



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 – 2014

Sarajevo, December 2015

Table of Contents:

List of Acronyms..... 3

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..... 13

 Indicator 5a – Use of partner country PFM system (aid flow)..... 14

 Indicator 5b – Use of partner country public procurement system (aid flow)..... 14

 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..... 17

 Indicator 10 – Conducting joint missions and sharing analyses 18

 Indicator 10a – Joint missions..... 18

 Indicator 10b – Joint country analytic work..... 19

IV MANAGING FOR RESULTS 19

 Indicator 11- Results-based monitoring framework..... 19

V MUTUAL ACCOUNTABILITY 21

 Indicator 12 - Mutual accountability..... 21

CONCLUSIONS..... 23

List of Acronyms

GDP	Gross Domestic Product
BiH	Bosnia and Herzegovina
BFP	Budget Framework Papers
BPMIS	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
MoFT	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	Program 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 Program
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 Program
USA/USAID	United States of America / United States Agency for International Development

INTRODUCTION

The shift to positive growth dynamics across the world, that started in late 2013, have continued in 2014, but with uneven pace and impact in the major economies. While in the United States the recovery went stronger than expected, economic performance within other major economies did not fulfill expectations

The member states of the European Union (EU) recorded uneven recovery and slow economic growth in 2014. This wavering trend was caused by deflationary pressures and high public debt level (led by Greece, Portugal, Spain and Italy), combined with high unemployment rates recorded all over Europe, significant decline in the price of oil and commodities on the world markets.

In 2014, growth performance in South East Europe (SEE) has been moderate, despite an improving external environment. The growth in the EU states—a key export market for the region—has been weak in the aftermath of the crisis, which created an unsupportive external environment for the SEE economies. Also, the abruption of rapid global growth had unmasked problems related to stalled domestic reform agendas in the region, which if unaddressed, will definitely influence the growth potential.

Bosnia and Herzegovina was not exception from the SEE region. The positive economic trends recorded at the beginning of the year were abruptly stopped by the natural disaster in May 2014, causing floods and landslides that have significantly affected the country's economic growth.

However, the economic recovery of BiH appears to be more resilient than previously thought to the impact of the natural disaster. In 2014, the economic growth was nonetheless achieved, based on the increased activities in the construction industry, while the trade and the budget users had recorded a modest increase compared to the previous year. The gross added value of industrial production stayed almost unchanged compared to 2013, while agriculture recorded a strong decline, mainly as a result of the floods in 2014¹.

According to the official estimates for 2014, Bosnia and Herzegovina as the upper middle-income country with population of 3,827,343 inhabitants², had achieved Gross Domestic Product (GDP) per capita of KM 7,123³, respectively total GDP of KM 27,26 billion⁴.

In the previous decade Bosnia and Herzegovina had experienced macroeconomic trends typical for the SEE countries. In the period 2005 – 2014, the country achieved the average real GDP growth rate of 2,47%, which is above the average growth rates achieved within the EU and in majority of the SEE countries. The growth recorded in manufacturing, trade and information and communication activities⁵ contributed to increase in the volume of industrial production⁶ and growth in exports⁷, which were the major drivers of above growth rate.

In order to further improve macroeconomic trends and enhance medium term economic growth as well as to overcome decreasing share of grant resources within the Official Development Assistance (ODA), it will be important that all stakeholders involved in development cooperation in Bosnia and Herzegovina in the forthcoming period focus their activities on further improvement of ODA efficiency and effectiveness, as well as to ODA transparency and monitoring.

¹ Annual Report CBBH 2014

² „Demography 2014“, thematic bulletin of the Agency for Statistics of BiH, Sarajevo, 2014, pg. 4.

³ „Gross Domestic Product of Bosnia and Herzegovina 2014 – Production Approach, First Results“, First Release of the Agency for Statistics of BiH, 20.07.2015., pg. 1

⁴ Ibid, pg.1.

⁵ „Gross Domestic Product of BiH 2005 – 2013, Revised Data“, Agency for Statistics of BiH, Sarajevo 2015, pg. 4.

⁶ „First Release – Volume Index of Industrial Production in Bosnia and Herzegovina, October 2015 – Preliminary Results“, Agency for Statistics of Bosnia and Herzegovina, 30.07.2014., pg. 4.

⁷ „International Trade in Goods of BiH 2014“, Agency for Statistics of BiH, Sarajevo 2015, pg. 13.

The Report on the progress of adherence to the principles of the Paris Declaration on Aid Effectiveness in Bosnia and Herzegovina for the 2014 was prepared in line with the above mentioned.

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 Program (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 programs.

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)⁸.

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*

⁸ Findings of the global surveys can be found at the following link:
<http://www.oecd.org/dac/effectiveness/2011surveyonmonitoringtheparisdeclaration.htm>

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.

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, 2013⁹.

At the end of 2013, Ministry of Finance and Treasury of BiH, in cooperation with representatives of competent institutions and members of Donor Coordination Forum (DCF), conducted the third survey on adherence to the principles of Paris Declaration on Aid Effectiveness in BiH for 2012. 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, 2012“. Council of Ministers of BiH was informed about this Report on the 91st session held on April 16th, 2014¹⁰.

In the second half of 2014, Ministry of Finance and Treasury of BiH, in cooperation with representatives of competent institutions and members of Donor Coordination Forum (DCF), conducted the fourth survey on adherence to the principles of Paris Declaration on Aid Effectiveness in BiH for 2013. The Report was submitted to the Council of Ministers of BiH on the March 17th, 2015.

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 ten BiH Institutions at the state and entity level as well as to twenty five donor agencies, international organizations and financial institutions, all members of the DCF.

We wish to emphasize that out of 35 domestic institutions and donors contacted, 25 participants took part in the survey, showing a better understanding and higher application of the principles 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.

⁹ All mentioned documents on official languages in BiH 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, while English version is available at official DCF web-site:

<http://donormapping.ba/index.php/publications/principles-of-the-paris-declaration-on-aid-effectiveness>

¹⁰ All mentioned documents on official languages in BiH 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, while English version is available at official DCF web-site:

<http://donormapping.ba/index.php/publications/principles-of-the-paris-declaration-on-aid-effectiveness>

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 budget¹¹. 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).

Rating for the *Indicator 1 - operative development strategy*, remains „D“, as in the previous Reports on progress in adherence to the principles of the Paris Declaration on Aid Effectiveness, considering that Development Strategy of BiH has not yet been adopted.

In previous period, Bosnia and Herzegovina has implemented a wide range of activities on taking the leadership in the process of its development, as well as in defining own priorities and channeling aid towards its implementation, in order to achieve the sustainable socio-economic development. In the absence of a single strategic framework, projects prioritization 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.

However, 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 priorities from development strategies and included in Programs of Public Investments (PIPs), will increase BiH capacity for absorption of development funds from both domestic and foreign sources.

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,

¹¹ <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:22284087~pagePK:41367~piPK:51533~theSitePK:40941,00.html>

donors are encouraged to systematically strengthen and to use the existing financial systems of 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 program 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)*¹², 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.

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 assessment of *Indicator 2a - Reliable public financial management systems* in Bosnia and Herzegovina score remains 3.6 in 2014, which is above the average (3.2) assessment for all observed countries¹³.

The above assessment is based on the CPIA assessment on the medium-term approach to planning and budgeting, as well as with the laws regulating the public financial management that are mutually harmonized at all levels of governance, which defines the public financial management in Bosnia and Herzegovina.

Fiscal Council of BiH was established by the Law on the Fiscal Council of BiH¹⁴, 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.

¹²The 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.

¹³ The score of 3.6 is taken from last updated IRAI for BiH published by the World Bank. More info can be found at: <http://data.worldbank.org/indicator/IQ.CPA.IRAI.XQ>

¹⁴ „Official Gazette of BiH”, no. 63/08

Public financial management of Bosnia and Herzegovina Institutions is regulated by the Law on Financing of BiH Institutions¹⁵, as well as 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 FBiH¹⁶, together with the Law on Treasury of FBiH¹⁷, the Law on debt, borrowing and guarantees in the FBiH¹⁸ and the Law on Internal Audit in the FBiH¹⁹. The Law on Execution of the Budget of the FBiH, regulating the way of the budget execution FBiH, is adopted for each fiscal year the FBiH.

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 of BiH, 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 program 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;
- With the adoption of the Decision on the procedure of medium-term planning, monitoring and reporting in the institutions of Bosnia and Herzegovina ("Official Gazette of BiH" No. 62/14) the mid-term planning was introduced in the institutions of Bosnia and Herzegovina. Main reason for the adoption of the Decision is to provide the planning basis for the development of a quality management according to the responsibilities of the Council of Ministers and the institutions of Bosnia and Herzegovina. The specific reasons for the adoption of the Decision are harmonization and coordination of the planning process in the Council of Ministers and the institutions of Bosnia and Herzegovina, the optimal allocation of resources to priority tasks and projects, as well as improving the process of monitoring programs and plans and reporting on implementation.

The key interest of this process is to establish a harmonized system of planning and budgeting, which will contribute to more efficient allocation of resources to the development priorities of Bosnia and Herzegovina and the construction of an efficient system for managing development.

¹⁵ "Official Gazette of BiH", no. 61/04, 49/09, 42/12, 87/12 and 32/13

¹⁶ "Official Gazette of FBiH", no. 102/13, 9/14, 13/14 and 8/15

¹⁷ „Official Gazette of FBiH“, no.58/02, 19/03 and 79/07

¹⁸ „Official Gazette of FBiH“, no.86/07, 24/09, 13/14 and 8/15

¹⁹ „Official Gazette of FBiH“, no. 47/08

- Budget Planning and Management Information System (BPMIS) is the software for budget preparation, based on the centralized databases, which are located in the ministries of finance, and enables the network access to all entity and state budget users for budget preparation. BPMIS is envisaged to facilitate drafting process of the Budget Framework Papers (BFPs), as well as determining of expenditure ceilings of budget users. BPMIS become operational in 2013.
- Public Investment Management Information System and Donor Mapping Database (PIMIS) is the software for:
 - a) Public Investment Program (PIP) preparation, based on the centralized databases located within the ministries of finance, enabling entity and state level budgetary users the network access for the preparation and monitoring of the public investment programs and capital budgets; and
 - b) Donor Mapping Database (DMD) which enables the direct network access and data entry to donors, DCF members, facilitating monitoring and better coordination of their activities, transparency of ODA mobilization and allocation in BiH as well as the preparation of annual reports on development cooperation in BiH.

PIMIS is linking Application for public investment and Application for Donor Mapping in a System, where both Applications share the same Interface and possibility to select the entry in one of them, Public Investment Management or Donor Mapping Database. PIMIS become operational in the last quarter of 2013²⁰, together with the improved DCF web-page²¹.

Taking into account that all budget users at all levels of government in BiH submitted their financial requirements for 2014 in the program format (program classification) and the economic classification of expenditure through BPMIS, it could be said that the budgeting based on specific programs has recorded the progress. However, participants from BiH and FBiH levels emphasized the need for continuation of strengthening public finance management reforms in BiH, through further introduction of the program budget, especially if taking into account the vulnerability of the BiH economy to external conditions and fluctuations in revenue collection. Although, in the last four years, the initial principles of program budgeting were introduced and used for the preparation of BFPs, it is necessary that all Ministries of Finance in all levels of governments in BiH continue with the modernization of processes and systems for budget planning, since the upper limit of expenditure of institutions at all levels of government in Bosnia and Herzegovina in 2014 is still determined on the basis of economic categories, and not on the basis of the program.

The successful trend in the public financial management and control in Republika Srpska, has been continued in 2014, through the Single Treasury Account system and the Treasury General Ledger system implementation, as well. All budgetary users in RS as well as budgetary users in cities and municipalities (64 local communities) are now included in the treasury operation system.

It should be noted that, through recently established legal framework in accounting and financial reporting of public institutions in RS, the preconditions for full appliance of International Public Sector Accounting Standards (IPSAS) in financial reporting of entity, municipalities, cities and funds in RS have been met. Based on that, for the first time financial reports (balances) of all administrative levels in RS were prepared on the full accrual basis of accounting, which made them internationally comparable, while the planning and execution of budget were prepared in modified accrual basis.

The quality of public financial management is improved through implementation of various programs that would guarantee fiscal discipline, strategic prioritization of costs, and operational efficiency in the use of resources and fiscal transparency in Bosnia and Herzegovina.

²⁰ For more information, please visit: http://www.mft.gov.ba/pimis/pimis_bh.html

²¹ For more information, please visit: www.donormapping.ba

The future activities should be focused on further improvement of public financial management, through strategic planning methodologies and strategic planning at various levels of governance; increasing budget funds efficiency, allocating ODA loans and grants, including the EU funds, in BiH 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, in order to increase capacities for implementation of development resources in BiH.

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 2014, considering that detailed official assessment of the quality of legislation, institutions and public procurement practices has not yet been conducted in Bosnia and Herzegovina.

However, certain progress was achieved in this area in BiH. Public procurement regulatory framework is better defined by the new Law on Public Procurement of BiH²² and adequate by-law acts²³, which are prepared and adopted during 2014. This new 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. The text of the Law is largely harmonized with the currently valid EU Directives on public procurement, and it should improve the efficiency of public procurement procedures and eliminate the shortcomings identified in the practice.

Besides, within its competencies, the Public Procurement Agency (PPA) has established a system for monitoring the contracting authorities regarding the implementation of the Public Procurement Law, with special focus on appliance of public procurement procedures. Based on the conducted monitoring activities and data collected, the PPA prepares annual reports on the monitoring of public

²² „Official Gazette of BiH“, no. 39/14

²³ For more information, please visit: <http://www.javnenabavke.ba/index.php?id=10b&jezik=hr>

procurement procedures, which should draw attention to the critical points of the system and to serve as a basis for future training.

The annual report on the monitoring of public procurement procedures and the annual report on the concluded contracts in public procurement procedures are submitted to the Council of Ministers of BiH, as well as information on training conducted in the field of public procurement.

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 utilization, provides better insight in donor activities in the partner country, it controls whether the resources are directed to projects/programs harmonized with the partner country priorities and whether the provided aid is implemented responsibly and with results.

The Reporting system on aid flows, which should be included within the all budgets in BiH, is still on unsatisfactory level and is not measurable according to the OECD methodology. The majority of programs and projects in implementation are still not reported in the budgets, while those which were registered, were represented aggregately and not per individual donor.

According to the above mentioned the assessment for Indicator 3 – Aid flows are aligned on national priorities, could not be performed for 2014 in Bosnia and Herzegovina.

However, according the data collected from donors, 34% of overall disbursed ODA in 2014 have been channeled through government sector. This kind of discrepancy between information collected from survey participating donors and disbursements recorded within the Budgets in BiH need to be addressed in the forthcoming period, in order to ensure that aid recorded in budgets is as realistic as possible.

The Ministry of Finance and Treasury has already started further improvement of this area, through development of Public investment management information system (PIMIS), within the Sector for Coordination of International Economic Aid (SCIA), which consists of two Applications for Public investments (PIP) and Donor Mapping Database (DMD). 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) and the general public in Bosnia and Herzegovina.

PIMIS enables the user friendly access to comprehensive information on development projects/programs, regardless of the source of financing (domestic or foreign) and the status (nominated, in implementation, completed and cancelled), it is linking public investment projects with the strategic documents and sources of financing and is monitoring implementation of strategic documents, it facilitate coordination of donor activities and ODA efficiency analysis as well as transparency of all investments. With a wide overview of project activities, PIMIS²⁴ is becoming a tool

²⁴ For more information, please visit: http://www.mft.gov.ba/pimis/pimis_bh.html

for avoiding duplications or overlapping among ODA supported activities and thus improving of the ODA efficiency in Bosnia and Herzegovina.

Indicator 4 – Strengthening of capacities for coordinated support

Indicator 4 global target: 50% of aid flows for technical cooperation is implemented through coordinated programs 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 programs consistent with development strategies, and in that way to assist their development.

The assessment for Indicator 4 - Strengthening of capacities for coordinated support, could not be performed in Bosnia and Herzegovina for 2014.

According to the collected data, some donors, like GIZ, Switzerland, Austria, Sweden / Sida, USAID, UNCT BiH and Czech Republic, have channeled more than half of their funds in the capacity building of institutions at all levels of governance in BiH. This means that more than 50% of their overall ODA in 2014 was provided as technical assistance (TA), while some, like EBRD, the World Bank, Norway and KfW, did not support any TA activities in the same period.

Also, amongst donors providing TA in 2014, Sweden / Sida, Croatia, Czech Republic and Slovenia had disbursed anticipated amount of TA in coordination with other donors and government authorities, while UNCT BiH and Switzerland only partly disbursed their TA's in a coordinated way, and one can say that most donors did not disburse their TA through coordinated programs.

Finally, during 2014 DCF members have continued to support institutional capacity building in BiH, but in the next period their activities should focus on establishing the monitoring and evaluation framework, to enable better insight into the results achieved in the institutional capacity building at all levels of governance in BiH. Also, coordination with and among donors especially while defining the new project proposals, need to be improved, in order to improve ODA efficiency within the international development cooperation in Bosnia and Herzegovina.

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 19 donors who participated in the Survey for 2014, only Norway and UNCT BiH, reported usage of all elements of domestic public financial management systems, while EU and USAID reported only partial usage of those elements. The EU emphasized that their payment was the first tranche of Sector Budget Support to Justice Sector, paid to BiH in December 2013, but executed in 2014, according to the BiH financial and reporting procedures.

Out of 19 participating donors, only 4 of them used country systems and procedures (21%), which is far below the global target (90%) defined by the first prerequisite of *Indicator 5a*.

Indicator 5a- use of partner country PFM system (aid flow) could not be estimated for Bosnia and Herzegovina for 2014, due to insufficient data submitted by all participants, donors and BiH institutions.

However, data collected in this survey shows that the majority of donors still prefer using their own, instead of PFM systems in Bosnia and Herzegovina, showing continued trend from the previous period. In order to make improvements in this area, the quality of domestic procedures needs to be improved, as well as their compliance with the international regulation. To achieve this goal, it will be necessary to further strengthen cooperation among donors and domestic partners in this area.

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

This indicator focuses on the use of national procurement systems when funding is provided for the government sector. It measures the volume of aid that uses national country procurement system as a percent of total aid provided for the government sector. 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, i.e. out of 19 donors participating in the survey, only 2 donors reported use of BiH public procurement system in 2014. That is far 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 UNCT BiH and the EU, which made progress through limited use of domestic public procurement system in BiH.

In accordance to the data obtained from survey participants, the assessed value for *Indicator 5b – Use of partner country public procurement system (aid flow) in 2014 was 11,04%*.

Still, recorded progress on this *indicator* should be treated with caution, given the inconsistent number of participants in the survey.

Beside the certain progress achieved with the adoption of the new Law on Public Procurement, as mentioned in *Indicator 2b* assessment, 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 programs 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.

According to the data obtained from the survey participants, a significant progress, compared to global target, was recorded in implementation of *Indicator 6 - Avoiding parallel structures for project implementation* in Bosnia and Herzegovina. Donors’ community had achieved the global target in 2014, by reducing the number of PIUs for two-thirds, compared to previous years.

Only one Survey participant, the Switzerland, reported the existence of 8 parallel PIUs. Compared to previous reports, this year counts the lowest number of registered units, since the Ministry of Finance and Treasury monitors the implementation of the principles of the Paris Declaration in BiH. However, it should be kept in mind that the number of parallel PIUs recorded in previous reports partly varies because of inconsistent number of participants from the donor side that have participated in previous surveys.

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 the limited information obtained from BiH and entity Institutions as well as donors, the assessment for *Indicator 7 - Aid is more predictable for 2014*, could not be performed.

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

Although events like the floods in 2014 cannot be predicted in advance, and therefore no extraordinary funds allocated for the purpose of recovery and rehabilitation, however, in the forthcoming period, the focus should be on organizing extensive consultations between BiH Institutions and donors at the beginning of each fiscal year, in order to discuss planned investments and their inclusion in the budgets, as well as to strengthen the partnership 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 DCF members participating in the survey, the most of them provided the untied development aid in 2014, as presented in *Table 1*.

Table 1. Percentage of untied aid in the total aid per donor for 2014

Donor	Total ODA disbursed	Untied aid	% of untied aid in total provided aid
GIZ	7.218.520,00	7.250.000,00	100,44%
USAID	21.900.000,00	21.900.000,00	100,00%
KfW	8.414.000,00	8.414.000,00	100,00%
Sweden / Sida	9.494.671,00	9.494.671,00	100,00%
Switzerland	10.480.000,00	10.480.000,00	100,00%
Norway	11.771.019,00	11.771.019,00	100,00%
The World Bank	69.940.000,00	69.940.000,00	100,00%
Hungary	119.812,00	119.812,00	100,00%
Czech Republic	2.312.859,00	2.127.674,00	91,99%
UNCT BiH	21.941.540,00	12.712.000,00	57,94%
EBRD	126.000.000,00	68.300.000,00	54,21%
Slovenia	2.058.734,00	0,00	0,00%
Austria	18.586.233,93	0,00	0,00%
Denmark	8.280.000,00	0,00	0,00%
EU	87.770.379,00	0,00	0,00%
Croatia	7.879.827,84	0,00	0,00%
TOTAL	414.167.595,77	222.509.176,00	53,72%

The assessed value for *Indicator 8 – Untied aid* in Bosnia and Herzegovina was 53.72% for 2014, according the data obtained from the survey participants.

The result shows declining variations in a value of *indicator for untied aid* in Bosnia and Herzegovina, if compared to previous Reports. It will be important to define the reasons for its constant decrease during previous observations, which should be analyzed in more details in the forthcoming period, in order to determine the actual cause for this occurrence.

III HARMONIZATION

Indicator 9 – Using common arrangements or procedures

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

Indicator 9 assesses the extent to which donors disburse their funds through program-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 program (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 programs, 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 2014, development aid provided to BiH through the PBA approach has been more of an exception than the rule, as recorded during previous years. According to the responses from the survey participants, only 2 donors (Switzerland and Croatia) reported limited use of the PBA approach in 2014.

The assessment for *Indicator 9 - Using common arrangements or procedures* could not be performed for 2014, due to small rate of received responses on this particular question. Anyway, it could be concluded that the majority of donors in BiH use PBA approach in the insignificant extent or not at all.

Fragmentation and duplication of donor efforts at sectoral level - in both investment and technical assistance - also increase significantly transaction costs for the authorities and hence the exhaustion of limited internal institutional capacities at all levels in BiH. Over the mid-term period, it could be expected that in relation to the domestic income, the volume of external financing will continue to decrease, in particular of those coming directly from bilateral sources, while EU funding are expected to continue to increase in BiH.

In accordance with the above mentioned, in the coming period it will be necessary to initiate the activities to build the institutional capacities in BiH to be able 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 data obtained from the survey participants, the assessment for *Indicator 10a- Conducting joint missions and sharing analysis* is 29, 13%, since out of 103 conducted donor missions 30 were joint missions in Bosnia and Herzegovina in 2014.

The progress was achieved in the result for *Indicator 10a - Conducting joint missions* if compared with result from previous reports, suggesting that donors have improved their joint work in 2014, possible to enhance mutual cooperation on the field and to reduce or to share the missions costs.

The majority of survey participating donors reported conducting missions in 2014, but only 7 donors (50%) had reported joint missions in collaboration with other donors.

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

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, the assessment for *Indicator 10b - Joint country analytic work* was 17,44% in 2014, since out of 86 conducted analytic activities, only 4 of survey participating donors conducted in total 15 joint activities in Bosnia and Herzegovina.

Except for above mentioned positive efforts reported by KfW, the World Bank, UNCT BiH and the EU, all other participants providing data, did not report jointly conducted analytical activities with other donors.

Relative increase can be observed in rating of this indicator, in comparison with previous findings, so therefore, in the next period, more detailed analysis should be conducted in order to define the reasons for such low performance trend of assessed value of Indicator 10b in Bosnia and Herzegovina.

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 channeled 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 program 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 programs.

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).

Assessment for Indicator 11 - Results-based monitoring framework couldn't be performed according to The World Bank methodology, because Bosnia and Herzegovina still does not have established harmonized Result-based Monitoring Framework.

However, according to the responses from domestic institutions, it 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"²⁵. 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 ODA effectiveness, Ministry of Finance and Treasury in January 2009 assumed the role of the Secretariat of the Donor Coordination Forum (DCF), which includes organization of quarterly consultative-working meetings with representatives of BH authorities and international community; managing and administering Donor Mapping Database (DMD); preparing of the annual "Donor Mapping Report in BiH"; and the official DCF website www.donormapping.ba managing and maintaining. It is the first step within the ongoing process of facilitating transparent and quality access to information, monitoring of results and preparation of the unique harmonized framework for M&E system for ODA in BiH, harmonized at all levels of governance in BiH.

Agency for Statistics in BiH reported that in the field of sectoral development, the Agency and Entity Statistics in 2013 prepared and adopted the document "Strategy for the Development of Statistics of Bosnia and Herzegovina - 2020"²⁶, which defined 124 performance indicators for annual progress measurement in its implementation.

The PPA has established a system for monitoring the contracting authorities regarding the implementation of the Public Procurement Law, with special focus on appliance of public procurement procedures. Based on the conducted monitoring activities and data collected, the PPA prepares annual reports on the monitoring of public procurement procedures, which should draw attention to the critical points of the system and to serve as a basis for future training.

Regarding the monitoring of the results-based approach implementation at entity level, Republika Srpska reported variously defined monitoring and evaluation processes existing for 25 sectoral strategies, out of total 30 currently operative strategies.

In the Federation of BiH, Federal Institute for Development Programming prepares the reports on assessment, analysis of policies implemented by the government of the FBiH, with recommendations for their improvements.

²⁵ 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)

²⁶ For more info, please visit:

<http://www.bhas.ba/planiprogram/STRATEGY%20FOR%20DEVELOPMENT%20OF%20STATISTICS%20OF%20BIH.pdf>

In accordance with above mentioned, it is evident that the Framework for results-based monitoring is fragmented and unevenly applied in Bosnia and Herzegovina, on various levels of governance as well as in various institutions. That could be reason for initiating the activities on harmonization of all Performance Assessment Frameworks 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 2014 was not conducted, since the formal mechanism for monitoring of this Indicator, was not in place in Bosnia and Herzegovina.

However, the Ministry of Finance and Treasury/SCIA through its function as Secretariat of DCF, is working on creating conditions for the establishment of a system of shared responsibility between the representatives of the BiH authorities and the donor community in BiH:

- organizing and holding regular DCF meetings, which represent an instrument for development of partnerships and mutual accountability among BH authorities and donor community in BiH;
- administrating and updating PIMIS-DMD database, with comprehensive data on ODA financed development projects/programs, provided by DCF members, improving on that way coordination and the transparency of ODA allocation and disbursement in BiH;
- preparing annual Donor Mapping Reports (DMR), with analyses of development activities as well as on-going reform processes in priority sectors in BiH, reflecting the interest of Bosnia and Herzegovina and the international community to share knowledge and look for synergies in their efforts to promote the socio-economic development of the country; and
- administrating the DCF web-site, a source of information in English language, with regularly updated news and materials of interest to domestic institutions, the donor community and others involved in development cooperation in BiH.

Table 2: Report on monitoring of the progress on adherence to the principles of The Paris Declaration on Aid Effectiveness in Bosnia and Herzegovina for 2014

Paris Declaration principles	Paris Declaration indicators	Paris Declaration global targets	Annual report for 2011	Annual report for 2012	Annual report for 2013	Annual report for 2014	
OWNERSHIP	1	Operational development strategy	At least 75% of partner countries have operational development strategies	D	D	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	3,6	3,6
	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	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	No assessment available
	4	Strengthening of capacities through coordinated support	50% of technical co-operation flows are implemented through coordinated programs consistent with national development strategies	No assessment available	No assessment available	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	No assessment available	No assessment available	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	0,34%	2,02 %	9,98%	11,04%
	6	Avoiding parallel implementation structures	Reduce by two-thirds the stock of parallel project implementation units (PIUs).	37	27	33	8
	7	Aid is more predictable	Halve the gap — halve the proportion of aid not disbursed within the fiscal year for which it was scheduled	10,35%	No assessment available	No assessment available	No assessment available
	8	Aid is untied	Continued progress over time	88%	69,83%	52,60%	53,72%
	HARMONIZATION	9	Use of common arrangements or procedures	66% of aid flows are provided in the context of programme based approaches (PBAs)	No assessment available	No assessment available	No assessment available
10a		Joint missions	40% of donor missions in the field are joint	27,59%	16,82%	22,41%	29,13%
10b		Joint country analytical work	66% of country analytic work in the field is joint	18,84%	2,78%	9,30%	17,44%
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	Not currently in place
MUTUAL ACCOUNTABILITY	12	Mutual accountability	All partner countries have mutual assessment systems in place	Not currently in place	Not currently in place	Not currently in place	Not currently in place

CONCLUSIONS

The Report for 2014 indicates an uneven and yet insufficient progress in implementation of principles of the Paris Declaration on Aid Effectiveness in Bosnia and Herzegovina. However, according to collected data, it can be concluded that certain degree of progress has been achieved in the previous period, although immeasurable according to the international defined assessment technology. It is evident that number of activities related to improvement of certain principles and public financial management system are implemented at all levels of governance in Bosnia and Herzegovina.

Further improvement of the implementation of the principles of the Paris Declaration on Aid Effectiveness in Bosnia and Herzegovina remains in focus in the next period, with special emphasis on the importance of joint actions and enhancement of synergy between institutions in BiH and donors, in order to achieve the sustainable socio-economic development in Bosnia and Herzegovina.

The ownership principle – The assessment for the *ownership principle*, measured by The World Bank's standards, is still low (D), given that Development Strategy for Bosnia and Herzegovina has not yet been adopted. However, it is important to point out that in the previous period in Bosnia and Herzegovina a number of activities were launched, in order to take over the leadership over its own development process, defining development priorities and channeling of ODA assistance in their implementation, with the aim to sustainable development of the country. In the absence of a single strategic framework, determination of project priorities was based on the entity and sectoral strategies or other strategic plans at all levels of governance. By linking domestic and foreign sources of funding with the strategic plans and priorities in BiH, much better medium-term budget planning and reporting, together with evaluation of the budget execution was enabled. Although the effects of the severe floods, which hit the country in May 2014, had considerable impacted on the inflow and allocation of ODA, yet the progress was achieved in adherence to the **ownership principle** in Bosnia and Herzegovina, having in mind that sector- specific strategies have taken the major role in allocation of development resources in BiH. Besides, an important step forward has been made with the adoption of the Decision on the procedure of medium-term planning, monitoring and reporting in the institutions of Bosnia and Herzegovina ("Official Gazette of BiH" No. 62/14), which introduced the mid-term planning in the institutions of Bosnia and Herzegovina, with the aim to harmonize and to coordinate the planning process in the Council of Ministers and the institutions of BiH.

The principle of alignment – The assessment of *indicators* (from 2 to 8) used for monitoring of this *principle*, indicates that significant progress was recorded only within the implementation of *Indicator 6 - Avoiding parallel structures for project implementation*. Donors' active in BiH in 2014 have reached the global target, reducing by two-thirds the number of PIUs in the country, which among others confirms an improved maturity of the public administration in BiH. However, considering that the majority of other indicators remained unchanged compared to the previous Report, more detailed analysis should be conducted, to define the reasons for such low performance of other *indicators within the principle of alignment*. Also, it will be necessary to continue activities on further improvement of public financial management quality.

The principle of harmonization – According to the survey, negligible number of donors reported the use of PBA approach during implementation of Aid. If compared with result from previous reports, progress was achieved in the result for *Indicator 10a - Conducting joint missions*, which suggest that donors have improved their mutual cooperation on the field, in order to reduce or share the costs of their missions, as well as in rating of *Indicator 10b - Joint country analytic work*, where relative increase can be observed as well. However, in the forthcoming period, it will be necessary to intensify activities on establishing, defining and implementing the PBA approach in BiH, clearly define the institutional framework and procedures for implementation at all levels of government in BiH, as well as on improvement of coordination with and among donors in Bosnia and Herzegovina.

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 - Sufficiently developed mechanisms for mutual accountability of domestic institutions and donors are currently not in place in Bosnia and Herzegovina. However, the Ministry of Finance and Treasury is undertaking activities on further advancement of cooperation, as well as on creation of prerequisites for establishment of the mutual accountability among representatives of BH authorities and donor community in BiH, through *the organization of the DCF meetings*, which are an instrument for development of partnership and mutual responsibility of the authorities and the donor community in BiH; *administration and update of PIMIS/DMD* with comprehensive data on ODA financed development projects/programs, provided by DCF members; *preparing annual Donor Mapping Reports (DMR)*, with analyses of on-going development activities as well as reform processes in priority sectors in BiH, *administrating the DCF web-site www.donormapping.ba* in English language, with regularly updated news and materials of interest to domestic institutions, the donor community and others involved in development cooperation in BiH.