

Review,
UNDP Programme Support to
Bosnia and Herzegovina in the Management
and Coordination of Development Resources

Final Report

Oslo, November 2004



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Abbreviations

BAM	Bosnia and Herzegovina Marka
BD	Brčko District
BiH	Bosnia and Herzegovina (state level)
CG(M)	Consultative Group (Meeting)
CoM	Council of Ministers (BiH)
CBEDEI	Coordination Board for Economic Development and European Integration
DFID	Department for International Development (UK)
DoEI	Directorate of European Integration
DPA	Dayton Peace Agreement
EPPU	Economic Policy Planning Unit
EPRO	Economic Policy Research Office (in EPPU)
EUR	Euro
FBiH	Federation of Bosnia and Herzegovina (Entity level)
IFMIS	Integrated Financial Management Information System
MoERC	Ministry of Economic Relations and Coordination (RS)
MoF	Ministry of Finance (FBiH)
MoFT	Ministry of Finance and Treasury (BiH)
MoFTER	Ministry of Foreign Trade and Economic Relations (BiH)
MTDS	Medium Term Development Strategy
OHR	Office of the High Representative
PIMO	Project Implementation and Monitoring Office (in EPPU)
PIP	Public Investment Programme
PRSP	Poverty Reduction Strategy Paper
PSIU	Project Support Implementation Unit (MoFTER)
RS	Republika Srpska (Entity level)
SAP	Stability and Association Process (EU)
TOR	Terms of Reference
UNDP	United Nations Development Programme
USD	United States dollar

Exchange rates:

USD 1 = BAM 1.50

EUR 1 = BAM 1.95 These are average values as at mid-November 2004.

1 Executive Summary

The UNDP project has helped put in place a system and network for planning throughout the public sector, established principles and procedures for public sector planning, and produced a first PIP and aid database.

The key constraint facing the country is scarcity of skilled manpower, and in particular management capacity. The overarching principle for further development of the public sector should be to simplify, streamline and ensure consistency of organizations, roles and decision-making across the public sector. This means that ad hoc entities should be integrated as quickly as possible into permanent government structures so that skills and capacities being built remain within the public sector on a sustainable basis.

*The UNDP project should therefore focus on strengthening the overall Public Finance Management **system**, ensure that functions are attributed to those entities where they are most likely to remain, and provide consistent and long-term assistance based on principles of good governance, coherence and sustainability. In the field of aid coordination, Ministries of Finance must therefore be provided the capacity to become "one-stop shops" to manage the entire external funding cycle, from agreements, recording of inflows and tracking of usage.*

The UNDP project was to strengthen external resource management by establishing a Development Management Framework (DMF), and operationalising this by creating a Public Investment Programme (PIP) and an Aid Database.

Respecting formal institutional roles, the project has established units at State, Entity and BD levels. Some hosting organizations are seen as inappropriate today, particularly due to the increasing role of ministries of finance for public finance management (PFM).

Vague and over-ambitious development plans coupled with establishment of new central organizations like DoEI and EPPU have made it difficult to define roles and plan well, making the need for a good DMF all the more pressing.

Project Achievements

A **Planning Framework** has been established and approved throughout the public sector down to municipal level, and made to function under complex and changing institutional conditions. **Capacity** has been built in terms of trained staff and establishing the **Planning System** and the **Network** required to make it function.

The first full cycle of PIP planning has been successfully carried out, with staff trained, procedures and prioritization criteria agreed on, a complete, integrated and consensus-based PIP document produced including 425 projects for a total of USD 1.3 billion.

A comprehensive Aid Database has been created, covering the period 1996-2007, with 7,400 projects and total funding of around USD 7.6 billion. Both historical and planning data are thus in one seamless database that is accessible in English and the local language over the Internet. Reports can be generated along different dimensions on-line.

Project Shortcomings

The DMF does not address donor coordination and resources management, and the planning structure is not consistent with how PFM in general is organized. The project has not addressed the issue of simplifying and harmonizing inter-level PFM structures.

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The simplified "one size fits all" project planning is questionable. A more differentiated training assessment is required. More important is if public officials will do planning directly, or manage planning processes, in which case very different skills are needed.

Planning frameworks are vague and general, so "bottom up" planning easily becomes local wish lists. More attention should have been paid to supporting sector-wide criteria.

The project planning emphasis is problematic. Sectors should take a holistic view, consider if targets require more operational or investment activities, and then have an assets-optimization approach, where upgrading and expanding as well as new investments are central to least-cost development. Recurrent costs of new investments must be central to project development, as well as innovative funding for both capital and recurrent costs, none of which is being addressed.

The investment budget needs to be situated within a more rigorous macro-economic frame, both for the capital and recurrent costs, but also looking at the debt-burden implications. This requires overall much tighter integration with the budget processes.

The aid database should be more "budget structure friendly" and should include economic, functional, organizational and territorial classifiers.

Looking Ahead

The trends and pressures are towards simplified, unified and more accountable public sector institutions, not least of all in the field of PFM. When designing a better DMF, two principles should be borne in mind: (i) clear national accountability, which means strengthening of the State level, and (ii) separation of policy decisions and resource management. In order for this to function optimally, external resources – grants and loans – need to be components of the country's PFM system, so ministries of finance should become "one-stop shops" for resource management.

PFM thus needs to be strengthened, including developing and putting in place an IFMIS into which the PIP/aid database can be merged over time. A key step is for the authorities to manage the technical assistance (TA) being provided by the donors much better, since lack of TA coordination can become very costly.

Recommendations for the Future

Over the short run (remaining project period), UNDP should:

- Carry out a "functional audit" of the intended planning approaches to ensure that assistance and training is provided within a more integrated and realistic budgetary process.
- Move DCUs to ministries of finance, and ensure that capacity created is maintained with this institutional transfer. Help put legislation and rules in place that institutionalize current and new roles and structures, to ensure clarity.
- Provide classifiers in the PIP/aid database that make it "budget friendly" and will facilitate its eventual integration into the budget/IFMIS.
- Print out the current database by project to donors and ministries, for their information, verification and suggestions. A functional audit should be done of the database to rectify any remaining weaknesses, and discussions should be concluded with DoEI to ensure that there is no duplication of aid database work.

Over the medium term (in terms of a new three-year project period), UNDP should:

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- Assist sectors operationalise their strategies for better planning across boundaries.
- Focus on strengthening key ministries develop their planning capacity, especially in light of attaining the Millennium Development Goals. UNDP should also focus on cross-cutting concerns of gender and ethnic equity, environmental sustainability, enhanced accountability and transparency, and stronger participation by civil society, especially the marginalized and poor.
- Provide senior public sector management and legal skills to help structure, codify, and formalize planning and budgeting procedures where this may be required,
- Provide a training specialist to identify needs and local resource institutions, develop training materials and local trainers, and systems for monitoring performance.
- Provide fora where "lessons learned" can be discussed and assessed for further improvements to the PFM systems, instruments, and actual performance.

The project should be driven by an overarching capacity building program to provide enhanced PFM:

- *by levels (State vs. Entities vs. cantons vs. municipalities),*
- *by sector,*
- *by function – budget vs. project preparation vs. strategy development*
- *building sustainability through*
 - *institutionalization of procedures and structures,*
 - *ensuring there are technical capacities to reproduce skills (use of local universities, units like EPPU etc),*
 - *financial viability by ensuring that the scope and pace of work is realistic and with explicit exit strategy based both on local technical and financial resources to assume the responsibilities.*

2 Introduction

The Dayton Peace Agreement (DPA) with the Constitution of Bosnia and Herzegovina (BiH) established BiH as a sovereign, decentralised, federal state. The DPA gave extensive powers to the two Entities, Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH) and only limited and specific powers to the BiH's state level institutions. The Brcko District (BD), an area which remained disputed after the Dayton agreement, was given special status in March 2000 almost similar to the two Entities: Brcko stayed largely autonomous politically, legally, administratively and fiscally in local matters.

The two Entities are somewhat different in their internal structure. The FBiH is organised into 10 cantons, each of which has significant authority, which are further divided into 84 municipalities. The RS has no intermediate level of administration and consists of 63 municipalities.

Following the October 2002 Parliamentary Elections, eight central ministries have been created at State level, but State authorities remain constrained in exercising effective power, with the exception of certain areas such as international relations and negotiations with the international financial institutions (debt management, etc).

2.1 UNDP Project

The UNDP project "Support to the Programme Support to Bosnia and Herzegovina in the Management and Coordination of Development Resources" was signed at the end of 2001, and began implementation in 2002. It was to end mid-June 2004, but the project is currently extended till the end of 2004, though funds remain that may permit key activities to continue into 2005.

During the period of implementation, the framework conditions for implementing this project have changed considerably. New institutions are in the process of being created that affect aid coordination, such as the Economic Policy Planning Unit (EPPU) and the Directorate of European Integration (DoEI), both of which report to the Prime Minister's Office/the Council of Ministers. During the Consultative Group Meeting (CGM) co-hosted by the World Bank and the European Union in September 2004, the Prime Minister informed the donor community that he would present a revised aid coordination and management framework by the end of the year. DFID offered to assist in this endeavour by providing the services of a consultant to work with the Prime Minister's office on this.

In light of these changes, UNDP therefore wanted to take stock of what had been achieved and what should be done in the future. A review of past performance and future options was therefore commissioned to address these issues.

2.2 Objectives of the Evaluation

UNDP defined the purpose of this assignment to be (see Annex A for full Terms of Reference, TOR):

- Work jointly with the DFID Mission aiming at finding appropriate solutions for harmonisation and aid coordination;
- Provide a review of the appropriateness and relevance of the present UNDP Aid Coordination project in these new circumstances; and

- Provide a review of the local capacity that has been created at all levels, including the Project ones, to undertake planning activities and should be made use of under a potentially changed institutional setup.

2.3 Methodology

This review has been a short-term exercise, with field work in Sarajevo during 1-11 November. The mission has therefore had to rely on document reviews and interviews for generating the required information (see Annex B for list of informants and Annex C for list of documents). It has therefore not been possible to undertake an independent assessment of actual results produced in the field. There have also not been visits outside the capital Sarajevo, so the only informants from RS and BD interviewed were those civil servants directly involved with the project who came to Sarajevo. This report with its conclusions and recommendations should therefore be read in light of these limitations.

2.4 Structure of Report

The report has four substantive chapters:

- Chapter 3 presents the project, its goal structure, evolution, and some key framework conditions under which it has had to work;
- Chapter 4 presents project achievements;
- Chapter 5 looks at project short-comings and thus remaining challenges;
- Chapter 6 provides some suggestions for the future.
- Annex A gives the full TOR, Annex B the list of informants, and Annex C the document list.

2.5 Acknowledgements and Disclaimer

This evaluation was conducted by Mr. Arne Disch, of Scanteam/Norway. He received full support from all project staff, government and donor offices approached, for which sincere thanks are given. Particular thanks go to the project staff in MoF TER and the UNDP office in Sarajevo.

Given the complex realities on the ground, this report no doubt contains its fair share of factual mistakes and misunderstandings. But there may also be conclusions and recommendations that actors may be less happy with, and which are not simply attributable to such background errors, but reflect differences of opinion and weighting of factors when carrying out the analysis and reaching conclusions. This report and its findings are therefore the sole responsibility of the evaluator, and do not necessarily reflect the views of UNDP, the collaborating bilateral funding agencies, project staff, government officials or any other actors mentioned in this report.

Comments and views on the report and its contents would gratefully be accepted and can be sent to the evaluator at ardi@scanteam.no.

3 Project Frameworks

The UNDP project was to strengthen the national and entity authorities in planning and managing the external resource that are made available to the country. While grant aid for development will decline over the years to come, grant funds are still substantial, and their increasing scarcity makes their careful application all the more important^{1 2}

In order to support the authorities in this task, the project was therefore essentially going to address two issues: (i) Put in place a Development Management Framework, and (ii) Operationalise this Framework through establishing/creating two key instruments:

- A Public Investment Programme (PIP);
- Database on External Resources ("Aid Database").

The project had a total budget of about USD 1,376,000, where cost-sharing contributions from Italy, Japan and Norway made up the greater share.

3.1 Goal Structure

The project has a clear Logical Framework organization, where the Development Objective is given as:

"Facilitate BiH transition from recovery and reconstruction to sustainable development, by helping public authorities in effectively mobilizing and coordinating adequate external financial funding to complement domestic resources, which are both necessary to implement development programmes and promote sustained market-oriented growth".

There are three Immediate Objectives with specified Outputs, Activities and Indicators attached (the latter two dimensions are not included here):

Immediate Objective 1: Establish a fully operational development management framework, and as part of it, a mechanism for development resources coordination that will integrate external and domestic funding into the country's strategies and priorities.

Output 1.1: Comprehensive Framework for development management finalized and agreed by all relevant government agencies and external partners.

Output 1.2: Mechanism for development resources coordination established, agreed by government and donors, and operational.

Immediate Objective 2: Establish and operationalise a system for public investment programming at the State level that will improve and incorporate the existing instruments of resources allocation in the Entities.

Output 2.1: Common methodologies and procedures for public investment programming to translate development strategies into concrete investment and capacity building projects prepared and endorsed by relevant government agencies.

¹ The table prepared by EU and World Bank for the CGM estimated grant funds in 2003 at USD 292 mill and loans at USD 85 mill. For 2004 grants are USD 277 mill and loans USD 245 mill, while in 2005 the amounts are USD 209 mill and USD 220 mill, respectively, so the *trend* is clear.

² A major component of this aid consists of technical assistance (TA), which typically is less transparent and more donor-managed and –driven than other assistance. This short mission has not reviewed TA.

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Output 2.2: Countrywide Development Resources Mobilization Programme formulated and updated on a yearly basis.

Output 2.3: Increased capacity of selected government institutions in investment planning and programming.

Immediate Objective 3: Strengthen the capacity of State core ministries and Entity core institutions (by means of transfer of knowledge and initially by direct support), in cooperation agreements negotiations, resources management, and monitoring of implementation.

Output 3.1: Substantial and adequate external funding is mobilized in a continuing manner to meet the investment requirements and cope with the refinancing capacity of the country.

Output 3.2: Better utilization of development resources and increased impact on development programmes implementation.

Output 3.3: Increased capabilities of local Staff in agreement negotiations and resources management.

The project therefore set itself some fairly ambitious goals, especially in light of the very fragmented polity in the country, and thus the problems of getting decisions taken in a timely manner. But there was a focus on getting overarching frameworks in place, get agreement on basic instruments for resource mobilization and application among all the key stakeholders, and then apply these to the country's public investment challenges.

3.2 Project Structure

The project structure reflects the complex political and institutional situation on the ground, and the project's commitment to extend and deepen the planning dialogue across organizational and geographic boundaries.

The project's main component (Programme Manager, IT manager, Junior Aid Coordination Expert and project secretary) has been in the Ministry of Foreign Trade and External Relations (MoFTER) at the State level. This is also where the Project Support Implementation Unit (PSIU) has resided, consisting of three senior civil servants. Development Cooperation Units (DCUs) have been established in the Ministry of Finance (MoF) in F BiH, in the Ministry of Economic Relations and Coordination (MoERC) in RS, and later also in BD. Finally, at State level, support was extended to the Ministry of Finance and Treasury (MoFT) and an office was also to have been established at the Ministry of Foreign Affairs (MoFA).

The project was identified in 2000, and followed the roles that the various institutions had as laid out in the Law on Ministries. This was why the main component was placed in MoFTER, since this ministry was to coordinate all donor assistance except that from the EU. This approach at that time was clearly the most appropriate and the only one that could have worked.

As certain tasks were transferred to other institutions – in particular debt management from MoFTER to an expanded MoFT – it became clear that the project needed to consider alternative hosting institutions. This issue was addressed in a series of papers that looked at alternative organizational structures³. But no action was taken as the

³ Project Paper # 5; "Positioning of UNDP Project Units in Suitable BiH Institutions to attain BiH Government approval for the establishment of the Mechanism for the Coordination and Management of Development Resources in BiH", September 2004. The paper assesses three alternative scenarios.

political authorities did not take any decisions, and MoFTER itself was clearly against the idea of the project moving out.

In line with the decision to respect the public administration structure that had a formal political basis and was in place, the project further decided to build on civil servants in post. Other donor-funded units that were being established more or less at the same time, such as the Poverty Reduction Strategy Paper (PRSP) unit, consisted largely of externally recruited staff. The UNDP project ended up with three or four national officers in MoFTER, in the DCUs in FBiH and RS, and one person in MoFT at State level and one in BD.

3.3 Project Development

The project was to begin early 2002, but separate agreements had to be reached with each government – State, Entity, BD – for the project to get off the ground. This meant that each project component fell into place at different times, with many months' delay compared with the original work plan. But the need to work in a deliberate and balanced way has been critical to the project moving ahead at all. Trust has had to be built through delivering on promises and proving that there was no political or geographic bias in how activities were undertaken and resources allocated. But it has meant that the project management has had to spend a lot of time on administrative, coordination and communication issues.

The project has produced two substantive progress reports. The first was a mid-term review (MTR) in April 2004, while the second was a report to the Norwegian Embassy, as one of the three cost-sharing partners in the project. The MTR was carried out by a professional from the region, who therefore had good knowledge regarding planning activities in the region. The key summary statements from the report are the following.

"It was revealed in all discussions that this has been a unique programme, creating new capacities and proved very useful in all its main elements... The programme... is addressing some precise and important elements only, which are key factors in the whole system: (a) proposed integrated system for economic planning and development resources co-ordination; (b) state level comprehensive data base; (c) a 3-year PIP integrated and adapted at state level... Without a follow up phase no sustainability can be achieved. For the next phase, 3-4 strategic entry points have to be determined and firm commitment should be requested on behalf of the government, primarily at state level, where there are bottlenecks... They have to increase their ownership attitude and fully understand the importance of the UNDP project.

This project was first prepared back in the year 2000. Since then, the political, institutional and human environment has substantially changed. A careful revision would be necessary about whether the host institution (MoFTER) has remained in a strategic position after the frequent changes. Is the ownership feeling and political support to the project strong enough on behalf of MoFTER? Do the leaders of MoFTER pay enough attention to this project or are they busy with their enlarged portfolio? Still there is time ahead for the implementation of the current project and possibly an extension will come, therefore, it is mutual interest of UNDP and the beneficiary partners that the project should be in the most suitable and enabling environment. Perhaps the MoFT, which is in a new capacity building phase, based on its recently extended mandate, would benefit more of the assistance of this UNDP project than MoFTER has done" (UNDP 2004, p. 3).

The statement that the project has proved very useful in all its main elements will be discussed in chapter 5. The fact that the project focused on a few key issues and has delivered against these is an important achievement, and the observation that a follow-on phase is necessary for sustainability is in principle also correct. The discussions regarding the hosting of the project was of course highly relevant, and an issue the project had been struggling with at least since the fall of 2003, and this will be returned to later.

The report to the Norwegian Embassy is a detailed discussion of activities and achievements organized along the project's objectives hierarchy (see Annex C, PP # 6). Like the MTR, it is rather uncritical when presenting attained results, and quite optimistic in terms of future expected achievements, issues returned to in chapter 5.

3.4 Related Activities and Structures

3.4.1 New State Structures

The report to Norway raises a number of organizational issues, including the relations to new State institutions being established, the Directorate of European Integration (DoEI) and the Economic Policy Planning Unit (EPPU). Both of these report directly to the Prime Minister's office. Both are receiving considerable technical assistance (TA). The EU is supporting the DoEI and the Economic Policy Research Office (EPRO) of EPPU, while DFID and the World Bank have provided assistance to the Project Implementation and Monitoring Office (PIMO), the other part of EPPU⁴.

The project has attempted to establish systematic links with the DoEI, since it has functions that potentially overlap or at least complement some handled in the UNDP project. DoEI is to monitor and in fact contribute to the development of BiH policies regarding the Stabilization and Association Process (SAP). This is the overriding concern of the EU, and the EU CARDS funds are channelled through DoEI to ensure that they are programmed to achieve the greatest impact on BiH's accession process towards EU membership. The DoEI is also to coordinate EU member states' assistance to BiH, and in that connection intends to establish a database to monitor this.

3.4.2 National Development Strategies

The Public Investment Programme (PIP), which the UNDP project has supported, is to be driven by the country's development policies. BiH had till this year not formulated a comprehensive strategy, but under World Bank prodding put together a Poverty Reduction Strategy Paper (PRSP). This was done by an *ad hoc* unit in MoFTER, which was later largely transferred into PIMO in EPPU. The PRSP and the PIP were to a large extent developed in parallel, though the processes were quite different. The PRSP was led by a consultancy team that undertook a wide-ranging consultation process with civil society, the private sector, etc, and with considerable inputs from a number of working groups that included national academics, etc. The PIP, on the other hand, was largely an within-the-public-sector exercise, using civil servants and following the political structures of the country to put together the programme. But while the PRSP was led and carried out only by nationals, the UNDP project had a team of external experts⁵.

⁴ Both of these are sometimes called "Units", so that the abbreviations then are EPRU and PIMU. This name confusion reflects the fact that institutional development in BiH is still somewhat in a state of flux.

⁵ The project has a senior adviser in MoFTER and one in MoF/FBiH, and in addition Italy is funding two advisers, one in MoFT/BiH, and a junior expert in MoFTER.

During the finalization process of the PRSP, the country was made aware of the fact that it needed to have a formal development plan as part of the SAP. The PRSP was therefore modified to try to accommodate the design requirements that the EU has concerning such a plan, with the final document being renamed "Medium-Term Development Strategy (MTDS) – PRSP". Most observers concur that the final outcome does not really answer to the criteria that the EU has for such a plan. But given the time constraints and the realities of the country, it represents a fair first-time compilation of a wide range of reform processes and general development concerns that should be addressed over the medium term. At the same time, it is clear that BiH cannot possibly implement such a vast change agenda that is outlined in the MDTS-PRSP over the time horizon presented: 2004-2007. The realism of MTDS-PRSP statements, and thus the operational value of the document for development planning, is hence problematic – something the PIP has had to struggle with.

A further complication has been the extent to which the SAP and PRSP differ in terms of process and content. The PRSP typically has a strong bottom-up aspect since it addresses development priorities as seen from the resource poor. The SAP is more a top-down change agenda – as well as developmental improvement in key areas such as infrastructure – to make institutions and systems become aligned to the standards they must meet for EU membership, and against which they are benchmarked. Certain areas, such as basic social services (health, education, pensions, etc.) are not necessarily part of the program, whereas in a PRSP they often are at the centre. While the PRSP is a longer-term continuous process, with Millennium Development Goals (MDGs) targeted for 2015, the SAP has a series of performance criteria that must be met before the next stage in the accession process takes place. This structural heterogeneity is thus a key concern of donors, since the key scarce resource in both processes is limited national management capacity. Too much focus on the SAP, and PRSP performance may easily suffer, and vice versa.

The *harmonization* concern is thus linked to how these two overarching change- and development agendas can be made compatible and complementary in those areas where they are not identical. The PIP is once again caught between these two sets of priorities in terms of required public investments.

3.4.3 New Public Accounting Systems

Public accounting is being modernized through the installation of an electronic public finances program at State, Entity and canton levels. While the program has been installed in the State and Entity Ministries of Finance, they are not yet linked. Furthermore, while the F BiH Ministry of Finance hosts the server where the programs and data for the cantons are housed, it does not have access to the canton data. These are for the time being forwarded as expenditure reports every six months⁶. Consolidated national accounts can thus only be constructed through compiling the data from the various systems, which makes it difficult for national authorities to put together comprehensive and consistent expenditure data for macro-economic management.

Budgeting is not yet integrated into the accounting system, though this is to happen (MoF/F BiH currently relies on spreadsheets, for example). This means that policy-based planning – typically program-based budgeting – is not feasible yet. But this is foreseen to happen as the accounting system is developed further into a comprehensive Integrated

⁶ Another issue is that the Chart of Accounts is evidently not being followed by all institutions, especially at canton level, so aggregation is problematic, though this will undoubtedly be sorted out over time.

Financial Management Information System (IFMIS), a key part of any public finance management system.

The PIP needs to link into this PFM system in two ways: (i) it must be structurally compatible with the budget categories (for example based on the Chart of Accounts as the starting point), and software compatible so that data can be imported into the PFM system, (ii) recurrent cost implications must be captured in the budget process, typically by having recurrent cost coefficients established, such as expected maintenance costs per kilometre of roads constructed, etc.

3.4.4 Medium-Term Expenditure Framework

BiH has received support over the last several years to develop Medium-Term Expenditure Frameworks (MTEFs) for the two Entities. This has helped establish annual and pluri-annual expenditure ceilings broken down by key dimensions (sectors, expenditure categories). This work is to be extended to cover also the State level, and over time will include a better model of the real economy⁷. The MTEF will include the debt carrying capacity of the economy, another important component for PIP work, since this will show how much the State and underlying governments can take on in new debt. Since an increasing share of the country's investments will have to be funded either by own resources or through external borrowing, the PIP is dependent on having a realistic debt model for coming up with a sustainable investment program.

3.4.5 Signing Agreements

Signatory power for international agreements remains unclear concerning grants, and even debts to international lending institutions can under certain circumstances be incurred by Entities. The need for simplified, consistent and transparent systems for entering into new agreements, recording them, and managing total external resources thus still needs sorting out, and remains a challenge that the UNDP project was to contribute to solving.

3.5 Findings and Conclusions

The UNDP project was to strengthen external resource management by establishing a Development Management Framework (DMF), and operationalising this by creating a Public Investment Programme (PIP) and an Aid Database.

Respecting formal institutional roles, the project has established units at State, Entity and BD levels. Some hosting organizations are seen as inappropriate today, particularly due to the increasing role of ministries of finance for public finance management (PFM).

Vague and over-ambitious development plans coupled with establishment of new central organizations like DoEI and EPPU have made it difficult to define roles and plan well, making the need for a good DMF all the more pressing.

⁷ The MTEF is currently based on estimating revenue streams rather than having a formal model of the economy as its foundation, since a macro-economic model cannot be constructed with existing data.

4 Project Achievements

The project has, during its approximately two years' lifetime, produced results that are of importance to BiH, at several levels.

4.1 Development Management Framework

The project has first of all been able to establish a *structure* that covers the four key governments: the State, the two Entities, and BD. The project is thus able to dialogue with and – through this – promote dialogue between these four governments regarding its key objective: development planning.

The project was able to generate *political consensus* on this system, which was critical for any kind of systemic (cross-institutional) planning process to be feasible.

It has established *operational units* in all four institutions: the PSIU at MoFTER, and DCUs in the two Entities and BD.

At the State level, the structure has been more elaborate, to include not only MoFTER, but also the MoFT, and was also to have included the MoFA. In this way, the project ensured that all those institutions at central level that had a formal role to play in foreign resources mobilization and management were included in the structure.

Once the actual planning process was to begin, the project was able to extend this structure further by getting agreements to having focal points nominated in Entity ministries and cantons, and in principle also in municipalities. The degree to which the latter occurred was to some extent a function of the resources existing in each municipality, as some of them are quite small and thus have limited personnel in place.

The overall system is thus in line with the formal legislation in place, which is important for its legitimacy. As has been noted above, however, certain functions have been shifted among the institutions, though all of this has not yet been formally legislated. This gap between formal rules and practical reality is a problem, since no public sector can over time operate in variance with its own rules and regulations. Over the last year or two this has, however, been reality in areas affecting the project and its activities.

The project has thus contributed to strengthening the policy dialogue between public sector institutions *vertically and horizontally*. This has led to broader information and experience sharing, and thus building of trust between the individuals who occupy similar positions in different institutions. That is, the project has been establishing the *network* (individuals in designated posts systematically communicating on a basis of shared goals) that is necessary for a *system* to work.

The project has compiled the legal and institutional instruments that exist for the desired Development Management Framework (DMF), and has provided an analysis of it as the basis for proposals on how such a framework can be structured (several options have been proposed), and what some of the formal rules-change implications would be⁸.

Because the project has used civil servants as local project staff and built on existing structures, the project and its activities have established a clear anchoring within the public administration, which is key to longer-term impact and sustainability.

⁸ This information has been provided to the DFID consultant who is assisting the Prime Minister's office in developing such a DMF. From the UNDP project's perspective, therefore, the technical work that could be done has now been concluded, and the studies and documents produced have been handed over to the more political process for finalization and decision making.

The project, its structure and objectives seem to be known to most of the key actors for public sector planning. The project has furthermore endeavoured to make itself transparent to other actors and donor-funded activities, and has been presented to the donor community on a couple of occasions. It has shown a willingness to cooperate and contribute to other activities, and to allow itself to be modified in light of changing realities, proposals and legislation, in order to better attain its stated objectives.

4.2 Improved System for External Resources Management

The project has contributed decisively to the development of two key instruments for external resources management: the PIP, and an Aid Database.

4.2.1 Public Investment Programme

The project has been the driving force behind producing a comprehensive PIP document by mid-2004. The document presents BiH's prioritized public investment projects broken down by sector, by planning entity (State, Entity, BD), by aggregate levels of funding required by source, and with the total funding period broken down by each of the three years 2005-2007, and then a figure for any funding required beyond 2007.

In order to produce this, the project has developed a series of guidelines, training materials, has carried out training for many of those officials responsible for identifying and preparing the project proposals down to municipality levels, and has supported and guided the process throughout all the steps required.

The project has succeeded in establishing consensus on key procedures for the PIP:

- PIP (investment project) development should follow budget cycle.
- The PIP should be a comprehensive three-year rolling plan.
- Project identification sheets (PIS) should be prepared for each proposed project. The PIS should contain standardized information that is useful for PFM purposes: financing should be broken down by funding source, year, location, economic classification, etc.
- There are some key project identification criteria that all approved projects must fulfil:
 - They must be in compliance with the PRSP/MDTS priorities.
 - They must be in compliance with existing sector development strategies.
 - They must respect MTEF financial constraints, including level of indebtedness.
 - Projects will be rated on the quality of the proposal and the justification.
 - They must contribute to and be part of a balanced regional and urban/rural development pattern.

All projects were to be classified into one of four categories: "New – High Priority" and "New – Medium Priority" (projects for which no funding had yet been secured), "Committed" (projects that were identified but had not yet begun implementation and for which at least some if not all funding had been mobilized), and "On-going" (projects under implementation where some, most, or all funding was already identified).

The PIS was to clearly specify the sources of funding, whether from the own budget or from external resources, and in case of the latter whether it was expected to be grant funds or loans.

The PIP was furthermore to be based on "bottom up" programming principles. All institutions including the municipalities were to propose projects within their area of competence and their funding limits. These would then be channelled to the level above them in the public administration hierarchy.

The finalization of projects to be included in the PIP was to be done by a politically appointed commission, so that the political anchoring and legitimacy of the PIP was clear. Each of the four governments – State, Entity, BD – was to produce their own PIP which were then to be aggregated into one national PIP.

The final PIP document contained 425 projects with total budgets of BAM 1,931 million (about USD 1.3 billion). Of this, On-going and Committed projects had funding of BAM 1,055 million, while the BAM 876 million required for New projects was split across local budgets (BAM 168 million), other local funds (BAM 54 million), grants (BAM 79 million) and loans (BAM 574 million), loans thus making up two thirds of funds needed.

The PIP process, as it evolved, has clearly contributed to the strengthening the role of the State though there is no *legal* basis for this it as yet. It was the State that was given the task to aggregate and produce the national PIP. MoFTER presented the finished PIP to the donor community during the Consultative Group Meeting (CGM) at the end of September 2004. And it is the State that is formally charged with mobilizing the resources for the implementation of the PIP.

4.2.2 Aid Database

The other major output of the project is the Aid Database. This can be considered to include several sets of data.

The first is the historical aid database compiled by the International Monitoring Group (IMG), an NGO. It had tracked donor funding for large parts of the reconstruction phase, covering both Entities. IMG stopped inputting new data when its project funding ended, handing over the respective databases to the two Entities. In RS, these data (which had originally been put in MS Access by IMG) were ported to a FoxPro database, and MoERC continued updating it on this new platform. In FBiH, the database was essentially left dormant with more *ad hoc* registering of new information.

The project decided to program a new database, also in MS Access, because the original IMG programming was not flexible enough to provide the kind of reporting that was seen as desirable. The old IMG data, the updated RS data in FoxPro, the data that had been compiled by FBiH, and the new PIP data have all been fed into this consolidated database. It thus represents one continuous, seamless database with information from 1996 through the PIP period of 2007.

The historical database contains a total of 7400 projects with estimated expenditures of around BAM 9,255 million (about USD 6.3 billion). The complete database with the PIP thus includes public expenditures for 10-11 years of around USD 7.6 billion.

There are some serious holes in the database, which the project is aware of. The first issue is that the database uses the information provided by the local authorities. For a number of reasons, considerable funds have not been captured in this way, including the considerable funds channelled through many of the NGOs during the reconstruction period (the authorities had limited if any records of this funding). There are major problems classifying some of the projects, and some activities that took place both in Republika Srpska and the Federation may have been registered differently in the two, and there may both have been some double counting and at the same time some lack of recording because original information was unclear, etc. In short, there were enormous

resources flowing into the country through a variety of channels that were urgently trying to address many different problems and constituencies at a time when public administration was still weak and overall organization at times hectic and chaotic. The database reflects this reality, and in this light the coverage actually is quite good.

This database is now available over the internet, in both English and local language versions. It permits the generation of basic reports, including by sector, region of implementation, and donor source, so that donors can verify to what extent activities they believe have been funded with their money have been captured by the database.

The project has used the data to produce a first diagnostic of external aid to BiH during the period 1996-2002, by political entity, sector, and donor.

4.3 Capacity for Resources Negotiations, Management and Monitoring

The project was to contribute to resources negotiations, management and monitoring, but in this field achievements are limited. English language training has been provided under this component, which has been highly appreciated but not necessarily all that effective. The training has been too general and tried to cover too many persons, and thus has not provided the kind of qualitative improvement that would be required if skills were really going to be used in fields like negotiations with donors. The project therefore intended to restructure and focus this work.

The management and monitoring phase of work has hardly begun, as the resources mobilization for investment activities has not really commenced – only the PIP has been launched.

4.4 Findings and Conclusions

A *Planning Framework* has been established and approved throughout the public sector down to municipal level, and made to function under complex and changing institutional conditions. *Capacity* has been built in terms of trained staff and establishing the **Planning System** and the **Network** required to make it function (persons in defined positions within organizations for information flows and decision making).

The first full cycle of PIP planning has been successfully carried out, with staff trained, procedures and prioritization criteria agreed on, a complete, integrated and consensus-based PIP document produced including 425 projects for a total of USD 1.3 billion.

A comprehensive Aid Database has been created, covering the period 1996-2007, with 7,400 projects and total funding of around USD 7.6 billion. Both historical and planning data are thus in one seamless database that is accessible in English and the local language over the Internet. Reports can be generated along different dimensions on-line.

5 Project Shortcomings

While achievements are significant, a number of issues need to be considered.

5.1 Development Management Framework

The framework that has been established is limited to the planning component of the DMF. This component itself is also both too complex and too simple to produce the kind of planning that a country about to join the EU requires.

5.1.1 Structure of Framework

A Planning Framework has been established. But it does not address the issue of donor coordination, including the registry of agreements and contracts as well as recording and managing incoming resources. The existing DMF is thus very partial in its structure.

Regarding the formal structure of the Planning Framework, project planning is obviously part of the capital budget of governments. The PIP thus has to become much more part of the general budgeting process. The project should thus focus on the key institution that is responsible for PFM, which in all of the governments is the ministry of finance. The links to other ministries that have a role to play in PIP development – for example MoFTER at State level and MoERC in RS – should be the responsibility of the finance ministries. Project units in other ministries than finance should therefore be phased out, and the correct channels for inter-government communication and dialogue should be used. This will therefore *simplify* the project and programming framework.

The DCUs placement within ministries of finance also needs to be sorted out. The key issue is what the relationship to the budgeting/planning function in the ministry is or should be. In the case of the FBiH, the DCU is a separate unit. Different countries solve this issue differently – having an integrated budgeting and planning unit, or a separate planning unit, or a separate external relations unit, etc. What is important is that the four governments come to a similar structural solution regarding their planning and external resources coordination capacity, so that there is structural coherence/ similarity across governments. This will simplify the dialogue, the introduction of key planning and budgeting instruments, the relationship to other actors both within the public sector and outside it, including donors. What is desirable is a transparent and simple structure, with specified responsibilities and thus obvious boundaries between organizational units, with clear rules regarding how communication into and out of the units are to be structured and handled, for example in connection with public investment planning. This the project has not addressed.

5.1.2 Contents Development within Framework

The *contents* of the planning have been brought down to a lowest common denominator. This is probably not helpful. There is *one* training manual that has been prepared, which talks about general macro-economic development, the need for public investments for economic growth and development, etc. This has been used, from what this mission has understood, for training at Entity, canton and municipality level, for infrastructure as well as social sector staff, for those with and those without an economics and planning background. Furthermore, the project development approach is a Logical Framework (LFA) standard, which is more appropriate for some activities than for others.

As a general introduction to public sector planning, this may be helpful. The feed-back that this mission received pointed to local staff being appreciative of this training. This in

part reflects the reality of the backgrounds and experience that many staff in the public sector have, and which needs to be borne in mind when designing training⁹.

But it is important to develop more differentiated training based on a needs assessment of what different officers require. Physical infrastructure projects typically contain a rigorous economic study while small-scale social investments do not. Projects at Entity level would normally require better preparations than at municipality level. Officers with an engineering or economics background require different training than those with social sector skills, etc.

Of greater importance is that civil servants often are not engaged in the direct planning of projects. They instead commission project studies by drawing up the terms of reference; put the tenders out to bid and manage the contracting process; hire and manage the consultants; assess the quality of the work done and the appropriateness of the recommendations; and bring this forward to decision makers. The role of *managing* public sector investment processes is quite different from doing or leading the process oneself, so knowledge of LFA is oftentimes not the core skill required.

When looking at investment options, alternative funding arrangements need to be considered. In certain fields private sector and not-for-profit actors can be important partners – the former in some infrastructure areas, the latter typically in the social sectors. This would be in line with both SAP and PRSP/MTDS thinking, but the planning approach seems to look almost exclusively at public funding, whether from own resources or from abroad¹⁰.

When designing projects, issues of financial sustainability are crucial. This may not just be a concern of whether the public budget can carry the increase in recurrent costs (additional teachers for new schools, etc), but there may also be issues of burden-sharing policies: will investments in infrastructure be partially funded through user-fees, are collection policies in place realistic or do rates need to be adjusted in order for the investment to be viable, etc? No recurrent budget or own-funding consequences seem to be covered, which immediately raises questions about the realism of the planning.

5.2 Improved System for External Resources Management

5.2.1 PIP as Good Resources Management

The PIP planning is problematic as an exercise in public resources management. The overarching framework for the PIP – the PRSP/MTDS – is too general with few specified targets. Much of the PRSP action plan concerns policy reforms, as noted before, but at sector levels there is little in the way of medium-term targets that could inform priorities among projects. In the roads sector, for example, some argue that the country needs more rural roads to improve access to markets for rural households, where much of the poverty is. Others want to see the arterial highway system strengthened for improved transit of the large-volume traffic. In a country with limited resources, one cannot do both at the same time, so some kind of a strategy needs to be worked out with

⁹ Training was given to about 160 civil servants: 30-35 ministry staff and 35 from municipalities in RS, 20 from the ministries, a similar number from cantons, and 30-35 from municipalities in FBiH, and nearly 20 BD staff. An overview done by the project identified 110 institutions and 930 staff who required training. More important is the amount, quality and relevance of the training, where neither the quality of the training manual, nor its relevance to BiH's larger capital investment needs, is convincing.

¹⁰ The exception is the "other local" funding of BAM 54 million for new projects, which evidently is largely from public sector enterprises. This represents about 6% of the new funding required for the PIP.

criteria – and these need to be valid across the country, and across sectors. A rural development strategy needs to include not just the rural roads, but also what is to be done in terms of primary sector development, rural social service delivery, etc. None of these key questions are resolved for the PIP planner, so it is not clear what kinds of investments need to be developed.

Putting in place pan-territorial coherence for longer-term planning is critical. In the education sector there is a good working group across government boundaries which is evidently producing priorities that ensure a balanced developmental pattern across the country. But this is an informal arrangement that can neither declare its choices as a formal policy, nor enforce compliance with it if any member of the working group should change and the new member no longer wishes to pursue the common agenda. Without this sector-wide dialogue, however, the individual investment projects in a sector may not be optimal, and the project could perhaps have paid some more attention to these sector discussions as critical for PIP coherence.

Furthermore, a sector development strategy would not simply talk about investments and new policies, but look at the overall assets base in the sector for defining what needs to be done. Like many other countries, BiH may need to invest a lot more in upgrading and rehabilitating existing stock rather than acquiring new or more. Good management of current assets through sufficient maintenance and operations is probably more important than further investments. The first priority for sector planning may therefore be to get a good inventory of what exists and what is the least-cost path for optimal use of current assets before deciding on further investments. The UNDP planning approach of looking exclusively at new investments is thus not helping the authorities think more holistically about their total asset choices, which may be pushing them in the wrong direction.

Even more important is that increase in capital stock may not be the solution at all. If the strategy in the health sector has improvements in certain health indicators as key targets, it may be that better training of staff, more medicines and more pro-active rural health care visitations are the solution, which only requires more operational budgets.

Without a clear strategy from the top, the kind of "bottom up" approach that the UNDP project has supported means that the various PIPs become wish lists. Each governmental unit produces its own project list based on its interpretation of the general criteria and the consultation that has taken place, and the governmental layer above does not have any better criteria for accepting or rejecting a proposal (for example that the new school proposed in one municipality will make its school density much greater than the average whereas it is lagging national averages in water and health clinics).

The UNDP project on its own could obviously not address all these problems, most of which derive from the political realities of the country. But there could have been a lot more realism in the planning approach and more work could have been done to clarify sector plans and strategies. Furthermore, promoting "bottom up" planning in a situation of unclear framework conditions may be counter-productive, in several ways. The first is that expectations are probably unrealistically high concerning how many of these projects will receive funding. Donors will probably not provide much support for such an unstructured collection of stand-alone projects. More serious is that public sector institutions are being led to believe that this LFA-approach to projects is the right move for their sector and country. The more sober view of looking at maintenance, upgrading and rehabilitation as the path to follow is thus undermined, especially since new projects are always more attractive to both civil servants and politicians. The project could therefore have emphasized this more realistic and balanced approach.

A case in point regarding the realism is BD's PIP. Their program is fairly limited, given the MTEF ceiling. Also in line with instructions, most of their projects contained 50% funding from their own budget, while three projects were assumed to be 100% loan funded. Projects have been initiated, but now BD faces a problem: while half the funds came from their budget and activities thus have been undertaken, the remaining half that was assumed to be mobilized via the PIP have not materialized. BD has therefore had to continue funding from their own pockets, in order to complete the projects, but this is creating major short-term cash flow and medium-term budget over-spending problems.

5.2.2 PIP and PFM

In general, the PIPs are not well integrated with the regular budget. The one exception seems to be in BD, where the capital budget is submitted along with the regular recurrent cost budget to the assembly for approval. All the 14 BD projects in the PIP are therefore also to be found in their own budget document.

Since the PIPs elsewhere were not prepared with and presented as part of the general budget document, they are not integrated with the budget approval system. They therefore remain on the outside of the core PFM processes and systems, and thus at least for the time being do not contribute to a more robust, transparent and comprehensive PFM system. While this was the first full cycle of the PIP and one should therefore not be unrealistic in terms of expectations, the PIP could clearly have done a lot more to prepare for such integration, not least of all through including the future recurrent cost implications of the investment. The lesson everywhere is that the investment costs are not the resource constraints – it is the utilization, running and maintenance that becomes unsustainable. In order to analyze these, the investments have to be planned in light of the recurrent budget – they cannot be done as a separate exercise on the outside, the way the PIP was done this time.

The PIP is furthermore not linked to a more rigorous macro-economic analysis. While the PIP document claims investments respect MTEF limits including the country's debt carrying capacity, this is not obvious from the document as there is no such analysis contained within it. Such a macro-analysis would have been helpful, not least of all to convince donors and lenders that the overall PIP level is realistic. If the document could have taken this analysis one step further in terms of looking at probable future recurrent cost streams, this would also have been a major contribution, even though it would have had to be a rather speculative exercise.

5.2.3 The Aid Database

The PIP/Aid Database is struggling with coding the projects correctly. Sector coding has turned out to be particularly difficult to sort out because each Entity has used a different coding approach¹¹.

Many of the *completed* projects contained in the IMG database are virtually impossible to classify correctly due to lack of complete information and because one project could cover so many different regions or activities. This means that it is difficult to get the correct picture of the resource flows into the different sectors and regions. For a more

¹¹ That is, not only do RS and FBiH use different codes for the same sector – which is easy to address – but they break down sectors differently. What are four sectors in RS is only one in FBiH, while similar opposite cases also exist. In order to break down the FBiH projects into the more detailed RS structure in this first case, each project has to be reviewed to see what the most appropriate code is.

complete audit and to be sure that the expected outputs have been produced, a more detailed revision would have to be undertaken, but this is a costly exercise.

The project has not asked for the Chart of Accounts that has been developed in connection with the new accounts system, however. This Chart would seem to be the logical basis for such coding, rather than coming up with an own classification scheme. The PIP database ought also to include standard budget classifiers – economic, functional, organizational, and territorial – so that future data transfers into the budget and accounts system are more useful. This lack of communication and coordination with the larger accounting and budget frameworks and codes is unfortunate.

5.3 Findings and Conclusions

The DMF does not address donor coordination and resources management, and the planning structure is not consistent with how PFM in general is organized. The project has not addressed the issue of simplifying and harmonizing inter-level PFM structures.

The simplified "one size fits all" project planning is questionable. A more differentiated training assessment is required. More important is if public officials will do planning directly, or manage planning processes, in which case a very different skills are needed.

Planning frameworks are vague and general, so "bottom up" planning easily becomes local wish lists. More attention should have been paid to supporting sector-wide criteria.

The project planning emphasis is problematic. Sectors should take a holistic view, consider if targets require more operational or investment activities, and then have an assets-optimization approach, where upgrading and expanding as well as new investments are central to least-cost development. Recurrent costs of new investments must be central to project development, as well as innovative funding for both capital and recurrent costs, none of which is being addressed.

The investment budget needs to be situated within a more rigorous macro-economic frame, both for the capital and recurrent costs, but also looking at the debt-burden implications. This requires overall much tighter integration with the budget processes.

The aid database needs to become more "budget structure friendly" by using the Chart of Accounts for its own coding, and should include economic, functional, organizational and territorial classifiers.

6 Looking Ahead

When looking ahead, focus should be on contributing to a modern and functional PFM system throughout Bosnia and Herzegovina. The public investment planning that the growth and modernization of Bosnian society requires needs to be an integral part of this.

6.1 Changing Circumstances & Other Donor Support

The circumstances under which public planning and budgeting is taking place, are rapidly changing. The authorities are under pressure to rationalize, streamline and modernize their public administration. The system as it exists today is not sustainable financially as it employs too many people performing non-critical tasks. It is not rational from a management perspective as there is almost infinite fragmentation of responsibilities and hence of decision making, leading to considerable system failure: a number of decisions are not taken because it is not clear who or how decisions can be reached, while other decisions contradict or are not in line with choices made elsewhere on the same or complementary matters elsewhere in the system. Resource allocation decisions thus risk being made on a faulty basis, leading to sub-optimal outcomes as seen from the country as a whole. This uncoordinated planning and management structure simply is not viable nor acceptable to the EU from a country moving towards membership and integration.

The pressures to streamline and make decisions more consistent pan-territorially are also being pushed by the Bretton Woods institutions through the conditionalities that are integral components of their credits.

The push towards better public administration is being supported by EU-funded functional reviews. One of key ones is addressing PFM, where the four unit studies (State, Entities, BD) are about to be finalized, and a summary volume with the full set of recommendations will be prepared early 2005. One key conclusion, however, is that the current state of PFM is disjointed, with very uneven progress in different component parts. While accounts and external audit is generally seen to be progressing, in large part due to TA support from USAID and Sweden, respectively, other parts are badly lagging. More important is that there is currently no central body with clear and strong decision making mandate for managing the country's overall finances. A Coordination Board for Economic Development and European Integration (CBEDEI) brings the three Prime Ministers, their Ministers of Finance and Justice together, but this remains largely a consensus building and consultative body – it does not have powers to make binding decisions on all bodies, nor can it enforce any consensual view.

The clearest decision making body in the field of PFM is, for the time being, the Governing Board of the Indirect Tax Authority (ITA), where all three Ministers of Finance sit. This may be turned into a financial council or similar, but goes to show the structural weakness of the state apparatus: the ITA is a largely *ad hoc* and presumably temporary body compared to the solid institutional set-up that finance sectors have in other countries.

The bottom line is, however, that while today's situation is characterized by fragmentation, unclear lines of responsibilities in a number of fields, and *ad hoc* solutions to fundamental decision making structures, the external pressures and undoubtedly a number of internal forces as well are pushing towards simplified, unified and more accountable public sector institutions, not least of all in the field of PFM.

6.2 Structural Considerations

There are two principles for PFM institutional development that should be borne in mind when discussing the future of the UNDP project.

The first is the need for clear national accountability. This means that State institutions cannot only have some passive aggregating functions at the top of the governmental pyramid in BiH, but the formal attribution of being held accountable for the overall situation. This means that they must be granted the authority required to ensure compliance with the necessary reporting and management tasks at lower governmental levels for this responsibility to be actually dispensed. In the current political situation, this is not realisable in the short term, but the various trends and pressures noted above point in this direction.

The second is to separate, as far as possible, the policy decision making functions from the policy implementation functions. This is the basic restructuring taking place in many sectors around the world today, where ministries maintain the policy making and monitoring functions, implementation is given to external bodies in the public sector or private actors outside the public sector, and if need be independent regulatory bodies enforce compliance with policies and defend the public interest. This ensures that accountability is as clear as possible, roles and decision making are transparent, and the structural conditions for conflicts of interest reduced or eliminated.

Complexity and Sustainability

Donors have a long history of promoting non-sustainable solutions in a wide variety of environments. Planning and its related instruments is no exception.

The aid database is written in MS Access. This was also the language used by IMG for the original database. This is a reasonably powerful program which at the time was not much used in Bosnia. When it was handed over to the Entities, RS chose to put the data into a FoxPro database, while FBiH basically let it lie dormant. Using FoxPro, RS has been able to maintain and update the database, using a tool they were comfortable with and which is managed by a number of staff, so that it is sustainable.

The choice to once again move to MS Access is now more reasonable. The number of people who can program and maintain MS Access databases is much greater, and with its greater power and flexibility, ability to communicate with other software programs, etc, this seems to be a reasonable upgrading of the technological base for this donor coordination tool.

The Oracle accounting package being installed in the ministries of finance is more troubling. A seminar in Nairobi in November 2004 reviewed the experiences from putting in place IFMIS in 18 countries in Africa. A major lesson was that large-scale complex packages – and Oracle was the dominant choice – had turned out to be much more difficult and expensive than expected. Initial costs (hardware, software, consultancy services to install and modify the package, train local staff) was in the range of USD 15-25 million, annual licensing fees USD 2-3 million, and the average time for successful completion estimated at 8-9 years!

None of the Scandinavian countries – each with populations larger than BiH, much larger and more sophisticated economies, with strong states and large public sectors – use large programs like Oracle or SAP, because they are seen as too complex and expensive. Instead they have taken off-the-shelf mid-range commercial packages and modified them. Sweden has implemented a full-accrual system using Agresso, Denmark opted for Microsoft's Navision program, which is equally simple and has the added advantage of being fully integrated with Microsoft Office. The key argument is that these systems can be handled by accounting staff in ministries without too much hassle and training, as the ministries cannot afford to set up complicated and costly IT units. - - These concerns were raised in countries with the best educated population in the world and which in the year 2000 had a GDP/cap ranging from USD 27,000 to 39,000, against BiH's estimated USD 1,250.

6.2.1 Policy Making Structures

One aspect of the DMF that the project was to contribute to, was to define the various functions and roles of organizations that such a Framework required. The policy making component is clearly key. This would normally consist of the politically elected and accountable decision makers, and their technical support units.

At the level of the State, this would consist of the Prime Minister and the Council of Ministers along with their cabinets, and the two units that report to them, the DoEI and EPPU.

The political decision makers thus define the visions, the strategies, the desired future outcomes that they are willing to be held accountable for attaining. They then clearly also monitor that these political decisions are being followed, for example by approving the budgets (have resources been allocated according to the political priorities set by the legislature and other decision making bodies?), and scrutinizing the accounts and the results (did the funds in fact go to the areas they were supposed to? Did we get the outcomes we had expected, given the efforts made?)

6.2.2 Resource Management Structures

The executive branch of government usually is tasked with implementing policies, and preparing the materials necessary for decision making for future policy development.

One of the key interactions between these two levels of the state addresses the management of public finances, since this is a key resource managed by the public sector. Ministries of finance will prepare budget proposals based on the political instructions received, send them up for approval (through Cabinet/Head of Government, to Parliament), and once the budget is in place will be held accountable for implementing it. The policy level will therefore receive the information from the implementation level that will allow it to monitor the successful implementation of policies:

- At resources management level (PFM – *financial audit*)
- At technical/sectoral implementation level (*performance audit*).

6.2.3 Aid Coordination Management

The implications for the external resources management ("aid management") component of the DMF seem to imply the following:

- MoFT at the State level is tasked with producing comprehensive and consolidated Public Sector Accounts – *vertically* down through the various layers of public administration, and *horizontally* by including external funding, whether grants or funds. Aid coordination is thus a component part of PFM. This implies that the PIP/Aid Database needs to become part of the country's IFMIS.
- The PIP database is a *budget*, however, and not a record of resources either made available to the country, or a tracking of flows through the system, so it can only provide a partial answer to the tracking and monitoring of aid flows.
- Furthermore, the PIP/Aid database currently is project based rather than Chart of Accounts structured. It may therefore not even capture some of grant flows *ex post* if donors provide support in various forms of budget or sector support rather than to specified projects. So having a "source of funds" classifier in the general budget that can track such donor budget support is important, and will ensure that the potential hole left by the aid database is addressed in terms of monitoring donor funds.

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- Because grants aid to the State level is limited, the use of the "source of funds" classifier needs to be implemented as part of the Chart of Accounts throughout the public sector, so that support to Entities, cantons, and municipalities can be reported and aggregated upwards in to State systems, so that the full resource picture can be generated¹².
- All TA in the area of planning, budgeting, macro-modelling etc therefore need to have an integrated PFM vision as the point of departure for the advice and training being given. This of course requires that the authorities come up with a coherent vision in this regard with respect to the roles/boundaries, and complementarities/interfaces the different institutions and their outputs are to have. Because of the uncertainty and partial overlaps that exist or may emerge between different activities underway or planned, the authorities would be well advised to establish a "PFM Steering Committee" (SC) to manage this TA. This should presumably be chaired by somebody from the Prime Minister's office, since TA is being provided to entities that report to this level, and should also include MoFT¹³, and the relevant donors: DFID (MTEF and EPPU support), EU (EPPU), UNDP (planning project), USAID (accounts project), Sida (External Auditor) and the World Bank and the IMF as key policy advisers and sometimes-providers of TA in this field. Other countries have found that such cross-institutional TA management is costly – but *not* managing TA is much more costly!
- In order to capture resources flows "at source", there should preferably only be one institution that registers agreements with funding agencies. Today the signatory function for loan agreements reside with ministries of finance, but grants often go to other ministries, like MoFA at State level. While it may be difficult to change this attribution, MoFT should be a co-signatory and thus always have direct information and signed copy of the documentation, so that they can register the necessary financial information in IFMIS. ⇒ **MoFT thus becomes a "one-stop shop" for all external resources registration, tracking and management at State level, the respective ministries of finance similar at Entity level.**
- The DoEI has a responsibility for managing the EU CARDS funds and should in principle also monitor EU member states' funds. As long as the necessary financial data is provided directly to the IFMIS, this should pose no questions – the DoEI will in part act as a project management unit as far as funds coordination and accounting is concerned. The pro-active policy coordination role that is evidently also part of its remit would presumably be in the form of policy advice to the Prime Minister's office

¹² This is an enormous challenge, even in societies with unified state structures. The grants are more difficult to handle than loans, and technical assistance is the most difficult part of grants. What is needed is a step-by-step plan for achieving this, where clearly loans are the most important component both due to the increasing role, but also because of the linked debt management. This component seems already to be well in hand. The second step is large-scale bilateral funds to the public sector, where EU funds and EU-member country support make up the largest bloc. Other bilateral public sector support should be captured, and then one needs to decide how far down it is meaningful to register and track grant flows, since the transaction costs involved get high. Small-scale grants through NGOs for building capacities in a few municipalities is probably not worth worrying about – so a line needs to be drawn somewhere.

¹³ MoFT may provide the secretariat to the SC, or a donor. It is not clear if one should include the MOFs from FBiH and RS, since the real challenge of coordination is at the State level - once TA moves to the Entities, it would normally be within an already transparent and agreed-upon framework. The authorities may want to include other ministries, like MoFTER, but in order to make the SC as operational as possible, it should remain focused and only include those actors who really need to be included.

and to Council of Ministers (how CARDS funds can be applied to attain SAP objectives most efficiently and effectively), in which case it acts in accordance with the role of policy advisers, which is also appropriate to being part of the Policy Structure. Where there may be possibilities for duplication and overlaps may be in the field of actual resources allocation and tracking, where the responsibilities of the MoFT in terms of having full overview of resource availability for budget preparation purposes needs to be respected. If DoEI oversteps this boundary, it may undermine the accountability of MoFT in its role as "supreme public sector accounting officer", which may challenge the credibility and legitimacy of local institutions in a key area.

"Aid coordination" is largely a concern as seen from the donors' perspective. From the authorities' point of view, the issue is more one of coherence and comprehensiveness in PFM, for optimal allocation and management of very scarce resources against very ambitious (though poorly operationalised!) goals.

While the accounts system in place is still a long ways off from constituting a real IFMIS, this is clearly the direction in which the country is moving and towards which all PFM activities need to contribute.

Simplifying this overall PFM challenge by having ministries of finance collect the data and track the flows of resources, whether own budgets or external resources, grants or loans, for recurrent or capital (investment, project) costs, makes the task manageable. What is clearly lacking, is a capacity building strategy that will ensure that the necessary systems, skills and numbers of people required to make this function will come into place in the right places at the right time. The various TA projects mentioned above are all contributing to this – but in line with what was said in the EU functional review, it is disjointed and perhaps not coming together in the right sequence, pace and form.

6.3 Short-term Proposals/Finalization of Current Project

The above considerations have considerable implications for UNDP support over the remaining current project period, and in thinking ahead to a second phase of UNDP support. The *Goal* of the support needs to be to establish a comprehensive yet transparent Public Finance Management system throughout the public sector of BiH. The tasks that should be undertaken over the short run could include the following:

- A "functional audit" of the planning approaches that the public sector intends to pursue should be done by a well-staffed and highly qualified team. The issues that need to be looked into should include: (i) how do the governments intend to address the issues of current versus new assets for development (operations, maintenance, upgrading and depreciation of current assets versus acquisition of new assets), (ii) how do the governments intend to incorporate recurrent cost implications of new investments (how to estimate recurrent cost streams, looking at burden-sharing policies/incomes, and how to handle this in the budget/MTEF), (iii) how do the governments intend to manage the issue of sourcing new investments (own budgets, loans, grants, other sources of investment like private firms and not-for-profit entities), (iv) what are the roles foreseen for civil servants in the development of new investments – as project planners, or as managers of project planning, for example, (v) what therefore are the skills required over time in the public sector, and how can these begin to be addressed over a coming three-year period?
- The DCUs in MoFTER and MoECR/RS should move to the respective MoFs. While there is in principle no problem of moving the functions (though there may be some political reluctance to begin with), the big challenge is how to ensure that the

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skills that have been developed not be lost with this institutional transfer. Since this means assessing what is to happen to the individuals involved, this will require some careful consideration, and will have to be worked out in the timeframe and under the specific conditions that reign within these two governments. While the *decision* to move should be taken shortly, the actual transfer may not be urgent – this is largely up to the governments to decide, based on the activity plans they have for which the DCU skills are required.

- The legislative reforms required to bring rules and regulations in line with actual functions and roles should be prepared and presented to respective authorities for approval. This is to ensure that the legal basis for ministries of finance to take on the "one-stop shop" functions, for example, are in place, to avoid any future uncertainties for example among donors with whom to dialogue on the matter.
- The PIP/Aid Database should be coded so that it is budget compatible (use Chart of Accounts for all classifiers that exist in the budget). As a more complete IFMIS is put in place, this database should simply be incorporated into it, to the extent possible (the historical data and the registry of donor resources in general may remain as an identifiable separate registry, among other things to continue providing the on-line database on donor resources. Exactly how this can be ensured needs to be looked into, but could be an area that UNDP could assume responsibility for, as a service to the donor community on behalf of the authorities).
- There is the question if the donors want the *historical* database to be re-coded with the classifiers as well. This would be a costly exercise, but on the other hand would allow for much better performance audits by sector or geographic region, or for time slice assessments. This would be up to donors to decide if this is important or not (partly in light of the upcoming 10-year anniversary of Dayton?), but would in any case only result in a partial re-coding, due to the significant information "holes".
- One thing that should be done with the current database, however, is to have it printed out by project per donor and sent to donors for verification/ correction/ upgrading. This may help close some of the holes, but would also show concretely to the donors that the database exists and contains a comprehensive picture, what kinds of reports can be generated, etc. Donors can then individually also decide if they would like to see at least their contributions further coded.
- A similar exercise should be done by ministry by Entity. This would be in part for their records, verification and comment, but may also be helpful for current management which may very well not be much aware of the historical record and thus of all the investment that have taken place over the last decade or so.
- An audit of the database should be done to verify actual status, quality of the current database, ensure that any remaining doubts and problems about the software platform are identified and an action plan to correct any possible problems are addressed as soon as possible. This audit should be done right away, and if possible report by the end of 2004, so that corrections can be in place early 2005 (if realistic). This is suggested simply because the database has generated a lot of different opinions, and it was not possible for this mission to make any assessment as to the quality and validity of the data. An external certification would thus provide the project and the database with a useful "seal of approval".
- Discussions should be undertaken immediately to verify DoEI's plans concerning an aid database (for EU funds), to incorporate whatever improvements are necessary for

the UNDP database to be supportive of this and include the EU data, so that the parties can implement an overall "least cost approach" that is both rational and budget-compatible and hence forward-looking to the day this database simply moves over to the IFMIS.

6.4 Next Phase of Project (three years)

As noted in the mid-term review report, UNDP should definitely continue to support to planning and capacity development in BiH. This is an area that remains weak yet is critical to the country's longer-term development. The fact that PFM is politically sensitive area means that UNDP can provide its traditional "non-partisan" technical support to governments (State and Entity) that clearly still are in the process of forming some of their own views on how the PFM should function and be structured. There is (unfortunately!) almost an endless list of areas where UNDP could provide support. The political dialogue over the next months should clarify which ones should be focused on, both as a result of a general prioritization, but also in light of what other actors might be providing:

- UNDP should assist sectors – preferably as cross-boundary concepts – develop clearer, more operational strategies. This work needs to be done in coordination with EPPU/PIMO to ensure coherence with its monitoring and evaluation of the implementation of the PRSP, and DoEI with its monitoring of the SAP.
- UNDP should assist key ministries develop their capital budget development capacity. Given UNDP's mandate to focus on the Millennium Development Goals, it would be logical that it focused on those sectors/ministries seen as most likely to produce the best improvements to the MDGs from such an activity (this would presumably lead to a focus on social sector ministries, and perhaps rural development-focused parts of other sectors).
- UNDP should strengthen those general aspects of PFM that it has a particular mandate to address. This means looking at gender equity, ethnic equity, environmental concerns, general improvements in accountability and transparency to strengthen good governance, and ensure greater participation by civil society in general but the marginalized and poor in particular.
- UNDP should provide senior public sector management and legal skills to help structure, codify, and formalize planning and budgeting procedures in those areas where this may still be required. This work should be done in close collaboration with the MTEF team.
- UNDP should provide a training specialist to help identify actual training needs, assist with the development of required training materials and the "training of trainers", assist in developing the training programme and a monitoring system for tracking implementation. This person should spend time identifying local resource centres (such as universities, "think tanks" etc) outside the public sector and those institutions within the public sector that can become active partners in longer-term capacity building in the field of PFM.

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- UNDP could provide resources/fora for general assessments of "lessons learned" regarding recurrent and capital budget planning and outcomes, to the extent not covered by other actors.
- ⇒ *All these tasks should be driven by an overarching capacity building program to address enhanced PFM*
 - *by levels (State vs. Entities vs. cantons vs. municipalities),*
 - *by sector,*
 - *by function – budget vs. project preparation vs. strategy development*
 - *building sustainability through*
 - *institutionalization of procedures and structures,*
 - *ensuring there are technical capacities to reproduce skills (use of local universities, units like EPPU etc),*
 - *financial viability by ensuring that the scope and pace of work is realistic and with explicit exit strategy based both on local technical and financial resources to assume the responsibilities.*

Annex A: Terms of Reference

1. Background

In 2002, UNDP BiH embarked at, in that time, very ambitious Project of Programme Support to BiH in the Management and Coordination of Development Resources – Aid Coordination. The project's overall objective was to establish capacity at various levels of Government and put in place a suitable framework and mechanism within the government structures to undertake the management and coordination of development resources. All of this is meant for their efficient and effective use in order to achieve the development objectives of the country as expressed in the national and sectoral development strategies, such as the PRSP. When selecting the host-Ministries in which the mechanism will be placed, UNDP was led solely by the functions/responsibilities of the State/Entity Ministries as per the Law on Ministries.

The Consultative Group Meeting on BiH held on 22/23 September 2004 came up with six main conclusions, one of which is of direct relevance to the aid coordination system, and subsequently, to our Programme Support Project. The conclusion is that the Chairman of the BiH Council of Ministers/Prime Minister, on behalf of the BiH authorities, will propose an improved mechanism for donor coordination by the end of 2004. The proposal should also encompass the need for harmonisation and sector-wide approaches, by which the MTDS and SAP processes form the appropriate basis for anew donor coordination architecture.

2. Purpose of the assignment:

Having in mind the changed donor coordination landscape given the emergence of new institutions, such as EPPU, the CG conclusions, the role of DoEI and DFID's offer to the BiH Government to assist in undertaking study of the requirements for an improved aid coordination system, the purpose of this assignment is to:

- Work jointly with the DFID Mission aiming at finding appropriate solutions for harmonisation and aid coordination
- Provide a review of the appropriateness and relevance of the present UNDP Aid Coordination project in these new circumstances
- Provide a review the local capacity that has been created at all levels, including the Project ones, to undertake planning activities and should be made use of under a potentially changed institutional setup.

3. Scope of work and expected outputs:

Prior to undertaking the Mission, the consultant would have already appraised himself of the following documents: UNDP Project Document, Results of UNDP Project Mid-term Evaluation, CGM Conclusions, legal basis on mandates of Ministries in BiH, Existing proposal for aid coordination mechanism, EPPU TOR and Functional Review Interim Report. For the purpose of this assignment, the consultant will spend nine working days in BiH over the period 31 October to 11 November 2004.

The Consultant will carry out the following tasks:

1a) Undertake a detailed appraisal of the existing Framework for the Coordination of Economic Planning and Development Resources Management in light of the changing nature of Bin's institutional scenario. To this end, more specific tasks involve:

- Drawing on the current legal basis for the roles and responsibilities of the pertinent BiH/Entity institutions define its relevance to the function of development resources management and coordination and necessary legislative change
- Drawing on the mandate and functioning of the new bodies, such as the EPPU and institutions which are in the process of being set up, such as the DoEI, define their relevance to and link up points with the function of development resources management and coordination
- Pin-point the outcomes of the functional reviews and other institutional assessments, currently provided in BiH, which need to be drawn on for improving the function of development resources management and coordination
- Consult with all relevant bodies concerned with Aid Coordination (esp. the EC Delegation, the World Bank, UNDP, DFID and other relevant donor agencies, as well as the OHR, relevant State and Entity agencies and Brcko District) regarding aid / donor coordination issues
- Test alternative solutions for aid coordination on all relevant stakeholders to determine levels of acceptability.

2a) On the basis of 1a), test solutions for most effective placement of Project units to in order to achieve best results in aid co-ordination for BiH

3a) On the basis of 1a and 2a, test modifications to the Project document to be implemented in 2005, with the funds carried over.

4a) Carry out in depth investigation into the functioning of the support element of the Project (staff and consultants hired by UNDP) in order to determine whether it has been effective so far and whether it is capable of responding to the changes and challenges ahead. Specific attention should be drawn to the Project Management function as it is pivotal to the overall functioning of the Project. However, individual personnel effectiveness, flow of information, coordination of work, etc., should also be evaluated. In order to realise this task, the Consultant should carry out interviews with all the Project support staff and all the project partners/beneficiaries. Roles and responsibilities must be cross-checked.

4. Outputs/Recommendations

Together with the DFID's consultant, UNDP's consultant will assess and provide recommendations on:

1b) The new architecture for aid coordination in BiH in order for it to be in line with the institutional changes taking place in the country, the outcomes of functional reviews and other institutional assessments currently provided in BiH, existing legislation and related proposals for revision of obsolete legislation.

These recommendations will be submitted to the Office of the Chairman of Council of Ministers.

In addition to the above, UNDP's consultant will assess and provide recommendations on:

2b) The institutional direction the Project should move in, i.e. where the Units it operates through should be placed in order to achieve best results in aid co-ordination/development resources management in BiH.

3b) Substantive revision of the Project document

4b) Based on the points above and the findings of the functional examination of the Project support element (explained in Input (4a)), and only where/if necessary, structural changes to the Project management and support functions.

Annex B: List of Informants

Public Officials

Ministry of Finance and Treasury, BiH

H.E., Ms. Ljerka Marić, Minister

Ministry of Foreign Trade and Economic Relations, BiH

Ms. Dušanka Basta, Team Leader, PSIU

Ms. Edina Topčagić, PSIU

Ms. Zeljka Boljanović, PSIU

Ministry of Foreign Economic Affairs, RS

Mr. Zoran Stjepanović, Assistant Minister, Head/ Development Cooperation Unit

Ministry of Finance, FBiH

Ms. Zada Gabela, Team Leader, Development Cooperation Unit

Ministry of Agriculture, Water Management and Forestry, FBiH

Mr. Mladen Vasić, Adviser to Minister

Ministry of Physical Planning and Environment, FBiH

Ms. Šuhra Šehajić, Advisor, Financial issues; Director of fund for cultural heritage a.i.

Directorate of European Integration, BiH

Mr. Osman Topčagić, Director

Mr. Kenan Tahmišćić, Acting Assistant Director

Ms. Zara Halilović, Head of Department II, Division for Coordination of EU Assistance

Ms. Anne Smith Petersen, Team Leader, TA team

Ms. Mari Torm, Adviser, TA team

District Administration, Brcko

Mr. Adnan Pašalić, Head, Legal Department and Project Coordinator

Donor Officials

United Nations Development Programme

Mr. Jens Toyberg-Frandzen, Resident Representative

Mr. Stefan Priesner, Deputy Resident Representative

Ms. Svetlana Pavelić, Portfolio Manager

EC Delegation

Mr. André Lys, Head of Operations

Department for International Development (UK)

Ms. Mary Shockledge, Head

Ms. Anamaria Golemac Powell, Social Policy Coordinator

Italian Embassy

Mr. Valerio Negro, First Secretary

Mr. Ferdo Ustović, Programme Assistant

Norwegian Embassy

Mr. Jon Hanssen, Counsellor

Swedish Embassy

Mr. Bo Elding, Counsellor, Director, Sida

Mr. Nedim Bukvić, National Program Officer

World Bank Office

Mr. Dirk Reinermann, Country Manager

Ms. Irina Smirnov, Research Analyst

International Monetary Fund

Mr. John Norregaard, Resident Representative

Office of the High Representative

Mr. Patrice Dreiski, Deputy High Representative

Mr. Vedad Ramljak, Economic Adviser, Economic Department

Scanteam:

UNDP Support to BiH Management and Coordination of Development Resources

Project Staff

Mr. Haridas Nayar, Programme Manager, Senior Policy Adviser, MoFTER, BiH

Mr. Hamadi Hamdi, Senior Adviser, Ministry of Finance, FBiH

Mr. Elio Cagnacci, Senior Adviser, Ministry of Finance and Treasury, BiH

Ms. Kaela Venuto, Aid Coordination Officer, MoFTER, BiH

Mr. Aleksander Kaluđerčić, IT Manager, MoFTER, BiH

Other Informants

System Review of Public Administration Institutions in BiH

Ms. Jasmina Đikić, Coordinator of Public Finances Review Team

Project Team, Strengthening Public Expenditure Management in BiH

Mr. Glen Wright, team leader, PKF consultants

Mr. Richard Williams, international projects group, PKF consultants

Annex C: Documents Consulted

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PP # 1: "Development Planning Manual", 2003

PP # 2: "Capacity Building Plan Outlines", 23 April 2004.

PP # 3: "Proposed System for Monitoring and Evaluation of the Implementation of Development Projects and Policy Programmes". June 2004.

PP # 4: "Framework for the Coordination of Economic Planning and Development Resources Management". Draft, September 2004.

PP # 5: "Positioning of UNDP Project Units in Suitable BiH Institutions to attain BiH Government approval for the establishment of the Mechanism for the Coordination and Management of Development Resources in BiH". Paper with three alternative scenarios, September 2004.

PP # 6: "Report to Ministry of Foreign Affairs, Norway" (report to one of the cost-sharing funding agencies), September 2004.

PP # 7: "An integrative approach to address the development management challenges in the country and build the government capacity. Project Proposal". Fall 2004.

PP # 8: "Possible project activities to be undertaken after 2004". Fall 2004.

A series of working papers outlining specific work programs, job descriptions for all international and national project staff, papers on the aid database, etc.