



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 – 2015

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List of Acronyms

GDP	Gross Domestic Product
BiH	Bosnia and Herzegovina
BPMIS	Budget Planning and Management Information System
CPIA	The World Bank- Country Policy and Institutional Analysis
DCF	Donor Coordination Forum
DEP	Directorate for Economic Planning
DMD	Donor Mapping Database
DMR	Donor Mapping Report
EBRD	European Bank for Reconstruction and Development
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IDA	International Development Association
IT	Information Technology
JICA	Japan International Cooperation Agency
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
PAR	Public Administration Reform
PBA	Program Based Approach
PFM	Public Financial Management
PIMIS / DMD	Public Investment Management Information System and Donor Mapping Database
PIU	Project Implementation Unit
PPA	Public Procurement Agency
RS	Republika Srpska
SBS	Sector Budget Support
SCIA	Sector for Coordination of International Economic Aid
SEE	South East Europe
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

During 2015 global economic activity remained reduced. A modest recovery has continued in advanced economies, while growth is still unsatisfactory in most of the emerging market economies. The European Union (EU) recorded the economic growth in 2015, with prospects of firm recuperation of economic activities in the upcoming period, which should be supported with further low oil prices, favorable financing conditions, improved labor markets and further growth of the private sector.

The economic trends at the global level, partly affected those in Bosnia and Herzegovina in 2015. Stronger demand from abroad, especially from the EU, together with the growth of industrial production and private consumption in BiH, caused moderate but solid economic growth in BiH.

Despite initial stagnation, in 2015, Bosnia and Herzegovina recorded positive trends in the areas of tax revenue collection, improving the business environment, industrial production and services, and thus showed resistance to the effects caused by external influences and the ability of economic growth.

The previous year was also marked by the return of the Bosnia and Herzegovina to EU integration track. Representatives of the newly established governments accomplished a broad consensus on the key priorities for economic and social development of the country, and the Stabilization and Association Agreement (SAA) entered into force on 1 June 2015. The Reform Agenda for Bosnia and Herzegovina for the period 2015 – 2018, which set up urgent priorities related to EU integration, with particular emphasis on the area of public finance, taxation and fiscal sustainability, rule of law, good governance and public administration reform, was adopted.

According to the official estimates for 2015, Bosnia and Herzegovina as the upper middle-income country with population of 3,827,343 inhabitants¹, had achieved Gross Domestic Product (GDP) per capita of KM 7,473², respectively total GDP of KM 28,54 billion³.

In order to accelerate the growth rate and enhance medium-term economic development in the forthcoming period, it will be necessary to find adequate solutions to issues such as the intensification of reforms on business environment improvements, attracting foreign investment and reducing unemployment. Also, all domestic and foreign actors involved in development cooperation in Bosnia and Herzegovina should continue efforts on further increasing of coordination of development, in order to achieve better efficiency and effectiveness of Official Development Assistance (ODA), which consequently supports further economic growth and sustainable development of the country on its path towards EU integration.

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.

¹ „Demography 2014“, thematic bulletin of the Agency for Statistics of BiH, Sarajevo, 2014, pg. 4.

² “Gross Domestic Product of Bosnia and Herzegovina 2015 – Production Approach, First Results“, First Release of the Agency for Statistics of BiH, 21.07.2015., pg. 1

³ Ibid, pg.1.

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)⁴.

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.

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, 2013.

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*

⁴ Findings of the global surveys can be found at the following link:
<http://www.oecd.org/dac/effectiveness/2011surveyonmonitoringtheparisdeclaration.htm>

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, 2014⁵.

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.

In the final quarter of 2015, Ministry of Finance and Treasury of BiH, in cooperation with representatives of competent institutions and members of Donor Coordination Forum (DCF), conducted the fifth survey on adherence to the principles of Paris Declaration on Aid Effectiveness in BiH for 2014. Council of Ministers of BiH was informed about this Report on the 39th session held on January 13th, 2016.

SURVEY METHODOLOGY

Data collected from completed questionnaires 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 donor agencies, international organizations and financial institutions, all members of the DCF.

Out of 29 contacted, 20 participants took part in the survey, both by representatives from domestic institutions and donors, showing a better understanding and a very good level of 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.

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

⁵ All mentioned documents in 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 the official DCF web-site: <http://donormapping.ba/index.php/publications/principles-of-the-paris-declaration-on-aid-effectiveness>

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 budget⁶. 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 - Operational development strategy* – for 2015 remains „D“, as in the previous Reports on progress on Adherence to the Principles of the Paris Declaration on Aid Effectiveness, considering that Development Strategy of BiH has not yet been adopted.

However, during June – July 2015 period, all levels of government in BiH adopted the Reform Agenda 2015 - 2018, the concrete set of reforms, identified as an urgent priorities for country to move forward on the path to the EU, where the main pillars are commitments to improve the areas of Public Finance, Taxation and Fiscal Sustainability, Business Climate and Competitiveness, the Labor Market, Social Welfare and Pension Reform, Rule of Law and Good Governance, as well as Public Administration Reform (PAR).

Besides, in an attempt to achieve sustainable socio-economic development, Bosnia and Herzegovina in the previous period carried out a wide range of activities related to taking a leading role in the process its own development, defining own priorities and directing ODA towards their implementation. 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.

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 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.

⁶ <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:22284087~pagePK:41367~piPK:51533~theSitePK:40941,00.html>

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)*⁷, 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 - for Bosnia and Herzegovina remains 3.5 in 2015, which is above the average (3) assessment for all observed upper middle income countries⁸.

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 in Bosnia and Herzegovina, which defines the public financial management in Bosnia and Herzegovina, as described in previous Reports.

Fiscal Council of BiH was established by the Law on the Fiscal Council of BiH⁹, with the aim to coordinate the fiscal policy and ensure the macroeconomic stability and fiscal sustainability of Bosnia and Herzegovina, Federation of BiH, Republika Srpska and Brcko District.

Public financial management of BiH Institutions is regulated by the Law on Financing of BiH Institutions¹⁰, as well as the Law on the Budget of BiH Institutions and International Obligations of Bosnia and Herzegovina, 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 FBiH¹¹, together with the Law on Treasury of FBiH¹² and the Law on Debt, Borrowing and Guarantees in the FBiH¹³. The Law on Execution of the Budget of the FBiH, regulating the way of the budget execution in FBiH, is adopted for each fiscal year in 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

⁷ The annual CPIA exercise covers IDA eligible countries. The CPIA rates countries against a set of 16 criteria grouped in four clusters: (a) economic management; (b) structural policies; (c) policies for social inclusion and equity; and (d) public sector management and institutions. The criteria are focused on balancing the capture of the key factors that foster growth and poverty reduction, with the need to avoid undue burden on the assessment process. To fully underscore the importance of the CPIA in the IDA Performance Based Allocations, the overall country score is referred to as the IRAI.

⁸ The score of 3.5 is taken from last updated IRAI for BiH published by the World Bank. More info can be found at: <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators#>

⁹ „Official Gazette of BiH“, no. 63/08

¹⁰ „Official Gazette of BiH“, no. 61/04, 49/09, 42/12, 87/12 and 32/13

¹¹ „Official Gazette of FBiH“, no. 102/13, 9/14, 13/14, 8/15, 91/15 and 102/15

¹² „Official Gazette of FBiH“, no. 26/16

¹³ „Official Gazette of FBiH“, no. 86/07, 24/09, 44/10 and 30/16

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 budgeting based on specific programs has recorded the progress in 2015, taking into account that all budget users at all levels of government in BiH submitted their financial requirements in the program format (program classification) as well as the economic classification of expenditure through the Budget Planning and Management Information System (BPMIS). Those actions increased the efficiency and effectiveness of budget management in whole Bosnia and Herzegovina.

Besides, in 2015 the preconditions for further restriction of public spending together with strengthening the responsibility for an effective use of budget funds were created, through adoption of the Law on Fiscal Accountability in Republika Srpska, with the accompanying bylaws, and changes of the Law on budgets as well as the adoption of the Strategy for Public Debt Management in the Federation of BiH.

It is obvious that all levels of government in BiH are continuously working on improving and further development of the budgetary system as well as the public funds management in general, in order to maintain the fiscal responsibility, transparency and medium-term and long-term fiscal sustainability.

Activities in the forthcoming period should be focused on further improving public financial management through the development / improvement of methodology for strategic planning and preparation of strategic plans at various levels of government; increasing the efficiency of budgetary funds, and funds of international development assistance (ODA); improving budget execution; improving transparency and accountability in the spending of public funds; promotion of public investment in the context of financial management development.

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 2b- Reliable country procurement systems - cannot be performed for 2015, 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 during 2015. Public procurement regulatory framework is better defined by the new Law on Public Procurement of BiH¹⁴, which was prepared and adopted during 2014. In 2015, the remaining technical bylaws were adopted, while Procurement Review Body (PRB) branches in Banja Luka and Mostar started to work.

The annual report on the monitoring of public procurement procedures and the annual report on the concluded contracts in public procurement procedures were regularly submitted to the Council of Ministers of BiH, together with 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 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 2015 in Bosnia and Herzegovina.

In the forthcoming period, it will be necessary to pay attention to discrepancy between information collected from survey participating donors and disbursements recorded within the Budgets in BiH, 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 facilitates coordination of donor activities and ODA efficiency analysis as well as transparency of all investments. With a wide overview of project activities, PIMIS¹⁵ is becoming a tool

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

¹⁵ 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 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 2015.

According to the collected data from participating donors, some of them such as GIZ, Switzerland, Sweden / Sida, Japan / JICA, Slovenia and USAID have channeled more than half of their funds in a form of technical assistance (TA), while, some donors, have not been supporting TA activities in the same period.

Among donors providing TA in 2015, only Japan / JICA, had disbursed anticipated amount of TA in coordination with other donors and government authorities, while Sweden / Sida, UNCT BiH¹⁶ and Switzerland disbursed most of their TA's in a coordinated way. Taking into account that from 14 participants in the study, only 5 donors reported implementing TA in a coordinated manner, it could be noted that most of the TA's is not implemented through coordinated programs.

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 the 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

¹⁶ The UNCT is comprised of thirteen UN Funds, Programmes and Specialized Agencies (FAO, ILO, IOM, UNDP, UNFPA, UNEP, UNESCO, UNHCR, UNICEF, UNODC, UNV, UN Women, WHO), the Bretton Woods Institutions (World Bank, IMF) and ICTY. The work of the UNCT is being coordinated through the Office of the UN Resident Coordinator and framed within the One UN Programme for Bosnia and Herzegovina 2015-2019. More info can be found at: <http://www.ba.one.un.org/>

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 for 2015, only Norway and Slovenia reported usage of all three elements of domestic public financial management systems, while EU, Denmark, the World Bank and the USAID reported only partial usage of those elements, while the rest of participants did not use any elements of PFM.

The EU emphasized that their payment was the second tranche of Sector Budget Support to Justice Sector, paid to BiH in December 2015, but executed in 2016, according to the BiH financial and reporting procedures. Slovenia, as well, reported usage of all three procedures at various levels of government in BiH.

As mentioned above, only 6 donors active in BiH completely or partially used country systems for public finance management, which is far below the global target defined for *Indicator 5a*.

The assessment for *Indicator 5a - Use of partner country PFM system (aid flow)* - could not be estimated for 2015.

According to data collected in this survey, the majority of donors preferred using their own, instead of PFM systems in Bosnia and Herzegovina, continuing the trend registered in previous reports. 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 by further strengthening the 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 14 donors participating in the survey, only 4 donors reported use of BiH public procurement system in 2015. That is far lower than the global target (90%) defined by the first prerequisite of *Indicator 5b*. However, taking into account previous year, where out of 19 donors only

two of them used the system of BiH public procurement, some progress is evident. Another aspect is the value of the aid which used system of BiH public procurement, which also shows a slight increase.

It is important to point out Slovenia and Switzerland as good examples, since they reported 100% use of the domestic Law on Public Procurement, as well as Japan / JICA and UNCT BiH, which made progress through limited use of domestic public procurement system in BiH.

The assessment for *Indicator 5b – Use of partner country public procurement system (aid flow)* - was 11,75% in 2015.

Result for *Indicator 5b* shows progress in comparison with previous Reports, but still insufficient in reaching the global target. In order to speed up this process, 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, and 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.

The assessment for *Indicator 6 - Avoiding parallel structures for project implementation* - recorded 24 PIUs in 2015, which represents the negative trend, if compared to the previous year.

Thereby, it is important to underline that only two Survey participants reported usage of parallel PIUs, where the most parallel PIUs were reported by the UNCT (15), which in previous year did not reported any, and the Switzerland (9), which reported 1 more unit, if compared to the previous year, i.e. 9 PIUs in total.

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.

The assessment for *Indicator 7 - Aid is more predictable* - could not be performed for 2015, due to the uneven recording methodologies of planned and disbursed development aid present at different levels of government in BiH.

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, it is expected from BiH Institutions to continue the strengthening of the Aid registration system and to harmonize reporting methods on budget executions, through the official reports.

In order to accelerate information sharing, in the forthcoming period, the focus should be on organizing extensive consultations between BiH Institutions and donors at the beginning of each fiscal year. Consultations should be targeted on planned investments and their inclusion in the budgets, as well as on 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.

The assessment for *Indicator 8 – Untied aid* - was 84.38% for 2015, which represents a significant improvement compared to the previous period.

In accordance with data collected from the donor responses to the question related to untied aid, it can be concluded that in Bosnia and Herzegovina most donors, DCF members, provided unconditional development aid in 2015.

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 2015, 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 1 donor (Switzerland) reported limited use of the PBA approach in 2015.

The assessment for *Indicator 9 - Using common arrangements or procedures* - could not be performed for 2015.

In accordance with the above mentioned, donor activities in the coming period should be focused on continuation of the development of the institutional capacities, in order to be able to establish, define and implement the adequate PBA approach 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.

The assessment for *Indicator 10a -Conducting joint missions and sharing analysis* - is 11,48%, which represents a negative trend compared to the previous period, as well as the extremely low level of achievement of the global goal.

Despite the fact that the *Indicator 10a* showed certain improvements in the period 2012 – 2014, given that donors during this period increased the number of joint field missions, in 2015 this indicator recorded its significant decline, compared to the previous results. Out of the total number of donors that participated in this survey, only 5 donors have reported the implementation of the mission in cooperation with other donors in Bosnia and Herzegovina. Also, indicative is the fact that out of a total 122 missions conducted in 2015, only 14 missions have been carried out jointly.

In line with the mentioned, in the forthcoming period it will be necessary to continue the activities on further improvement of coordination with and among donors, in order 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.

The assessment for *Indicator 10b - Joint country analytic work* – is 13,79% for 2015, which is a negative trend compared to the previous year, as well as the extremely low level of achievement of the global goal.

Joint implementation activities were reported by KfW, the World Bank, UNCT BiH and Switzerland, while all other participants reported that they did not conduct joint analytical activities with other donors.

In the coming period, it will be necessary to conduct more detailed analysis, in order to define the reasons for such low performance trend of the appraised value of the *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).

Bosnia and Herzegovina still does not have established harmonized Result-based Monitoring Framework, so that by applying the methodology of the World Bank methodology, the assessment for *Indicator 11 - Results-based monitoring framework* - couldn't be performed.

However, according to the responses from domestic institutions, the 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"¹⁷. 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 managing and maintaining the official DCF website www.donormapping.ba.

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 17 sectoral strategies, out of total 27 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.

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

¹⁷ 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)

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).

In Bosnia and Herzegovina the formal mechanism for monitoring of *Indicator 12 - Mutual accountability* – is not established yet, therefore the assessment for this *Indicator* in 2015 could not be performed.

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 represents 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 in that way the coordination and the transparency of ODA allocation and disbursement in BiH;
- preparing annual Donor Mapping Reports (DMR), with analysis 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 2015

Paris Declaration principles	Paris Declaration indicators		Paris Declaration global targets	Annual report for 2012	Annual report for 2013	Annual report for 2014	Annual report for 2015
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	3,6	3,6	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	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	2,02%	9,98 %	11,04%	11,75 %
	6	Avoiding parallel implementation structures	Reduce by two-thirds the stock of parallel project implementation units (PIUs).	27	33	8	24
	7	Aid is more predictable	Halve the gap — halve the proportion of aid not disbursed within the fiscal year for which it was scheduled	No assessment available	No assessment available	No assessment available	No assessment available
	8	Aid is untied	Continued progress over time	69,83%	52,60%	53,72%	84,38%
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	No assessment available
	10a	Joint missions	40% of donor missions in the field are joint	16,82%	22,41%	29,13%	11,48%
	10b	Joint country analytical work	66% of country analytic work in the field is joint	2,78%	9,30%	17,44%	13,79%
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