BiH institutions in the application of Paris Declaration principles. As such, the baseline assessment cannot be positive on this issue, but future reports should point to improvements in this area.

The purpose of the baseline survey is not to identify or attribute blame for the current state of affairs, but to identify what needs to change in order to move closer to respecting Paris Declaration principles in the country, and thus a better and more efficient use of aid. It is important to emphasize that the Country Development Strategy and Social Inclusion Strategy were prepared and sent to the BiH Council of Ministers and are expected to be adopted shortly. Donors and BiH institutions alike should consider how they can acknowledge improvements in all areas and make greater use of country systems for the delivery of external assistance.

Donors may argue that they have continued to pursue practices which are not in accordance with Paris Declaration principles in the absence of guidelines or instructions from BiH institutions to do otherwise. The Ministry of Finance and Treasury/Sector for Coordination of International Aid and donors will continue to work to address these issues, with the intention of completely achieving the objectives defined by the principles of the Paris Declaration.