



BOSNIA AND HERZEGOVINA
MINISTRY OF FINANCE AND TREASURY

**Report on progress on Adherence to the Principles of
the Paris Declaration on Aid Effectiveness
in Bosnia and Herzegovina – 2012**

Sarajevo, March 2014

Table of Contents:

INTRODUCTION	4
PARIS DECLARATION ON AID EFFECTIVENESS.....	5
SURVEY METHODOLOGY	6
PARIS DECLARATION PRINCIPLES.....	7
I. OWNERSHIP	7
Indicator 1 – Operational Development Strategy.....	7
II. ALIGNMENT	7
Indicator 2a - Reliable public financial management systems.....	8
Indicator 2b - Reliable country procurement systems.....	11
Indicator 3– Aid flows are aligned on national priorities.....	12
Indicator 4 – Strengthening of capacities for coordinated support	13
Indicator 5 - Using country systems.....	14
Indicator 5a – Use of partner country PFM system (aid flow).....	14
Indicator 5b – Use of partner country public procurement system (aid flow).....	15
Indicator 6 – Avoiding parallel structures for project implementation	15
Indicator 7 – Aid is more predictable.....	16
Indicator 8 – Untied aid	16
III. HARMONIZATION	17
Indicator 9 – Using common arrangements or procedures.....	18
Indicator 10 – Conducting joint missions and sharing analyses	18
Indicator 10a – Joint missions	19
Indicator 10b – Joint country analytic work.....	19
IV. MANAGING FOR RESULTS.....	19
Indicator 11- Results-based monitoring framework.....	20
V. MUTUAL ACCOUNTABILITY.....	21
Indicator 12 - Mutual accountability.....	21
CONCLUSIONS.....	24

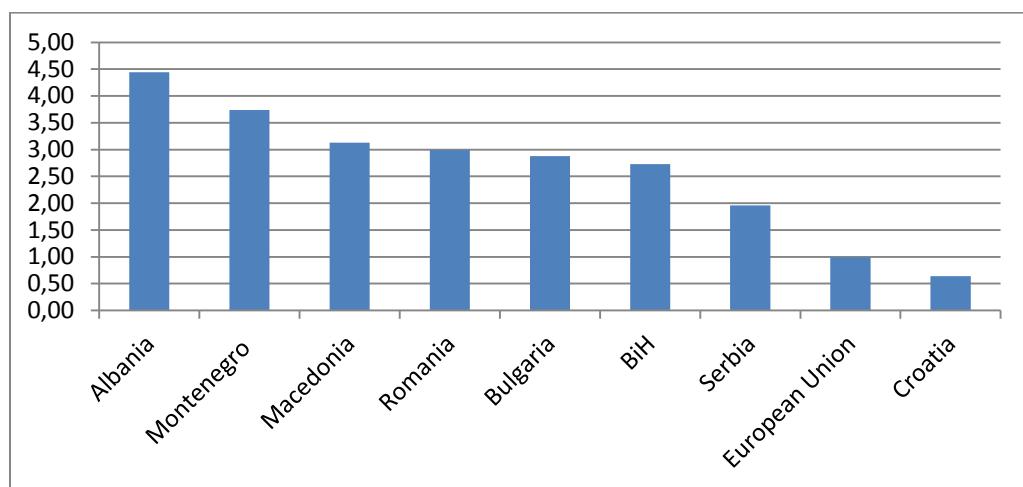
List of Acronyms

GDP	Gross Domestic Product
BiH	Bosnia and Herzegovina
BFP	Budget Framework Papers
BPMIS	Budget Budget Planning and Management Information System
CHU	Central Harmonization Unit of BiH Ministry of Finance and Treasury
CPIA	The World Bank- Country Policy and Institutional Analysis
DCF	Donor Coordination Forum
DEP	Directorate for Economic Planning
DEI	Directorate for European Integration
DMD	Donor Mapping Database
DMR	Donor Mapping Report
EBRD	European Bank for Reconstruction and Development
EU	European Union
FBIH	Federation of Bosnia and Herzegovina
FMC	Financial Management and Control
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IPA	Instrument for Pre Accession Assistance
IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau
KM	Konvertible Mark
MFT	BiH Ministry of Finance and Treasury
MoFTER	Ministry of Foreign Trade and Economic Relations
ODA	Official Development Assistance
OECD-DAC	Organization for Economic Cooperation and Development- Development Assistance Committee
OMA	Office for Macroeconomic Analysis of the Governing Board of the Indirect Taxation Authority
PARCO	Public Administration Reform Coordinator's Office
PBA	Programme Based Approach
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PIMIS	Public Investment Management Information System and Donor Mapping Database
PIU	Project Implementation Unit
PIP	Public Investment Programme
RS	Republika Srpska
SCIA	Sector for Coordination of International Economic Aid
TA	Technical Assistance
UNCT BiH	United Nations Country Team in BiH
UNDP	United Nations Development Programme
USA/USAID	United States of America / United States Agency for International Development

INTRODUCTION

Bosnia and Herzegovina is the upper middle-income country, with population of 3,839,737 inhabitants¹ according to the official estimates and KM 6,709 GDP per capita² in 2012, and respectively total GDP of KM 25,734 million³. In the previous decade, BiH was characterized by macroeconomic trends, typical for other countries in the South East Europe region. With the achieved average of the real GDP growth rate of 2.73% in the period 2005 - 2012, Bosnia and Herzegovina is lagging behind Albania (4.44%), Montenegro (3.74%), Macedonia (3.13 %) as well as Romania (2.99%) and Bulgaria (2.88%), but still had the higher growth rate then Serbia (1.96%) and Croatia (0.64%) as well as the average growth rate achieved in the European Union (0.99%), as shown in *Figure 1*.

Figure 1. Average GDP growth in the SE Europe region countries in the period from 2005 to 2012



Source: Database of The World Bank's development indicators⁴

As indicated by all macroeconomic indicators, 2009 was the year of the strongest impact of crisis in the European Union and the entire South East Europe, which has been struggling since then with a slow recovery and increase of unemployment. Similar situation is also taking place in Bosnia and Herzegovina, where the initial positive economic trends recorded at the end of 2011 and at the beginning of 2012, were abruptly stopped during the 2012, when due to the impact of the global economic and financial crisis, the stagnation and slowdown as well as the decreased economic activity has taken place in the European Union and the neighbouring countries. The decline in industrial production and generation of electricity, impaired domestic consumption, rather low level of investment (particularly in the private sector) as well as the delay in implementation of EU Integration reforms, additionally contributed to the further decline in economic activities and the stagnation of the economy in Bosnia and Herzegovina.

To overcome the negative macroeconomic trends, caused by the external and internal factors as well as decreasing of grant resources within the Official Development Assistance (ODA), it will be necessary to continue activities focused on further Aid efficiency and effectiveness improvement, as well as ODA transparency and monitoring. The Report on the progress of adherence to the principles of the Paris Declaration on Aid Effectiveness in Bosnia and Herzegovina for the 2012 was prepared in line with the above mentioned.

¹ „Demography 2012“, thematic bulletin of the Agency for Statistics of BiH, Sarajevo, 2013, pg. 4.

² „GDP for BiH 2012 – Production approach“, announcement of the Agency for Statistics of BiH, 16.12.2013., pg. 1

³ *Ibid*, pg.1.

⁴ <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

PARIS DECLARATION ON AID EFFECTIVENESS

The first formal coordination of the Official Development Assistance (ODA), dates to the establishment of the Organization for Economic Cooperation and Development - Directorate for Development Cooperation (OECD - DAC) in 1960, a forum created for the largest bilateral donors where they could discuss matters related to the Aid efficiency and develop the guidelines related to further improvement of Aid and development activities. In order to improve the provision of multilateral aid, the United Nations Development Programme (UNDP) was established in 1965, through consolidation of the existing UN offices, with the aim to overcome the duplication of activities implemented within the UN development programmes.

The initial coordination efforts were focused to monitoring the volume of the ODA, both bilateral and multilateral, and the countries to which it was directed. However, the practice has shown that this has not been enough. Accordingly, in the last decade the attention was mainly focused to the Aid effectiveness, through improved coordination between donors and partner countries, aid recipients.

The key event at the global level related to the effectiveness of international aid took place in March 2005, when over 100 representatives of donor and developing countries (partner countries), endorsed the Paris Declaration on Aid Effectiveness. They agreed to focus their efforts on improvement of effectiveness of development assistance directed to the realization of the global development goals.

The Paris Declaration focuses on improvement of aid quality and its impact to the partner country development through the application of the five Declaration's key principles, *Ownership, Alignment, Harmonization, Managing for results and Mutual accountability*.

In order to monitor and measure the progress in the implementation of the principles of the Paris Declaration on Aid Effectiveness, 12 indicators are defined and 56 commitments originating from them.

OECD is responsible for monitoring of the implementation of the Paris Declaration principles at the global level, while each partner country accepted the obligation to regularly monitor its own progress in that area. In accordance with the mentioned, to date OECD conducted three global surveys (in 2006, 2008 and 2011)⁵.

Bosnia and Herzegovina has officially endorsed the Paris Declaration on Aid Effectiveness in 2010, accepting the obligation to undertake the activities on improvement of development aid effectiveness as well as regular monitoring of the progress achieved in this domain.

In the same year, in order to assess the initial status, Ministry of Finance and Treasury had conducted the first survey on adherence to the Paris Declaration principles in Bosnia and Herzegovina (baseline year 2008).

Council of Ministers of BiH was informed about the *Annual report on Baseline survey of the Paris Declaration on Aid Effectiveness in Bosnia and Herzegovina for 2008*, on the 144th session that was held on February 24th 2011.

In 2011, Bosnia and Herzegovina also participated in OECD Global monitoring on implementation of the Paris Declaration principles, in order to monitor the progress achieved in 2010. The results of the monitoring were published in the Report „*Effectiveness of Aid 2005-2010: Progress in implementation of the Paris Declaration- Chapter for Bosnia and Herzegovina*“. Council of Ministers of BiH was informed about this Report on the 6th session held on May 3rd, 2012.

⁵ Findings of the global surveys can be found at the following link:
<http://www.oecd.org/dac/effectiveness/2011surveyonmonitoringtheparisdeclaration.htm>

At the end of 2012, Ministry of Finance and Treasury of BiH, in cooperation with representatives of competent institutions and members of Donor Coordination Forum (DCF), conducted the second survey on adherence to the principles of Paris Declaration on Aid Effectiveness in BiH for 2011. The findings of this survey were published by the Ministry in the „*Report on progress in implementation of the principles of the Paris Declaration on Aid Effectiveness in BiH, 2011*“. Council of Ministers of BiH was informed about this Report on the 43rd session held on March 26th, 2013⁶.

SURVEY METHODOLOGY

Data collected from BiH Institutions at all levels of governance and from donors, members of the Donor Coordination Forum (DCF) as well as from publicly available relevant documents, were used in the preparation of the Report.

The questionnaire, based on OECD methodology, was distributed to nine BiH Institutions at the state and entity level as well as to twenty one donor agencies, international organizations and financial institutions, members of the DCF.

Based on the provided responses to the questionnaires, it could be asserted that seven BiH Institutions as well as thirteen donors, members of DCF and IFAD⁷ (in further text donors) took part in the survey, which represents high level of participation in the survey both by representatives from domestic institutions and donors and indicates better understanding of the importance of the Paris Declaration on Aid Effectiveness in Bosnia and Herzegovina.

Ministry of Finance and Treasury would like to thank to the representatives of Institutions of Bosnia and Herzegovina at all levels of governance and to the Donor Coordination Forum members that actively participated in the survey and thereby enabled the preparation of this Report.

⁶ All mentioned documents can be found at the official web site of the Ministry of Finance and Treasury BiH, at the link: http://www.mft.gov.ba/hrv/index.php?option=com_content&view=article&id=394&Itemid=163

⁷ In the procedure of accession to the DCF membership.

PARIS DECLARATION PRINCIPLES

I. OWNERSHIP

Indicator 1 – Operational Development Strategy

Indicator 1 global target At least 75% partner countries have operational development strategies

Ownership is the first and central principle of the Paris Declaration which assesses the ability of partner country to take the leadership in designing, developing and efficient implementation of its policies and strategies, while donors are expected to support these efforts through supporting partner country capacities for implementation of its development policies and strategies.

The success in implementation of the *ownership* principle is measured through *Indicator 1*, which assesses the operational value of partner country development strategies, based on the World Bank's review of *Results-Based National Development Strategies: Assessments and Challenges Ahead*.

Operational value of national development strategies and policies is assessed against the three criteria: (i) existence of a unified strategic framework, (ii) prioritization within the framework and (iii) strategic link to the budget⁸. The World Bank rates national development strategies against the operative value on a five point scale running from A (very strong) to E (very weak).

Considering that Development Strategy of BiH has not been adopted, Bosnia and Herzegovina has not achieved the progress in implementation of the *Indicator 1 - operative development strategy*, whose rating remains „D“, as in the previous Report on the progress in adherence to the principles of the Paris Declaration for 2011.

However, in the previous period BiH has started a wide range of activities on taking the leadership in the process of its development, as well as in defining own priorities and channelling aid towards its implementation, in the aim of achieving the sustainable socio-economic development. In the absence of a single strategic framework, prioritization in BiH is based on the entity and sectoral strategies or other strategic plans at all levels of governance. Linking the public finance resources, from both domestic and foreign sources, with the strategic plans and priorities will enable better medium-term budget planning and reporting as well as evaluation of budget execution in BiH.

The quality of project proposals remains one of the key conditions necessary for the establishment of an efficient planning system and for optimal allocation of development resources. The system of well-prepared and properly prioritized projects, harmonized with the strategies at the sectoral, entity as well as development strategies at all levels of BiH governance, will increase BiH capacity for absorption of development funds from both domestic and foreign sources, including the EU pre-accession funds.

II. ALIGNMENT

As a second principle of the Paris Declaration, **alignment** is directly linked to the capability of partner country to establish the reliable financial management systems and procedures. In that context, donors are encouraged to systematically strengthen and to use the existing financial systems of

⁸<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:22284087~pagePK:41367~piPK:51533~theSitePK:40941,00.html>

partner countries and to support the partner countries in further strengthening of these systems, so they would be able to achieve the international standards.

The alignment principle is assessed on the basis of several *indicators (from 2 to 8)*, through alignment of ODA assistance in the public financial system, public procurement, internal auditing, statistical and evaluation systems, use of programme based-approach in budgeting (PBA) and untied aid.

The Paris Declaration has defined two components as the basis for the assessment of *Indicator 2*, where *Indicator 2a* refers to the establishing and use of reliable public financial management systems, and *Indicator 2b* refers to the establishing and the use of reliable public procurement systems.

Indicator 2a - Reliable public financial management systems

Indicator 2a global target: *Half of the partner countries progressed for at least one rating level (i.e. 0.5 points) on the PFM/CPIA scale of performance (Country Policy and Institutional Analysis)*

Indicator 2a assessment is based on the scores from The World Bank's *Country Policy and Institutional Analysis Report (CPIA)*⁹, which evaluates the quality of PFM systems for all IDA countries. CPIA is a diagnostic tool designed to assess the quality of a particular country's policies and institutional framework for implementation of these policies. It numerically shows the extent of their support to the sustainable growth and poverty reduction, which in turn provides information on effectiveness of the use of development assistance.

Except for the overall score, the CPIA provide scores for each of 16 criteria, among which is the criterion for assessment of the quality of public financial management (PFM)¹⁰ which is the basis for progress measurement. The score scale is running from 1 (very weak) to 6 (very strong) with the possibility of half-point increments for the achieved result in the monitored country.

For high score for its public financial management system, partner country needs to meet the following conditions: (i) to have comprehensive and reliable budget linked to policy priorities; (ii) effective financial management systems to ensure that the budget is implemented as intended in controlled and predictable way and (iii) accounting and financial reporting, including drafting and auditing of public accounts.

The World Bank evaluated *Indicator 2a - Reliable public financial management systems* in Bosnia and Herzegovina with 3.5 score, which is above the average (3.3) achieved by all IDA countries in 2012.

In Bosnia and Herzegovina progress was achieved through the established legislative framework which defines the public financial management, based on the medium-term planning. The laws which regulate the public financial management are mutually harmonized at all levels of governance in BiH.

Fiscal Council of BiH was established by the Law on the Fiscal Council of BiH¹¹, with the aim to coordinate the fiscal policy in BiH, in order to ensure the macroeconomic stability and fiscal sustainability of Bosnia and Herzegovina, Federation of BiH, Republika Srpska and Brcko District.

⁹The 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*.

¹⁰Based on the results of the criteria 13 in the CPIA report.

¹¹ „Official Gazette of BiH“, no. 63/08

Public financial management of Bosnia and Herzegovina Institutions is regulated by the Law on Financing of BiH Institutions, the Law on the Budget of BiH Institutions and International Obligations of BiH, which is adopted each year for the following fiscal year.

In the Federation of BiH, the public financial management framework is defined by the Law on Budgets in the FBiH and the Law on Internal Audit in the FBiH. For each fiscal year, FBiH adopts the Law on Execution of the Budget of the FBiH, which regulates the way of the budget execution.

In Republika Srpska, the public financial management framework is defined by the Law on the Budget System of RS, the Law on Treasury and the Law on Execution of the Budget of RS, which is adopted simultaneously with the budget for each fiscal year and regulates the way of budget execution. Also, mentioned area is partially regulated by the Law on Borrowing, Debt and Guarantees of RS, the Law on Investment of Public Resources and the Law on Establishing and way of Settlement of Internal Debt.

In Brcko District, the public financial management framework is defined by the Law on the Budget, the Law on Treasury and the Law on Execution of Budget, which is passed for each fiscal year.

The Reform of public financial management at all levels of governance in Bosnia and Herzegovina, which has been implemented since 2005, resulted in realization of the following goals:

- Since 2005, “Budget planning process in 10 steps” has been implemented at all levels of governance in Bosnia and Herzegovina;
- In order to define long-term priorities and improve the budget planning, Institutions of BiH, Federation of BiH, Republika Srpska and Brcko District are preparing the Budget Framework Papers (BFPs), which is particularly important in the context of introduction of programme budgeting;
- Public Investment Program (PIP) is prepared at all levels of governance in BiH, with the goal to create the prerequisites for gradual introduction of the system for medium-term investments financial planning based on the strategic development plans, which enables establishing the criteria for decision-making on future projects as well as development funds allocation to the public investment projects. Since 2009, PIP had been prepared in the same technology and the same information system at all levels of governance in BiH, but since 2012, it has been prepared in the format of a development document. The calendar for preparation of the PIP is adjusted with the calendar for budget preparation;
- Allocated budget resources are better linked with priority economic, social and development policies at all levels of governance in Bosnia and Herzegovina, through introduction and implementation of programme based budgets;
- Budget Planning and Management Information System (BPMIS) is the software development project for budget preparation, based on the centralized databases, which will be located in the ministries of finance, and will enable the network access to all entity and state budget users for budget preparation. BPMIS will facilitate drafting process of the Budget Framework Papers (BFPs), as well as determining of expenditure ceilings of budget users. BPMIS should be operational at the beginning of 2013;
- Public Investment Management Information System and Donor Mapping Database (PIMIS) is the project for development of software for:
 - a) Public Investment Program preparation based on the centralized databases located within the ministries of finance, enabling to all entity and state budgetary users the network access for the preparation and monitoring of the public investment programs and capital budgets, as well as for
 - b) Donor Mapping Database (DMD) which enables the direct network access and data entry to donors, DCF members, and in that way facilitates monitoring and better donor coordination activities, transparency of mobilisation and allocation of development Aid as well as the preparation of annual

reports on activities within development cooperation in BiH. PIMIS is linking the system for public investment and the system for DMD in a single system. Both systems share the same Interface, with the possibility to select the entry in Public Investment Management system or Donor Mapping Database system. PIMIS should be operational in the first half of 2013;

Although the budget of BiH Institutions is still adopted according to the economic classification of expenditures, in 2012 progress was made in the area of budgeting, based on the specific programs (program classification). Since then, along with the budget Drafts, requests of users (which also include the performance measures) are submitted in a program format as an integral part of the budget explanation.

The development and strengthening of Public Financial Control (PIFC) systems and procedures is a key element of Public finance reform in BiH, where Central Harmonisation Unit in the Ministry of Finance and Treasury (CHU) is responsible for coordination and harmonization of the Financial Management and Control (FMC) system within BiH Institutions. Through amendments on the Law on Financing of Institutions of BiH, from 2012, FMC was introduced in BiH Institutions which respectively improved financial management and decision-making with the aim of achieving organizational as well as the general goals such as:

- a) performing activities in an orderly, ethical, economical, efficient and effective manner;
- b) harmonization of business activities with the regulations, plans, contracts, policies and procedures;
- c) property and other resources protection from losses caused by mismanagement, unjustified spending and utilisation as well as the protection from irregularities, abuse and fraud;
- d) reliable and timely financial reporting and monitoring of business results.

In Republika Srpska, significant progress was achieved in 2012, in the public financial management and control, through the introduction of the Single Treasury Account system and the Treasury General Ledger system, meaning that all budgetary users in RS as well as budgetary users in cities and municipalities (63 local communities) are now included in the treasury operation system. Single Treasury Account system includes: public revenue accounts, investment accounts, transaction accounts and accounts for specific purposes, which facilitates comprehensive control of public funds management. The introduction of Single Treasury Account system implies closing of bank accounts of all individual budgetary users in RS as well as local treasures under the financial services control of city, municipalities or funds, enabling that all financial transactions of budget users are conducted through one or several bank accounts under the control of the Ministry of Finance of Republika Srpska.

According to the responses from survey participants from Republika Srpska, results achieved through the Treasury Operations System introduction are the following:

- harmonized accounting basis and policies;
- systematic accounting registration and budget execution control;
- clear distinction of competencies and responsibilities among budgetary users and more realistic expenditure planning;
- faster and more efficient periodic and annual financial reporting.

The quality of public financial management is still improved Bosnia and Herzegovina through implementation of various programs, in order to establish the systems that would guarantee fiscal discipline, strategic prioritization of costs, operational efficiency in the use of resources and fiscal transparency. In the context of EU Integration, sound public financial management is an important driving engine for increased absorption capacity of BiH for IPA funds. The programs supported by TA, are focused on strategic planning, budgeting, financial control and public investment improvement. To maximize the effects of these projects in synergy with the public administration reform, establishment of good cooperation and coordination mechanism involving all participants in this process, is of exceptional importance.

The future activities should be focused to developing of strategic planning methodologies and strategic plans preparation for various levels of governance; increasing efficiency of budget funds, loans and donor aid allocation, including the EU funds for development priorities; improving budget execution, improving transparency and accountability in public spending; positioning public investment management in the context of financial management of development strategies, programs and projects and further improvement of public financial management, in order to increase the absorption capacity of BiH for EU and other development resources.

The project proposals quality is one of the key issues for establishing of an efficient planning system and for optimal resources allocation. Establishing of a system of well-prepared and properly prioritized projects, adjusted with the sector, entity and development strategies from all levels of governance in BiH, represents an important aspect for increasing of BiH absorption capacity for development Aid, from domestic and foreign sources, including the pre-accession EU funds.

Indicator 2b - Reliable country procurement systems

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

Increasing the efficiency and transparency of public procurement systems is a constant challenge both for partner countries and donors. All participants agree that the main prerequisites for permanent increase in public funds efficiency, including ODA funds, is existence of distinctive and adequate public procurement system framework within partner countries, which is harmonized with the international standards regulating that area.

The quality of partner country's procurement system is assessed through *the Procurement's Methodology for Assessment of National Procurement Systems*, jointly developed by The World Bank and the OECD. Mentioned methodology implies self-assessment of the public procurement system quality at the level of the partner country. The results of the public procurement systems assessment are expressed as grades on a scale running from D (the lowest) to A (the highest) score.

The assessment for Indicator - Reliable country procurement systems cannot be performed for 2012, considering that detailed official assessment of the quality of legislation, institutions and public procurement practices in Bosnia and Herzegovina has not been conducted.

However, certain progress was achieved in this area in BiH. Public procurement regulatory framework is defined by the Law on Public Procurement of BiH and adequate by-law acts, which are applied in the entire territory of BiH. This Law defines the public procurement system in BiH, rights, duties and responsibilities of participants in procurement procedures as well as the institutions competent for monitoring of application of public procurement regulation implementation, in order to respect the principles of equal treatment, non-discrimination and transparency.

However, current Law on Public Procurement in BiH is not fully harmonized with the existing EU directives 2004/17, 2004/18 and 2007/66, and in its previous practical application, analysis and reports, it was noticed that the process should be initiated for amendments and changes of the existing legal solution.

In line with this, Public Procurement Agency has initiated activities on establishing of the new legislation framework, harmonized with European practices and legislation¹². Mentioned amendments

¹²<http://www.javnenabavke.ba/index.php?id=03vij&vij=43&jezik=en>

will ensure the application of the EU rules and requirements and secure the free flow of goods, people and capital in order to enable continuity in achievement of open market principles in BiH. The new proposal introduces clearly defined accountability of all participants in the public procurement process, improves the mechanism for prevention of public procurement abuse, reduces participation costs, reduces bureaucratic requirements and establishes modern flexible public procurement techniques and procedures.

Public Procurement Agency has also established the system for tracking of contractors, with regard to application of the Law on Public Procurement - monitoring of public procurement procedures and upgraded the public procurement portal with the Information system for publication of notifications on public procurement procedures (*Go-Procure* system for electronic publication of public procurement notifications), aiming to develop the electronic communications in public procurement¹³. The new IT system - *Register of contractors and bidders* was developed within the *Go-Procure* system.

All activities were initiated in accordance with the Development Strategy of the Public Procurement Systems in BiH 2010-2015, with the accompanying Action plan, that were adopted by the Council of Ministers of BiH in August 2010¹⁴.

Indicator 3– Aid flows are aligned on national priorities

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

Indicator 3 measures how realistic are the partner country budget and whether the budget estimates of aid flows are aligned with the actual disbursements of donors. This *Indicator* is a combined measure of two components: (I) the degree to which donors report aid flows in timely fashion and in the adequate form report to partner countries and (II) the degree to which partner countries accurately record aid.

Comprehensive and transparent reporting on received aid and its utilisation, provides better insight in donor activities in the partner country, it controls whether the resources are directed to projects/programmes harmonized with the partner country priorities and whether the provided aid is implemented responsibly and with results.

As in the previous years, the Reporting system on aid flows, which should be reported within all budgets in Bosnia and Herzegovina, is still not on the satisfactory level, that could be measured according to the OECD methodology, since the majority of donor programs and projects in implementation were not reported in the budgets, while those which are registered, are represented aggregate and not by individual donor.

According to the above mentioned the assessment for *Indicator 3 – Aid flows are aligned on national priorities* in Bosnia and Herzegovina for 2012, could not be performed.

However, it is important to point out that the activities are underway in the Ministry of Finance and Treasury on further improvement of this area, which should improve the quality of public investment management and efficiency of both domestic and international development resources. The new information system for public investments management and donor mapping activities is developed in the Sector for Coordination of International Economic Aid (SCIA), where the system for supporting the public investment program and the system for donor mapping activities are connected in a single

¹³ https://gopro cure.javn enabavke.gov.ba/gopro cure_PROD/portal/default.aspx

¹⁴ <http://www.javn enabavke.ba/index.php?id=03vij&vij=25&jezik=en>

information system - PIMIS. PIMIS interface is common for both systems. PIMIS users are the Ministry of Finance and Treasury of BiH, Federal Ministry of Finance, Ministry of Finance of Republika Srpska, Finance Directorate of Brcko District of BiH as well as donors, members of the Donor Coordination Forum (DCF).

PIMIS will enable the single access to comprehensive information on all projects/programs, regardless of the source of financing (domestic or foreign) and the status (nominated, in implementation, completed and cancelled); linking of public investment projects with the strategic documents and sources of financing and monitoring of strategic documents implementation; improvement of donor activities coordination and analysis of donor support efficiency; transparency of ODA investments. With an overview of project activities, PIMIS will also reduce the possibility of duplication or overlapping of activities, thus improving the efficiency of development Aid in BiH.

Indicator 4 – Strengthening of capacities for coordinated support

Indicator 4 global target: *50% of aid flows for technical cooperation is implemented through coordinated programmes that are consistent with national development strategies.*

Strengthening the capacity of partner countries is crucial for their stable and sustainable development, considering that developed and strong capacities contribute to the sustainable and balanced socio - economic development of the partner country. Technical cooperation (e.g. *technical assistance*) represents the provision of extensive know-how from donor countries through the exchange of knowledge and personnel, training, conducting and financing research in partner countries.

Indicator 4 assesses the degree of coordinated donor technical cooperation in the partner country, considering that Paris Declaration suggests to donors to use the capacities of partner countries through coordinated programmes consistent with development strategies, and in that way to assist their development.

The assessment for Indicator 4 - Strengthening of capacities for coordinated support in Bosnia and Herzegovina for 2012, could not be performed.

However, it is important to emphasize that donors / creditors who participated in this survey, reported that, in the absence of development strategy at BiH level, they aligned their development Aid mostly with priorities defined in the current sectoral strategies at the state or entity level, where significant percentage of such Aid was focused to the capacity building and strengthening of institutions at all levels of governance in BiH.

The analysis of collected data showed that some donors i.e. Switzerland, GIZ and Hungary, reported that their entire Aid in 2012 was provided as TA and focused on capacity building of institutions at all levels of governance in BiH, while The World Bank, KfW and IFAD reported that in this period they did not provide any form of TA.

It could be concluded that donors have continued focusing their engagement to institutional capacity building in BiH, whereby in the forthcoming period their activities should be focused on establishing of the monitoring and evaluation framework of effects achieved in the capacity building of institutions at all levels of governance in BiH. Also, it will be necessary to intensify activities on better coordination with and among donors during defining of the new project proposals in the area of development cooperation.

Indicator 5 - Using country systems

Indicator 5 global target:

5a) 90% of donors use partner countries' PFM systems and one third reduction in the % of aid to the public sector not using partner countries' PFM systems (Score 3.5-4.5);

5b) 90% of donors use partners' countries public procurement systems and one third reduction in the % of aid to the public sector not using partner countries' public procurement systems.

In accordance with Paris Declaration recommendations for implementation of the **alignment** principle, donors should assist in strengthening of partner countries financial systems by using them, if the partner country guarantees that the provided assistance will be used for agreed purposes. On the other hand, the partner countries should regularly perform reliable assessments of their financial systems, procedures and institutions responsible for their implementation and on the basis of such assessments, work on improving the efficiency, accountability and transparency thereof. Therefore, it is very important to carry out regular systematic reviews and analysis, based on which reliable data could be provided to the domestic institutions and donors in partner countries, on the status and use of financial systems as well as possible suggestions for their improvement.

Such targeted use of partner country financial systems, increases the efficiency of provided Aid, strengthens the capacities of institutions for achievement of sustainable socio-economic development and enables implementation of reforms and accountability for implementation of development policies.

Paris Declaration defined the two components which serve as the basis for the assessment of *Indicator 5*: *Indicator 5a* which calculates the percentage of aid that uses partner country PFM systems against total aid disbursed to the public sector and *Indicator 5b* assesses the percentage of aid flows that use recipient country public procurement systems in comparison with the total aid disbursed to the public sector.

Indicator 5a – Use of partner country PFM system (aid flow)

The assessment on the use of PFM systems is performed through the analysis of four criteria: (I) use of budget treasury system, II) use of budget financial reporting, (III) use of national audit systems and (IV) using all three systems together.

Out of 14 donors who participated in the survey on adherence to the principles of the Paris Declaration on Aid Effectiveness in BiH, only 5 DCF members, reported that they used certain or all elements of domestic public financial management systems in 2012, which is much lower than the global target (90%) defined by the first prerequisite of *Indicator 5a*.

Sweden, Norway and USAID reported the use of all three elements, while Croatia and UNCT BiH reported the use of only one element of public financial management systems. Considering above mentioned and that BiH Institutions have not provided sufficient information, actual value assessment of *Indicator 5a* could not be performed for 2012 for Bosnia and Herzegovina.

It can be concluded that in BiH, donor procedures are still preferred in comparison with the domestic Aid financial management procedures. In order to have domestic procedures applied to greater extent, it will be necessary to continue the strengthening of joint cooperation of donors and domestic partners in BiH.

Indicator 5b – Use of partner country public procurement system (aid flow)

Currently there is no detailed objective assessment for Bosnia and Herzegovina position with respect to the quality of legislation, institutions and practices in the area of public procurement.

In accordance with the obtained responses, majority of donors did not use BiH public procurement system in 2012. One of the reasons is that the Article 5 of the current Law on Public Procurement in BiH, allows the use of international procurement procedures, if defined by the respective international agreement. Another reason is the inconsistency of the domestic with the international legislation, in particular the EU legislation, as already mentioned during the analysis of *Indicator 5b*.

Out of 14 donors participating in the survey on adherence to the principles of the Paris declaration on Aid Effectiveness in BiH, only 4 donors reported that they used the BiH public procurement system in 2012. That is much lower than the global target (90%) defined by the first prerequisite of *Indicator 5b*.

It is important to point out Switzerland as a good example, which has reported 100% use of the domestic Law on Public Procurement, as well as Sweden, Slovenia and the UNCT BiH, that made progress through limited use of domestic public procurement system in BiH.

The assessed value for *Indicator 5b – Use of partner country public procurement system (aid flow)* in 2012 is 2.02%, according to responses obtained from survey participants.

It will be necessary to continue the strengthening of cooperation among donors and domestic partners on improvement of the existing framework for public procurement system in BiH, in order to harmonize it with the international standards in this area.

Indicator 6 – Avoiding parallel structures for project implementation

Indicator 6 global target: *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 projects or programmes implementation, established by donors in the partner countries.

PIUs are considered to be “parallel” when they are established, at the request of the donor, outside of existing partner country institutions and administrative structures and when: I) their personnel is not on the payroll of the national implementing institutions; (II) PIUs are accountable to external funding agencies; (III) PIUs appoint externally appointed staff in accordance with rules of the external funding agency and (IV) the salary structure of national staff in PIUs is higher than those of civil service personnel.

The Paris Declaration suggests donors to reduce the number of parallel PIUs in partner countries, in order to strengthen their public financial management systems. However, the degree of PIUs reduction depends on the performance and strengthening of these systems and government structures that implement them, so the findings for this *Indicator* can be used for evaluation of the process for establishing of good practices as well as for monitoring and promoting of the project management efficiency in partner countries.

Analysing the data obtained from the survey participants, it can be concluded that in 2012 in Bosnia and Herzegovina progress was made in implementation of *Indicator 6 - Avoiding parallel structures for project implementation*, if compared to the previous reports.

Survey participants reported the existence of 41 PIUs, out of which 27 were characterized as parallel. Compared to previous reports, it is evident that the total number of PIUs and the number of parallel

PIUs have decreased, which shows improved confidence of donors - DCF members in domestic institutional capacities, within the public financial management system.

Indicator 7 – Aid is more predictable

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

The goal of *Indicator 7* is the improvement of predictability of actual donor disbursements as well as recording of aid in partner countries public financial management systems.

The aid is predictable when partner countries know in advance the amounts and the periods to which aid disbursements refer. 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 in line with the agreed schedule.

Taking into account that Paris Declaration classifies this Indicator under the strengthening capacities of public financial management, its implementation is joint responsibility of both partner country and donors.

Due to limited and inconsistent information obtained from both BiH Institutions, entities and donors, the assessment for *Indicator 7 - Aid is more predictable* for 2012 in Bosnia and Herzegovina, could not be performed.

Considering that aid predictability is the joint responsibility, it is expected from all stakeholders to join their efforts to improve the adherence to this *Indicator*. Also, BiH Institutions should continue to strengthen the Aid registration system and harmonize reporting methods on budget executions, through the official reports.

Organizing of extensive consultations between BiH Institutions and donors, at the beginning of each fiscal year, should be in focus in the forthcoming period, to discuss planned investments and their inclusion in the budgets, as well as the partner approach in planning of the future donor activities in BiH.

Indicator 8 – Untied aid

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

Indicator 8 assesses the degree to which donors' aid is tied. The aid is considered as „tied“ if provided on condition that the partner country will use it to purchase goods and services from suppliers based in the donor country. Practice shows that this type of aid increases the costs of goods and services as well as the administrative costs, unlike the untied aid which is more economical.

According to data collected from the donor responses to the question on untied aid, it can be concluded that in Bosnia and Herzegovina, most of the donors, DCF members, provide the untied development aid, as presented in *Table 1*.

Table 1. The amount of untied aid in the total amount of aid per donor for 2012 in %

Donor	Total amount of aid EUR	Amount of untied aid EUR	% of untied aid in total provided aid
UNCT BiH	23.368.886,73	27.334.801,00	116,97
USA / USAID	9.400.000,00	9.400.000,00	100,00
WB	35.800.000,00	35.800.000,00	100,00
Switzerland	5.950.000,00	5.950.000,00	100,00
IFAD	2.651.946,00	2.651.946,00	100,00
Norway	12.250.000,00	12.250.000,00	100,00
KfW	20.060.000,00	20.060.000,00	100,00
GIZ	4.857.000,00	4.846.000,00	99,77
Sweden	22.900.000,00	20.900.000,00	91,27
EBRD	164.600.000,00	125.400.000,00	76,18
Croatia	5.825.949,88	0,00	0,00
Hungary	13.300,00	0,00	0,00
EU	42.877.617,00	0,00	0,00
Slovenia	648.129,00	0,00	0,00
TOTAL	351.202.828,61	245.232.747,00	69,83

* Amount of untied aid exceeds the amount of total aid in case of UNCT BiH, due to the disbursement of the tranche from 2011 in 2012.

Based on the analysis of data obtained from the survey participants, the assessed value for Indicator 8 – Untied aid, in Bosnia and Herzegovina in 2012 was 69.83%. The result represents an improvement if compared to the assessment of this indicator in the Baseline survey as well as its decrease in relation to the Report on the progress on adherence to the principles of the Paris Declaration for 2011.

Despite the continuous high rating of *Indicator 8* in 2012, it is important to determine the reasons for its decrease, taking into account that this indicator until now has not recorded a decrease neither on the global nor on the BiH level, which should be a reason for a more detailed analysis.

III. HARMONIZATION

Harmonization principle promotes the joint work and coordination of donor activities in the partner country, in order to reduce the transaction costs and increase the efficiency of the development aid. Among other things, the above mentioned implies the adjusted joint action of two or more donors in implementation of joint financing arrangements (*pool / joint funding*), joint monitoring, evaluating and reporting on donor activities and aid flows to partner countries. The Paris Declaration defined three indicators that serve as the basis for assessing the overall **harmonization**: *Indicator 9* - calculates the percentage of the use of common programme-based arrangements, *Indicators 10a* - calculates the percentage of joint donor missions and *10b* - calculates the percentage of shared analysis conducted by donors in the partner country.

Indicator 9 – Using common arrangements or procedures

Indicator 9 global target: 66% of aid flows are provided in the context of programme-based approaches (PBA)

Indicator 9 assesses the extent to which donors disburse their funds through programme-based approach (PBA approach) in relation to total disbursed aid. Any PBA approach which is applied should have three main characteristics: (I) partner country is responsible for defining the clear development programme (i.e. sector policy) and establishing of a single budget framework which includes all sources of financing (from domestic and external); (II) donors should use domestic systems for drafting and implementation of programmes, financial management, monitoring and evaluation; (III) donors and partner countries are jointly responsible for establishing of formal donor coordination process and harmonization of donor procedures.

In the course of 2012, development Aid provided to BiH through the PBA approach has been more of an exception than the rule, as recorded in the previous analyses. In accordance with the responses from the survey participants, only 3 donors reported the use of the PBA approach.

Due to the small sample of received donor responses, objective assessment for *Indicator 9 - Using common arrangements or procedures* could not be performed for 2012. But, from the responses it could be concluded that donors in BiH still do not use PBA approach or they use it in a negligible extent.

However, it is important to highlight the positive example of Croatia, which used the PBA approach for 94.82% of its aid provided in 2012.

Fragmentation and duplication of donor efforts at sectoral level - both investment and technical assistance - also represent the source of significant transaction costs for the authorities and hence the exhaustion of limited internal capacities of governance at all levels in BiH. Over the mid-term period, it can be expected that in relation to domestic income, the volume of external financing in BiH will decrease, in particular those coming directly from bilateral sources, while the EU funding will increase. However, the need will remain to focus and coordinate all external Aid in as much as possible efficient manner and to reduce the transaction costs.

In accordance with the above mentioned, in the coming period it will be necessary to initiate the activities to build the country capacity to establish, define and implement the adequate PBA approach in the country, as well as clear defining of institutional frameworks and procedures for its implementation at all levels of governance in BiH.

Indicator 10 – Conducting joint missions and sharing analyses

Indicator 10 global target: **10a)** 40% of donor missions in the field are conducted jointly and **10b)** 66% of country analytic work is carried out jointly

Indicator 10 assesses the degree to which donors mutually coordinate their activities in the partner country. The progress is measured based on two indicators: *Indicator 10a* assesses the percentage of joint donor missions in the partner country, while *Indicator 10b* registers the percentage of joint country analytic work in the partner country.

Indicator 10a – Joint missions

The Paris Declaration suggests that donors should mutually cooperate as well as coordinate the planning of missions with the representatives of the partner countries, in order to reduce the number of missions in the field.

Indicator 10a assesses joint missions undertaken by two or more donors, as well as their ratio compared to the total number of conducted missions in one year.

According to the survey data, the assessment for *Indicator 10a-Conducting joint missions and sharing analysis* is 16.82%, since only 18 out of 107 donor missions in 2012, were conducted as joint missions in BiH.

Comparing the results for *Indicator 10a - Conducting joint missions* from the Report on adherence to the Paris Declaration principles in BiH for 2008, it could be noted that progress was achieved, while comparing the results from the Report for 2011, decline is evident in implementation of this *indicator*.

Out of 14 donors who participated in the survey, 6 donors conducted joint missions in collaboration with other donors, while 2 donors did not conduct any field missions in the reporting period.

Positive example of USA/USAID should be pointed out, whereby they fully coordinated all their missions with other donors in 2012.

In line with the mentioned, in the coming period, it will be necessary to continue the activities on further improvement of coordination with and between donors, and among other to better prepare and coordinate future joint missions in BiH.

Indicator 10b – Joint country analytic work

Analytical work includes various analyses and recommendations aimed at strengthening of dialogue, development policies and provides support for the implementation of different strategies (national, sectoral, etc.). Focused and serious analytical work is crucial for accurate defining and successful implementation of development policies and programs, as well as for more efficient allocation of development funds, due to the savings on transaction costs, time available for interviewing of all participants and unnecessary duplication of activities by various donors. Therefore, the Paris Declaration emphasizes that donors should undertake the analytical work on reports/reviews and programs evaluation as much as possible in joint arrangements in the partner countries

According to the data collected from the survey participants, out of 108 conducted analytic activities in 2012 in BiH, only 3 missions were conducted in mutual donor cooperation, the assessment for *Indicator 10b - Joint country analytic work* is 2,78%.

It is important to stress out the positive example of USAID, with 50% and Switzerland with 33% of joint country analytic activities, unlike other survey participants who did not conduct joint country analytic activities 2012 in BiH.

IV. MANAGING FOR RESULTS

Managing for results is the fourth principle of the Paris Declaration which implies management and implementation of development aid resources in a way that they are channelled towards the desired results and it anticipates the use of obtained information from this process in order to improve the decision making. This principle recommends the use of: (I) comprehensive, vertically integrated monitoring and evaluation system; (II) data use for programme adjustments, budget allocations as well

as the policy, (III) data flow directed to decision makers at appropriate levels and (IV) generating accurate data via statistical systems.

Furthermore, this principle also includes strengthening capacity to undertake such management approaches as well as the adoption of a results-based monitoring framework. Overall, this indicator measures the number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategy and (b) sector programmes.

Indicator 11- Results-based monitoring framework

Indicator 11 global target: to reduce by 1/3 the proportion of countries lacking transparent and measurable results-based monitoring frameworks

Indicator 11 is assessing the quality of recipient country result-based monitoring framework and it is directly related to *Indicator 1 (operational development strategy)*. Rating of the monitoring framework quality for implementation of the mentioned approach is based on the observation of the quality of following data: (I) the quality of information produced, (II) participants access to the requested information and (III) the quality of the monitoring and evaluation coordination system in the partner country. The assessment of this *indicator* is published in the World Bank's *Review on Results-Based National Development Strategies: Assessments and Challenges Ahead*. The assessments are expressed in scores running from A (high) to E (low).

BiH still does not have the harmonized results-based monitoring framework at the state level, which is the reason why the assessment for *Indicator 11 - Results-based monitoring framework* cannot be performed according to The World Bank methodology.

However, according to the responses from domestic institutions, such assessment is only partially accurate, considering that the fragmented initiatives for establishing the measurable frameworks for performance assessment were already instituted in certain institutions in BiH.

Directorate for Economic Planning (DEP) within its jurisdiction also performs the "monitoring of implementation of annual, mid-term and long-term development strategies"¹⁵. In order to realize the mentioned competency, DEP reported the establishment of two types of coordination: *horizontal* and *vertical*.

First, *horizontal* coordination includes institutions at the level of BiH.

Second, *vertical* coordination refers to linking of institutions through various levels of governance in BiH (BiH Institutions, entities, Brcko District), where state institutions have exclusively the coordination role, while institutions from other levels of governance define and implement development policies.

To improve donor coordination and effectiveness of the international development assistance, in January 2009, Ministry of Finance and Treasury assumed the role of the Secretariat of the Donor Coordination Forum (DCF). The role of the Secretariat includes organization of quarterly consultative-working meetings with representatives of BH authorities and international community, managing and administering Donor Mapping Database (DMD), preparation of the annual "Donor Mapping Report in BiH" and managing and maintaining of the official DCF website www.donormapping.ba, as the first step in the process of transparent and quality access to information on monitoring of results and preparation of the unique harmonized framework for M&E system of international development Aid in BiH, which is harmonized at all levels of governance in BiH.

¹⁵ The Law on the Council of Ministers BiH („Official Gazette of BiH“, no. 30/03, 42/03, 81/06, 76/07, 81/07, 94/07 and 24/08)

Public Procurement Agency reported the establishment of the system for monitoring of the contractors related to application of the Law on Public Procurement, i.e. monitoring of public procurement procedures within the prescribed competencies. Based on the mentioned, the Agency shall prepare annual reports on the monitoring of public procurement procedures that indicate to the critical points of the system, and which serve as a basis for the future training¹⁶. Besides, the Agency prepares annual reports on contracts concluded in public procurement procedures, which provides the statistical data on public procurement procedures and which are compared with indicators from the previous years¹⁷.

In terms of monitoring of implementation of the results-based approach at entity level, only Republika Srpska indicated that out of total 29 operative strategies, variously defined monitoring and evaluation processes exist for 23 sectoral strategies, while the Federation of BiH has not responded to this question.

As mentioned in the responses, neither the framework for monitoring and evaluation nor the framework for results - based monitoring are currently in place in Brcko District.

In accordance with all above mentioned, it is evident that the framework for implementation of the results-based monitoring is fragmented and unevenly applied in Bosnia and Herzegovina on various levels of governance and in various institutions. For this reason, the activities should be initiated in the forthcoming period on harmonization of the framework for performance assessment at all levels of governance in BiH.

V. MUTUAL ACCOUNTABILITY

Indicator 12 - Mutual accountability

Indicator 12 global target: All partner countries have mutual assessment systems in place

Through the ***Mutual accountability*** principle and joint work, donors and partner countries are committed to channel the aid towards the achievement of the country development goals and they will be accountable to each other in these efforts. The Paris Declaration defines the need for a strong and balanced mutual accountability mechanism between donors and institutions in partner countries as well as it assesses whether there is a framework in the partner country for joint assessment of the progress of national institutions and donors in realization of the commitments that stem from the partnership. To be able to say that the partner country has a mutual framework for measuring of the accountability, three following criteria should be met: (I) the existence of formally agreed policy or strategy in the area of development aid between donors and the partner country, (II) the conditions and goals for improvement of aid effectiveness are defined and officially accepted by the partner countries institutions and donors and (III) establishing of a dialogue that involves all spheres of society (public, private and civilian).

The assessment for *Indicator 12 - Mutual accountability* for 2012 was not conducted, since formal mechanism for monitoring of this *Indicator*, currently is not in place in Bosnia and Herzegovina.

However, the Ministry of Finance and Treasury is working on further advancement of cooperation and coordination with and among donors/creditors, whereby achieving the positive shift in the implementation of the mutual accountability principle in BiH.

¹⁶ <http://www.javnabenabavke.ba/index.php?id=11c&jezik=en>

¹⁷ <http://www.javnabenabavke.ba/index.php?id=11b&jezik=en>

DCF, which consists of 21 largest donors/creditors, has evolved into coordination mechanism that supports the improvement of Aid effectiveness through enhanced information sharing, building of partnerships and mutual accountability of representatives of BH authorities and the representatives of international community in BiH. Also, "Donor Mapping Report", which is prepared on annual basis, reflects the interest of both domestic and foreign participants in development cooperation, to exchange the knowledge and find ways to join the efforts on promotion of socio-economic development in BiH.

Table 2: Report on monitoring of the progress on adherence to the principles of The Paris Declaration on Aid Effectiveness in BiH for 2012

Paris Declaration principles	Paris Declaration indicators		Paris Declaration global targets	Baseline survey 2008	Annual report for 2011	Annual report for 2012
OWNERSHIP	1	Operational development strategy	At least 75% of partner countries have operational development strategies	In the adoption phase	D	D
ALIGNMENT	2a	Reliable public finance management systems (PFM)	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	3,5	3,5	3,5
	2b	Reliable public procurement systems	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	No assessment available	No assessment available	No assessment available
	3	Aid flows are aligned to development priorities	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(s)	No assessment available	No assessment available	No assessment available
	4	Strengthening of capacities through coordinated support	50% of technical co-operation flows are implemented through coordinated programmes consistent with national development strategies	Develop. strategy is in the adoption phase	No assessment available	No assessment available
	5a	Use of country public finance management systems (aid flows)	90% of donors use partner countries' PFM systems and one third reduction in the % of aid is achieved for which PFM systems are not used to the public sector not using countries' PFM systems (Score 3,5-4,5)	0,71%	No assessment available	No assessment available
	5b	Use of country procurement systems (aid flows)	90% of donors use partner countries' procurement system , and one third reduction in the % of aid to the public sector, not using partner countries' procurement systems	1,74%	0,34%*	2,02 %
	6	Avoiding parallel implementation structures	Reduce by two-thirds the stock of parallel project implementation units (PIUs).	59	37	27
	7	Aid is more predictable	Halve the gap — halve the proportion of aid not disbursed within the fiscal year for which it was scheduled	21,63%	10,35%*	No assessment available
	8	Aid is untied	Continued progress over time	7,89%	88%	69,83%
HARMONIZATION	9	Use of common arrangements or procedures	66% of aid flows are provided in the context of programme based approaches (PBAs)	13,78%	No assessment available	No assessment available
	10a	Joint missions	40% of donor missions in the field are joint	10,71%	27,59%	16,82%
	10b	Joint country analytical work	66% of country analytic work in the field is joint	4,60%	18,84%	2,78%
MANAGING FOR RESULTS	11	Results oriented framework	Reduce the gap by one-third — Reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third	Not currently in place	Not currently in place	Not currently in place
MUTUAL ACCOUNTABILITY	12	Mutual accountability	All partner countries have mutual assessment systems in place	Baseline survey is the first step	Not currently in place	Not currently in place

*data revised on the basis of the new methodology

CONCLUSIONS

The Report for 2012 indicates uneven and yet insufficient progress in implementation of principles of the Paris Declaration on Aid Effectiveness in Bosnia and Herzegovina. However, it could be concluded that certain degree of progress was achieved in the past period. Although the progress could not be measured by international defined assessment technology, it is evident that number of activities were initiated related to improvement of certain principles and public financial management system at all levels of governance in BiH.

In the forthcoming period, Institutions at all levels of governance in BiH in cooperation with donors, should enhance their joint efforts on further improvement of adherence to the principles of the Paris Declaration in BiH, in order to achieve the sustainable socio-economic development in Bosnia and Herzegovina.

The ownership principle – According to the Report for 2012, the assessment for the *ownership principle*, measured by The World Bank's standards, is still low (D). However, it is important to underline that in the reporting period the activities were initiated, supposed to enable BiH leadership in the development process, defining development priorities and channelling Aid towards its implementation. Linking domestic and foreign financial sources with development priorities and strategic plans, will also enable better mid-term planning, reporting and evaluation of budget execution. Taking in consideration all afore mentioned, it could be concluded that in BiH certain degree of progress was achieved in adherence to the *ownership principle*.

The principle of alignment is directly related to the capability of partner country to establish reliable financial management systems and procedures. The assessment of *indicators* (from 2 to 8) used for monitoring of this *principle*, indicates that in 2012, in Bosnia and Herzegovina moderate progress was achieved within *indicators* measuring the use of public financial management system and reduction of number of parallel PIU units, while the status of majority of other *indicators* remained unchanged compared to the previous Report. In the forthcoming period, it will be necessary to continue activities on further improvement of the adherence to the ***alignment principle***, with particular focus on public financial management quality improvement, establishing the systems that will guarantee fiscal discipline, strategic prioritization of costs, operative efficiency and fiscal transparency, through activities on further improvements in strategic planning, budgeting, financial control and public investments.

The principle of harmonization is measured through *indicators* assessing the share of development Aid implemented through programme based approach (PBA) as well as the share of joint missions and analytic work of donors in the partner country. Considering that negligible number of donors reported the use of PBA approach during the reporting period, it could be concluded that donors still do not use such approach in BiH at the expected level. *Indicators* for joint donor missions even recorded the decrease compared to the results from previous reports. In the forthcoming period, it will be necessary to intensify activities on establishing, defining and implementing of the PBA approach in BiH, formulating of institutional frameworks and procedures for its implementation at all levels of governance in BiH as well as on improvement of coordination with and among donors, in order to enhance their joint work.

Managing for results principle – *Indicator* for this *principle*, could not be presented in this Report, considering that BiH still does not have the harmonized results-based monitoring framework. However, in accordance with information collected from domestic institutions, fragmented initiatives were already launched for establishing of measurable performance assessment frameworks both at various levels of governance and in individual institutions in BiH. In the forthcoming period, it will be necessary to initiate the activities on harmonization of frameworks for performance assessment, applied at all levels of governance.

Mutual accountability principle implies the improvement of joint accountability and transparency in the use of development Aid resources. In Bosnia and Herzegovina, sufficiently developed mechanisms for mutual accountability of domestic institutions and donors are currently not in place. However, the Ministry of Finance and Treasury is undertaking activities on further advancement of cooperation and coordination with and among donors/creditors, through organizing and holding DCF meetings, developing partnerships and mutual accountability, in order to improve the effectiveness of international development Aid in BiH.