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Donor Coordination Ad Hoc Report

*Albania, Croatia and the former
Yugoslav Republic of Macedonia*

MWH Consortium

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The views expressed are those of the MWH Consortium and do not necessarily reflect those of the European Commission.

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**EUROPEAN COMMISSION, Enlargement Directorate General
Directorate E Resources – Unit E4 Operational Audit and Evaluation**

EXECUTIVE SUMMARY

1.1. Scope and Objectives

The purpose of this ad hoc evaluation is to assess the effectiveness of donor co-ordination in Albania, Croatia and the former Yugoslav Republic of Macedonia against the principles of the Paris Declaration on Aid Effectiveness. References to donor co-ordination in Bosnia and Herzegovina, Montenegro and Serbia will be made as well as far as data allow. The availability of comprehensive monitoring data on aid effectiveness in Albania will provide a point of reference for the other countries in the region. In this context, the term ‘donor’ covers providers of financial assistance (both grant and loan) and advice.

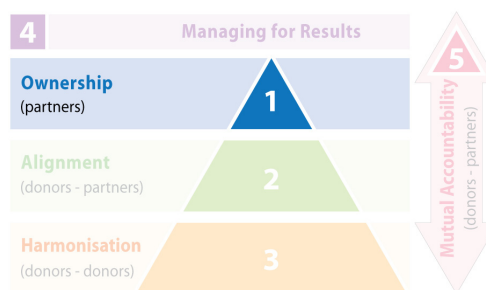
The report provides an initial analysis of each of the five dimensions of the Paris Declaration on Aid Effectiveness and refers to its key indicators to the extent that they can be applied to pre-accession assistance and directly relate to aid co-ordination. Four key conclusions are made on the basis of which recommendations to improve aid co-ordination have been developed.

i. Ownership

Moderate ownership - National development plans require improved prioritisation supported by clear links to the medium-term expenditure framework and to sector strategies.

Ownership is critical to the effectiveness of donor coordination and the Paris Declaration on Aid Effectiveness requires partner countries to exercise effective leadership over their development policies and strategies, and co-ordinate development actions. Good progress has been made in developing national and sectoral strategies. However, these are not seen as strong, and ownership is questionable, as although the accession goal is a strong driver for beneficiaries, it is the European Commission’s (EC) priorities that can dominate over local needs. For example, in the former Yugoslav Republic of Macedonia the perceived drive from Brussels and complexity of IPA has hindered ownership of the assistance agenda. Nevertheless, the fact that the strategies exist is important for the coordination process, as they contribute to the transparency of government thinking and provide a basis for donor alignment. The links between national and sectoral strategies and medium-term budgets need strengthening, both in terms of process, and size.

There has been significant progress in partner countries taking leadership of the donor coordination process, especially in Albania and the former Yugoslav Republic of Macedonia. A functional co-ordination structure has

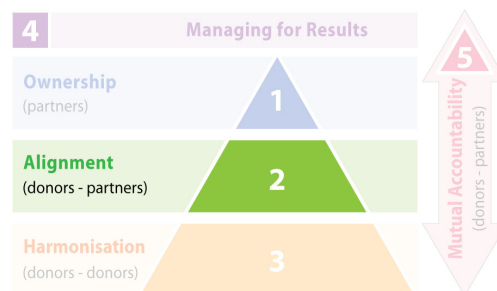


been established in Albania, with strong support from the key providers of external assistance, including financial assistance. The Albanian system demonstrates well the importance of coordination at sectoral level. However, while the lead organisation of the Albanian side is reasonably effective in its coordination tasks, it is not a decision-making body. It is also understaffed, so that the donor database is not kept up to date. The former Yugoslav Republic of Macedonia had put in place an operational system in 2006, but this stopped working in 2007 due to changes in the management team that created a break in the strategic approach. In Croatia, there is no single overarching coordination structure. Finally, in all countries, there are gaps between the coordination of the Instrument for Pre-accession Assistance (IPA) and other external assistance.

ii. Alignment

High degree of alignment in using national development strategies but use of country systems and effectiveness of national structures mixed.

The Paris Declaration requires that donors base their overall support on partner countries’ national development strategies, institutions and procedures, and this is largely being followed. The national development strategies and the European Union (EU) accession



agenda are also generally aligned, and the latter represents an additional filter for EU donors. Certain areas, such as education and health, are part of the negotiation chapters, but assistance is not provided to the same extent as in other core *acquis* areas. Further, some non-European donors are not necessarily aligned with the accession agenda. The proportion of external assistance that is not accounted for in the national budget remains significant.

Adoption of EU framework for financial management and procurement is an important step in the accession process, but such systems are not yet operational in all the evaluated countries. In addition, there is a widespread lack of transparency, so that it is understandable that donors still prefer their own systems. Good progress is being made in harmonising national legislation that will require donors to use national systems in the future, thus avoiding tied aid. However,

some small donors still try to retain tied aid, and avoid national systems. Even after countries implement EU procurement legislation, the EC does not use national procedures, but its own.

Finally, alignment requires effective development capacity within the administration of the partner countries. Whilst co-ordination structures exist and are generally operational, they need strengthening in terms of decision making and monitoring and evaluation.

In Albania, the Organisation for Economic Cooperation and Development (OECD) rating of the 'alignment' dimension has improved from low in 2005 to low-moderate in 2007, but there is still a lack of institutional capacity and an underdeveloped regulatory framework. All countries are in positions similar to former candidate countries that lacked adequate number of skilled staff, and this issue becomes more challenging the smaller the size of the country's population.

iii. **Harmonisation**

Harmonisation of donor arrangements is generally weak, but good initiatives in ‘funds’ and sharing information, particularly at headquarters level

Donor coordination can be more effective when donors adopt common arrangements, simplify procedures, and share information. There is little evidence of common or simplified procedures (except the One United Nations (UN) initiative in Albania), information sharing from joint missions or analyses, or joint programme implementation units. Internal donor rules and culture can still hinder effective partnerships with partner governments and other donors.

There are strong initiatives to set up joint funds, such as the European Fund for South-East Europe, and to coordinate information from external assistance providers at headquarters level. The international community looks to the EC for leadership and co-ordination, as EU accession is the main driver for development in the Western Balkan countries, and EC is the largest provider. The EC has taken some excellent initiatives, including the Joint Office for South East Europe (up to December 2008), the International Financing Institution (IFI) Advisory Group and high-level Donor Coordination Meetings. There are other



multilateral and bilateral donors that are very keen and proactive to make coordination effective, and they work together to provide a common support to the partner governments. However, there are some donors that either see co-ordination as unnecessary, or give it a lower priority than business agendas in the case of banks, and national agendas in the case of bilateral donors.

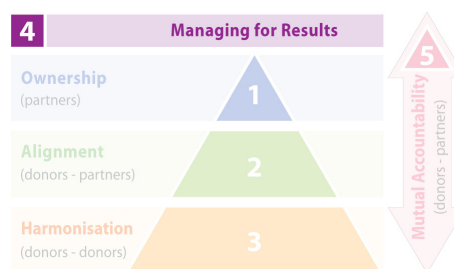
In country, there have been some strong local initiatives in coordination from individual external assistance providers, both multilateral and bilateral. However, there are some donors that continue to pursue strong national agendas.

iv. Managing For Results

Little use of result-oriented frameworks for monitoring and managing results

The Paris declaration recommends that donors work alongside partner countries to manage resources based on desired results and to use information effectively to improve decision making. While monitoring of performance of EC interventions is obligatory under the Decentralised Implementation System, this is not yet implemented in the Western Balkan countries except Croatia, and there is not yet a culture for monitoring and evaluation. The Paris Declaration indicator 'transparent and monitorable performance assessment framework to assess progress against (a) the national development strategy and (b) sector programmes' is rated 'low' in all countries.

Information sharing is important, and there is mixed picture of central databases for donor coordination.



Those in Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Serbia are regularly updated, are available on the internet, and consulted by the relevant donor co-ordination stakeholders. Others, such as Albania and Croatia are not updated regularly, and cannot support the coordination process.

v. Mutual Accountability

Progress towards mutual accountability is low. The effect of coordination in the Western Balkan countries is difficult to measure

The Paris Declaration calls for donors and partner countries to be accountable to each other for use of aid resources, and recommends joint assessments. The rating of this indicator is 'low' for the partner countries, and donors generally do not promote joint evaluations with the recipient institutions.

The requirements for effective donor coordination are the same as the requirements for effective programming and implementation, and any successful impact of an intervention can reflect improved capacity in the areas of either planning, coordination and/or implementation but cannot necessarily be attributed to any one of these. However, some success in donor coordination can be evidenced by the fact that no duplication was observed or reported during this evaluation.



In addition, the positive effects of cooperation between the EC and the International Financing Institutions in coordination of funds, for example the European Fund for South-East Europe and the Infrastructure Projects Facility for the Western Balkans, can be seen in the areas financing of small and medium-sized enterprises and investment projects in the areas of transport, energy, environment and social infrastructures.

1.2. Conclusions and Recommendations

Overall, the conditions for effective coordination of EA providers are partly in place in terms of structures and systems, but need strengthening.

There is a mixed picture with regard to ownership and leadership of the donor coordination process. National and sectoral strategies including external assistance have been successfully prepared, although they need better prioritisation and improved links to medium-term budgets. However, ownership of the EC agenda is not total, which is reflected directly in incomplete ownership of donor coordination. At the interface between the recipients and the EA providers, although external assistance was largely aligned with the NDP, and a few countries have started to take the lead, in most cases, countries are devoted to priorities other than donor coordination, and are happy to leave this to major players, such as the EC Delegation, European Agency for Reconstruction, World Bank or United Nations Development Programme. Some countries have more or less effective structures at the interface, and others have as yet no single coordination structure. There is some evidence that complementarity of external assistance is improving. Decision making, monitoring and evaluation and administrative capacity need strengthening. IPA structures are often separate from coordination of other EA providers. In terms of information exchange, a few central databases for donor coordination were updated and available on the internet, and others were not.

On the side of the EA providers, coordination efforts at headquarters level have been good in both establishment of joint funds and information sharing, with strong leadership from the EC for the latter in recent years. However, at country level the picture is mixed, with some EA providers being committed and proactive in donor coordination, and others following their own national or business agendas. There were strong EA provider initiatives in Albania and the former Yugoslav Republic of Macedonia. However, there is little harmonisation of procedures, few joint missions, and little use of country financial management systems. There is insufficient information to support an overall conclusion related to the effectiveness of donor coordination in maximising the value of external assistance, although estimates for compliance with the indicators of the Paris Declaration on Aid Effectiveness have been given for Albania, Croatia and the former Yugoslav Republic of Macedonia.

Conclusion 1. Management of information is best undertaken by one high-level coordinating body but planning and implementation is best coordinated at sector level.

The key to successful coordination is often assumed to be a central coordination structure that manages all external assistance, supported by a central database containing details of funded projects. However, in the Western Balkans external assistance is too complex for one body to manage everything, and the only practical way to manage coordination of operations is by sector.

A central coordination structure does have an important role in exchange of information across all sectors, and in the maintenance of an effective, up-to-date and readily accessible database. A logical central body is the Ministry of Finance, as it controls the budgeting process.

Coordination at sector level is dependent on the capacity and commitment of line ministries or government authorities responsible for cross-sectoral initiatives. Apart from previous experience of coordination, the requirements of line ministries for effective coordination are the same as those required for effective programming and implementation of national and IPA programmes, and thus fall under the umbrella of good public administration. Some line ministries have good capacity in terms of preparing strategies, programming and implementation, and are in a good position to coordinate external assistance in their sector. However, for small countries with limits on administrative resources, there is a challenge to provide enough skilled staff to build the required administrative capacity in every line ministry, and some weak sectors are therefore to be expected.

Recommendation 1.1 Partner countries should consider integrating structures for IPA and other external assistance more closely – to support such a process may demand additional flexibility from the EC, as it is a Commission requirement that there should be a separate National IPA Coordinator and National Authorising Officer.

Recommendation 1.2 For a country that has just started developing a coordination system, it is too ambitious to expect all sectors to have the capacity to create clear strategies, programme results-based and fully budgeted action plans, and implement these. Within the staff and financial constraints, partners should focus on developing a full co-ordination system in a few key sectors, to make these work effectively thereby generating visible impact, and providing a model for later replication in other sectors. Public administration should be selected as one of the cornerstones of effective external assistance and also of the preparation for membership of the EU.

Recommendation 1.3 There is a tendency to spread assistance over all sectors, even where the ministry does not have adequate capacity in planning and implementation. Assistance to improve this capacity should be offered to these ministries, and direct assistance for infrastructure interventions in those sectors should be commensurate with the planned capacity increase.

Recommendation 1.4 The allocation of funds should be conditional on the provision of information on disbursed amounts and impact, as an incentive for the development of the management and monitoring capacity of line ministries, as suggested in one of the three main conclusions from Accra High Level Forum. Moreover, the establishment of a national monitoring system for all external assistance should be supported at an early stage, before the formal conferral of management powers from the Commission.

<p>Conclusion 2. Reluctance of external aid providers to use national public finance and procurement systems persists</p> <p>The overall process of development of public finance management systems, and of the change of attitude on the side of the donors, needs time. On the other hand, the process associated with improvement of public finance management can act as a catalyst for the development of public administration capacity.</p>	<p>Recommendation 2.1 In view of the complexity of the development of coherent public finance management systems, and the required change of attitude within the donor community, the negotiations on Chapter 32 'Financial Control' should be started as early as possible in the accession process as a step in strengthening country systems and enabling donors to use them.</p> <p>Recommendation 2.2 The further enhancement of external assistance alignment requires reinforcement of the inter-donor operational dialogue through the establishment of a system of joint evaluations, based on an agreed set of criteria and an agreed methodology where donor co-operation is examined in a more detailed manner. Donor co-ordination should be one of the key criteria under aid effectiveness, and the use of indicators defined in the Paris Declaration should become an integral part of the evaluation process.</p>
<p>Conclusion 3. Key factors in the success of external assistance coordination are the extent to which core values of aid effectiveness are given priority in national administrations and embedded in the culture of external assistance providers.</p> <p>On the partner side, inappropriate recruitment criteria and human resource development strategies leading to frequent changes in staff in coordination structures inhibit the donor coordination process. In the local offices of external assistance providers, the trend of employing local staff has a consequence that there are few people in the evaluated countries that have witnessed effective donor coordination in practice. There is not enough transfer of experience from the examples of good practice of donor coordination in the wider development assistance area.</p>	<p>Recommendation 3.1 The major external assistance providers should ensure that the core values for aid efficiency are transmitted fully in local offices, and if necessary that at least one of the staff in local offices has experience of effective donor coordination elsewhere.</p> <p>There should be a sharing of good donor coordination practice between the Western Balkan countries. This could be by regular meetings or video conferences involving small groups of resident staff from external assistance providers. The EC Delegation could take the leadership in organising such meetings. At its meeting in June 2008, the IFI Advisory Group concluded that interaction between the Commission and IFI offices on the ground should be increased, and at the EC Donor Coordination Meeting in December 2008, it was recommended that regional cooperation structures and programmes should be used as a platform to foster donor coordination.</p> <p>Recommendation 3.2 In view of the complex skill requirements for staff in charge of coordination, the recruitment policy and human resource development strategy for coordination organisations should be carefully reviewed. Staff performance criteria should be defined in detail and linked to efficiency indicators. These criteria should be used for staff selection, and in parallel a human resource development plan should be put in place to ensure that staff can develop the full set of necessary skills.</p>