
KOSOVO

INTRODUCTION

KOSOVO¹ is a lower-middle income country with a gross national income (GNI) of USD 3 240 per capita in 2009 and a population of 1.8 million (WDI, 2011).

Following the Kosovo war in the 1990s and an extended UN administration period, Kosovo declared independence in 2008 and is currently recognised as an independent country by over 80 countries. Kosovo's aid effectiveness agenda is being pursued in the context of emerging from a long period of international supervision.

Net official development assistance (ODA) to Kosovo in 2009 totalled USD 787 million (OECD, 2011a). In 2009, net ODA was 14% of GNI (WDI, 2011). The top five donors provided 81% of Kosovo's core ODA (OECD, forthcoming). ■

SUMMARY OF PROGRESS

PROGRESS ON THE PARIS DECLARATION INDICATORS depends on improvements by both donors and partner governments. Out of eight indicators with applicable targets, none were met for 2010. Seven indicators have made progress since 2007, while two showed setbacks (strengthened capacity through co-ordinated support and joint missions). Ownership scored poorly, with the operability of Kosovo's national development strategies scoring low. Progress on alignment was mixed with some areas seeing progress (including the use of parallel PIUs and use of systems) and others seeing setbacks (on technical assistance). Generally, Kosovo still has a lot of progress to make with regards to making aid more effective.

Country stakeholders note that practices of aid delivery in Kosovo have been institutionalised, although mechanisms for strategic planning, cross-government co-ordination and external outreach are still nascent.

ABOUT THE SURVEY

This chapter assesses progress against the quantitative indicators provided by the Survey on Monitoring the Paris Declaration, drawing on data provided by the government and donors, the OECD and the World Bank. In addition to this, it draws on qualitative evidence submitted to the OECD by the national government which incorporates feedback from donors and other stakeholders. Stakeholders note that it is possible that in places definitions and concepts were interpreted differently by survey respondents in 2011 compared with previous years. A degree of caution should be taken when analysing the trends shown by some of the indicators.

The 2011 survey responses cover 22 donors and 70% of Kosovo's core ODA (or country programmable aid). Kosovo participated in the Paris Declaration Monitoring for the second time in 2011. The country report was drafted in close co-operation with donors and

the civil society sector. The Ministry of European Integration (MEI) organised a meeting with donors and civil society to present the findings of the survey. Following this meeting a constructive discussion was held and participants' comments were considered in the formulation of the country report. ■

TABLE 1:
Baselines and targets
for 2010

INDICATORS		2005 REFERENCE	2007	2010 ACTUAL	2010 TARGET
1	Operational development strategies	--	--	E	'B' or 'A'
2a	Reliable public financial management (PFM) systems	--	--	4.0	No Target
2b	Reliable procurement systems	Not available	Not available	B	No Target
3	Aid flows are aligned on national priorities	--	0%	35%	85%
4	Strengthen capacity by co-ordinated support	--	51%	5%	50%
5a	Use of country PFM systems	--	3%	20%	No Target
5b	Use of country procurement systems	--	1%	20%	No Target
6	Strengthen capacity by avoiding parallel PIUs	--	107	29	No Target
7	Aid is more predictable	--	3%	19%	No Target
8	Aid is untied	--	--	59%	No Target
9	Use of common arrangements or procedures	--	2%	13%	66%
10a	Joint missions	--	11%	7%	40%
10b	Joint country analytic work	--	27%	31%	66%
11	Results-oriented frameworks	--	--	E	'B' or 'A'
12	Mutual accountability	Not available	N	N	Y

TABLE 2:
Learning from success
and challenges

	ACHIEVEMENT OR CHALLENGE	LESSON OR PRIORITY ACTION
Ownership	<p>Achievement: Establishment of a medium-term expenditure framework (MTEF).</p> <p>Challenge: Formulation of an operational national development strategy.</p>	<p>Lesson: The MTEF needs to be integrated with the wider architecture of strategic planning of a national development strategy.</p> <p>Priority action: Creation of a national development strategy based on the existing sectoral spheres already budgeted.</p>
Alignment	<p>Achievement: Progressive improvements in the quality of country public financial management PFM and procurement systems (including other country systems, such as monitoring and evaluation systems).</p>	<p>Lesson: Joint project steering committees can help reduce transaction costs in the absence of full sector co-ordination frameworks.</p>
Harmonisation	<p>Achievement: SWAp frameworks at the sector level provide the foundation for future progress and are a recommended model for other sectors.</p> <p>Challenge: Concretely transforming the strategy documents that currently exist for most sectors into comprehensive operational frameworks of planning, monitoring and resource allocation, around which donors and government can co-ordinate.</p>	<p>Lesson: Initial steps towards PBAs have generally depended on leadership from particular line ministries or donor agencies, however further government leadership should be pursued to increase harmonisation. Donors should be ready to provide external technical assistance to help carry this forward, if requested.</p> <p>Priority action: More detailed data on the composition of each donor's portfolio of missions should be distributed across sectors in order to lay a foundation for co-ordination.</p>

	ACHIEVEMENT OR CHALLENGE	LESSON OR PRIORITY ACTION
Managing for results	<p>Achievement: The law on public financial management and accountability provides for regular reports on budget execution, and public expenditure data is available to the public.</p> <p>Challenge: Data collection is on-going but not in an organised or structured fashion and not utilised in a timely manner.</p>	<p>Lesson: Data collection for monitoring and evaluation is typically evaluation oriented.</p> <p>Priority action: Develop concrete national priorities, strategy and structures to provide better alignment of aid effectiveness and accompanied monitoring.</p>
Mutual accountability	<p>Achievement: The Kosovo Aid Management Platform provides a valuable emerging dataset on donor practice.</p> <p>Challenge: A mutual accountability model has not yet been attempted or proposed.</p>	<p>Lesson: Engagement at the sector level can provide models for mutual assessment and accountability.</p> <p>Priority action: Build upon the foundations that are already in place in order to move towards defining and developing a mutual accountability model.</p>

OWNERSHIP

AID IS MOST EFFECTIVE when it supports a country-owned approach to development. It is less effective when aid policies and approaches are driven by donors. In the context of the Paris Declaration, ownership concerns a country's ability to carry out two, inter-linked activities: exercise effective leadership over its development policies and strategies; and co-ordinate the efforts of various development actors working in the country.

Indicator 1 assesses the operational value of a country's development strategy. In particular, it looks at the existence of an authoritative country-wide development policy (*i.e.* a unified strategic framework), the extent to which priorities are established, and whether these policies are costed and linked with the budget. All of these features are important to harness domestic resources for development, and to provide a basis for the alignment of aid to development priorities. Each country has provided evidence against these criteria, and this has been translated into a score by the World Bank using the same methodology as in the 2006 and 2008 surveys. A five-point scale runs from A (highest score) to E (lowest score). The Paris Declaration targets 75% of partner countries achieving a score of A or B by 2010.

Kosovo is still in the initial stages of developing a national development strategy. The Kosovo Development Strategy Plan 2007-2013 was formulated in 2007, but has not been approved.

The need for elaboration of a comprehensive national development strategy has been emphasised continuously by Kosovo authorities and donors. Thus the greatest challenge for Kosovo is developing a national development strategy. To address this challenge, a Strategic Planning Office of the Prime Minister has been established.

The planning framework is currently made up of four elements, which government is working to harmonise: the MTEF, the European Partnership Action Plan, the Economic Development Vision, and a range of sectoral strategies.

The medium-term expenditure framework is used as the main policy planning document. Established in 2007, it is primarily designed for planning with a limited-timeframe based on a sectoral approach that contains broad development objectives, yet this is not directly linked to a national development strategy.

The European Partnership Action Plan (EPAP) is sometimes referred to as the government's main medium-term planning document, as Kosovo has identified access to the European Union as its first strategic priority. However, this strategy is concerned with the specific requirements of acceding to the European Union. While this overlaps with the development agenda in many ways, it omits a number of issues not covered by the EU *acquis*, for example a capital investment programme.

INDICATOR 1

Do countries have operational development strategies?

In 2011, Kosovo developed a new Economic Development Vision 2011-2014, which focuses on improving economic performance. The Vision is seen as the last step before the adoption of a comprehensive development strategy for Kosovo. The aims and objectives of the vision should provide a good foundation towards developing a clear development strategy. Headline targets include an annual growth rate of 7-8% per year, annual reductions in unemployment of 8-10%, and Kosovo entering the top 40 in the *Doing Business* survey. An implementation plan was adopted in October 2011, built around five pillars: 1) Maintaining macro-fiscal sustainability, 2) Improving the investment environment and supporting the private sector, 3) Revitalising public infrastructure, 4) Revitalising the agriculture sector, and 5) Developing human capital. The Action Plan includes more than 180 concrete measures that should be translated into institutional, legislative and human resources changes during the period 2011-14. These measures should create a good business environment based on a market economy. The action plan should be reflected in the MTEF and annual budget in future budget rounds. The monitoring framework will also be developed further.

Currently there is a missing link between the budget, sector strategies and national priorities. Being a predominantly budget planning instrument, the MTEF is insufficient for addressing fundamental economic and social issues. The priority of the Ministry of Finance has been to consolidate the link between the MTEF and budget, particularly in the light of Kosovo's relatively weak statistical capacity. Overall, involvement of the civil society sector and donors seems limited in the formulation of a national development strategy, and activities associated with ownership only takes place at the central level. It is recommended that Kosovo move forward with the development of a national strategy engaging all stakeholders, linking the budget together with sector development objectives and national priorities. ■

ALIGNMENT

AID THAT IS DONOR DRIVEN AND FRAGMENTED is less effective. For aid to be effective, it must make use of national development strategies and use and help strengthen capacity in national systems, such as those for procurement and public financial management. The Paris Declaration envisions donors basing their support fully on partner countries' aims and objectives. Indicators 2 to 8 of the Paris Declaration assess several different dimensions of alignment.

Since 2007, progress has been registered in the alignment of aid to national priorities, the predictability of aid, use of country PFM and procurement systems, and a reduction in the proportion of parallel PIUs. Progress has in part been driven by the increased use of budget support modalities since the previous survey. There has been a significant setback in the proportion of aid aligned with country priorities and strategies. The major challenge evident among all alignment indicators is the lack of defined government policies and strategies to support aid alignment. While efforts have been made from both donors and the government to ensure alignment, progress cannot be achieved until concrete government policies are in place. Out of two alignment indicators with applicable targets, none were met in 2010.

Indicator 2 covers two aspects of country systems: public financial management (PFM) and procurement. Do these systems either adhere to good practices or are there plans for reform? If countries have reliable systems, donors are encouraged to use them for the delivery and management of aid. This helps to align aid more closely with national development strategies and enhances aid effectiveness.

Indicator 2a of the Paris Declaration assesses whether PFM systems meet broadly accepted good practices or whether credible reform programmes are in place. The assessment is based on the World Bank's Country Policy and Institutional Analysis (CPIA) score for the quality of PFM systems, which uses a scale running from 1 (very weak) to 6 (very strong).

INDICATOR 2
Building reliable
country systems

INDICATOR 2a
How reliable are
country public financial
management systems?

To score highly, a country needs to perform well against all three of the following criteria: a comprehensive and credible budget linked to policy priorities; an effective financial management system to ensure that the budget is implemented as intended in a controlled and predictable way; and timely and accurate accounting and fiscal reporting, including timely and audited public accounts with effective arrangements for follow up. Meeting the global 2010 target requires half of partner countries to move up at least one measure (*i.e.* 0.5 points) between 2005 and 2010.

Kosovo received a score of 4.0 for its PFM systems in the 2011 Survey, although no target is applicable, nor is there data for previous years. Nevertheless, additional monitoring from the World Bank has revealed progress in reliable PFM systems since 2007. Following a 2009 PEFA self-assessment report, the Kosovan government drafted and endorsed the Public Finance Management Reform Action Plan (PFMRAP). Regular monitoring of PFM systems through the PFMRAP reveals optimistic developments in 11 thematic areas. The main advantages of the existing PFM system are focused on the successful implementation of Financial Management Information Systems, budget control, execution and reporting, and meeting the management needs for effective decision-making. Good practices have been identified in audit and internal control, and capacity building for effective implementation is underway.

Indicator 2b was first measured in 2008 by 17 countries. The process is one of self-assessment, using the Methodology for the Assessment of National Procurement Systems developed by the OECD-DAC Task Force on Procurement. The methodology includes baseline indicators to compare a country's systems to internationally accepted good practice, as well as a new set of indicators. These indicators assess overall performance of the system, compliance with national legislation and standards and whether there is a reform programme in place to promote improved practices. The results are expressed as grades on a four-point scale running from A (the highest) to D (the lowest). The 2010 target is for a third of partner countries to move up at least one measure (*i.e.* from D to C, C to B or B to A) although not all countries will perform an assessment.

In 2010, Kosovo was rated a B on the reliability of its procurement systems, although no target is applicable. A new law on Public Procurement was adopted in September 2011 to reform and improve the quality of the public procurement system, and bring it into line with EU standards. A Manual for Framework Public Contract has also been completed by the Public Procurement Regulatory Commission. Secondary legislation also now needs to be reviewed to ensure it complies with the new law. In addition, remaining challenges include improving the legal framework in the field of concessions and strengthening the capacity of public procurement officers. Co-operation and co-ordination between the public procurement institutions remains problematic and needs to be improved in order to establish an accountable and transparent institutional setting for public procurement in Kosovo.

Comprehensive and transparent reporting on aid, and its use, helps ensure that donors align aid flows with national development priorities. When aid directed to the government sector is fully and accurately reflected in the national budget it indicates that aid programmes are well connected with country policies and processes. This also allows partner country authorities to present accurate and comprehensive budget reports to their parliaments and citizens.

As a proxy for alignment, indicator 3 measures the percentage of aid disbursed by donors for the government sector that is included in the annual budget for the same fiscal year. The indicator reflects two components: the degree to which aid is aligned with government priorities, and the extent to which aid is captured in government's budget preparation process. Budget estimates can be higher or lower than disbursements by donors and are treated similarly for the purpose of measuring indicator 3 despite the different causes.

The 2010 target is to halve the proportion of aid flows that are not currently reported on government budgets, with at least 85% of aid reflected in the budget.

INDICATOR 2b
How reliable are country procurement systems?

INDICATOR 3
Aligning aid flows on national priorities

TABLE 3:
Are government budget estimates comprehensive and realistic?

	Government's budget estimates of aid flows in 2010 (USD m) a	Aid disbursed by donors for government sector in 2010 (USD m) b	2005		2007		2010 *		Total aid disbursed through other donors (USD m)
			(for reference)	(for reference)	(for reference)	(for reference)	(%) c = a / b	(%) c = b / a	
Austria	0	2	--		0%		0%		0
Czech Republic	0	1	--		--		0%		0
Denmark	0	1	--		0%		0%		2
EU Institutions	50	137	--		0%		36%		13
Finland	0	0	--		0%		--		1
France	0	0	--		0%		0%		0
Germany	5	24	--		0%		18%		0
Global Fund	0	2	--		0%		0%		0
Hungary	0	0	--		--		0%		0
IOM	0	0	--		0%		--		0
Italy	0	3	--				0%		0
Japan	0	1	--		0%		0%		0
Luxembourg	0	3	--		0%		0%		3
Netherlands	0	0	--		--		--		0
Slovak Republic	0	0	--		--		--		0
Sweden	0	3	--		0%		0%		0
Switzerland	0	10	--		0%		0%		3
Turkey	0	5	--		--		0%		0
United Kingdom	0	4	--		0%		0%		2
United Nations	0	8	--		0%		0%		0
United States	0	76	--		0%		0%		0
World Bank	52	22	--		0%			43%	0
Average donor ratio			--		0%		5%		
Total	106	301	--		0%		35%		23

* Ratio is $c = a / b$ except where government's budget estimates are greater than disbursements ($c = b / a$).

In 2010, 35% of disbursed aid was accurately estimated in the national budget, a notable increase from 2007, but far from the 85% target. This increase can largely be explained by the introduction of macro-financial assistance budgetary support from EU Institutions. Some donors, such as Germany (USD 24 million), and the United States (USD 74 million) also contributed a large amount of aid, none of which was included in the estimates of the government budget. The one exception is the World Bank, where USD 52 million was estimated by the government, but only USD 22 million was disbursed. This was due to the suspension of a World Bank-administered trust fund when Kosovo exited a Stand-By Arrangement with the IMF, and the delayed ratification of a World Bank loan for agriculture by the Kosovo Parliament.

While donors have increasingly been reporting their projected assistance to the government through the Aid Management Platform System, managed by the Ministry of European Integration (MEI), there is currently no system in the Ministry of Finance for recording modalities other than Donor Designated Grants. The overall impact of donor spending is indirectly accounted for only within the national accounts framework, which is reflected in the government projections of main macroeconomic indicators. Thus, there is a discrepancy between donor aid and the government's estimates of donor aid. Initiatives to address this problem include an exploration by the government and donors of the feasibility of integrating the Aid Management Platform (AMP) to the Ministry of Finance's IFMIS system, an electronic finance management system. An assessment mission has been proposed though dates have not yet been confirmed. If Kosovo proceeds with integrating its Aid Management Platform with an electronic financial database the country may continue to make progress in recording aid flows over the coming years.

For many countries, aid is a vital source of revenue and resources. Being able to predict aid disbursements – both in terms of how much aid will be delivered and when – is important to enable countries to manage public finances and undertake realistic planning for development. The Paris Declaration calls on donors to provide reliable, indicative commitments of aid over a multi-year framework, and to disburse aid in a timely and predictable manner according to agreed schedules.

Indicator 7 examines the in-year predictability of aid for the government sector by measuring the proportion of planned disbursements (as reported by donors) that are recorded by governments in their accounting system as having been disbursed. Indicator 7 therefore assesses two aspects of predictability. The first is the ability of donors to disburse aid according to schedule. The second is the ability of government to record disbursements for the government sector as received in its accounting system. Indicator 7 is designed to encourage progress in relation to both, with the aim of halving the proportion of aid not disbursed (and not captured in the government's accounting system) within the fiscal year for which it was scheduled by 2010. The ultimate goal is to improve not only the predictability of disbursements, but also the accuracy with which they are recorded in government systems – an important element to support ownership, accountability and transparency.

INDICATOR 7
Providing more
predictable aid

TABLE 4:
Are disbursements on
schedule and recorded
by government?

	Disbursements recorded by government in 2010 (USD m) a	Aid scheduled by donors for disbursement in 2010 (USD m) b	2005		2007		2010*		For reference: Aid disbursed by donors for government sector in 2010 (USD m) d	For reference: % of scheduled aid disbursements reported as disbursed by donors in 2010** (%)	
			(for reference)	(for reference)	(for reference)	(for reference)	(%)	(%)		e = d / b	e = b / d
							c = a / b	c = b / a			
Austria	0	2	--		0%		1%		2	98%	
Czech Republic	0	0	--		--			0%	1		0%
Denmark	1	1	--		0%		85%		1	93%	
EU Institutions	44	181	--		2%		24%		137	76%	
Finland	0	0	--		--		--		0	--	
France	0	0	--		--		0%		0	89%	
Germany	0	24	--		0%		0%		24	100%	
Global Fund	2	1	--		59%			76%	2		76%
Hungary	0	0	--		--		--		0		0%
IOM	0	0	--		0%		--		0	--	
Italy	0	7	--		1%		2%		3	37%	
Japan	0	1	--		--		0%		1	100%	
Luxembourg	0	7	--		--		0%		3	48%	
Netherlands	0	0	--		--			0%	0	--	
Slovak Republic	0	0	--		--		--		0	--	
Sweden	0	3	--		--		8%		3	100%	
Switzerland	1	14	--		2%		7%		10	73%	
Turkey	0	0	--		--		--		5		0%
United Kingdom	1	0	--		2%			0%	4		0%
United Nations	2	7	--		17%		33%		8		84%
United States	0	50	--		0%		0%		76		67%
World Bank	4	0	--		15%			0%	22		0%
Average donor ratio			--		9%		14%				58%
Total	55	298	--		3%		19%		301		99%

* Ratio is c=a/b except where disbursements recorded by government are greater than aid scheduled for disbursement (c=b/a).

** Ratio is e=d/b except where disbursements recorded by donors are greater than aid scheduled for disbursement (e=b/d).

In 2010, 19% of disbursed aid was recorded in government accounting systems. Although there have been no substantive changes in practice in regard to aid predictability since 2007, this is a positive increase from 3% in 2008. Of major donors in this regard, EU Institutions, the largest donor to the government sector had only 24% of funds recorded in public accounts, while Germany and the United States had no scheduled

aid recorded in public accounts. Medium-term expenditure plans by donors are not widespread in Kosovo. Remaining challenges stem from the combination of inaccurate records of aid disbursements by the government and donor concerns regarding Kosovo's macroeconomic policies. Donors are encouraged to put more effort into registering the support they provide within the budgetary framework, once systems are in place linking the AMP to the Integrated Financial Management Information System. This will also require additional programming efforts to ensure that the management structure of larger and broader projects can be effectively aligned with budget processes.

INDICATOR 4

Co-ordinating support to strengthen capacity

Capacity constraints present significant challenges to development and poverty reduction efforts and their sustainability. These relate both to aid management capacities (the ability of the government to capture, co-ordinate and utilise aid flows more effectively) and also to broader capacities for the design and implementation of policies and service delivery.

Under the Paris Declaration donors committed to providing technical co-operation that is co-ordinated with partner country strategies and programmes. This approach aims to strengthen capacities while also responding to the needs of partner countries. Successful capacity development is led by the partner country.

Indicator 4 focuses on the extent to which donor technical co-operation (an important input into capacity development) is country-led and well co-ordinated. It captures the extent to which technical co-operation is aligned with objectives articulated by country authorities, whether country authorities have control over this assistance, and whether arrangements are in place to co-ordinate support provided by different donors. The Paris Declaration target is for 50% of technical co-operation flows to be implemented through co-ordinated programmes that are consistent with national development strategies by 2010.

TABLE 5:
How much technical co-operation is co-ordinated with country programmes?

	Co-ordinated technical co-operation (USD m)	Total technical co-operation (USD m)	2005 (for reference)	2007 (for reference)	2010 (%)
	a	b			c = a / b
Austria	1	4	--	75%	28%
Czech Republic	0	0	--	--	0%
Denmark	0	0	--	0%	0%
EU Institutions	0	46	--	8%	0%
Finland	0	0	--	0%	--
France	0	0	--	0%	0%
Germany	0	11	--	100%	0%
Global Fund	0	0	--	--	--
Hungary	0	0	--	--	--
IOM	0	1	--	54%	0%
Italy	0	0	--	0%	0%
Japan	0	1	--	0%	0%
Luxembourg	0	1	--	32%	24%
Netherlands	0	0	--	50%	--
Slovak Republic	0	0	--	--	--
Sweden	0	3	--	2%	14%
Switzerland	0	6	--	26%	0%
Turkey	0	10	--	--	0%
United Kingdom	0	4	--	0%	0%
United Nations	3	9	--	68%	37%
United States	0	70	--	85%	0%
World Bank	4	8	--	100%	49%
Total	9	174	--	51%	5%

In 2010 5% of technical co-operation to Kosovo was co-ordinated. This is a significant setback from 51% of co-ordinated technical co-operation in 2008 and below the 85% target. However, this in part reflects a more accurate assessment regarding what constitutes co-ordinated technical co-operation. A clearer distinction between projects which are developed in consultation with the government and those which are co-ordinated in accordance with the Paris Declaration principles – *i.e.* within a clear strategic framework for capacity development – should be clarified for future assessments. In general, it was not possible to provide fully co-ordinated technical co-operation in accordance with the Paris Declaration definition, as the requisite sectoral plans did not exist. The only significant example of such a programme which offered co-ordinated technical co-operation for 2010 was a capacity development framework initiative for the education sector. Only Austria, the United Nations, Sweden and the World Bank offered any co-ordinated technical co-operation. This is of concern, as technical assistance is the largest component of aid to Kosovo, comprising 45% of ODA in 2010.

Getting maximum value from such a large volume of technical co-operation remains one of Kosovo's key aid management challenges. Nevertheless, donors and the government are trying to move in the direction of more co-ordination. Despite the absence of strategic frameworks, several donors reported strong efforts to identify and reflect government priorities through in-depth consultations on project design. Many projects also used joint accountability mechanisms such as joint steering committees. There are also plans to implement sector-wide approaches in education and forestry. Many projects in Kosovo remain relatively donor-driven, a situation that was also observed in 2007. Generally, there is a lack of co-ordination between donor-managed projects and the government. Ministries do not always feel that they are fully consulted when objectives are being decided, or consultants chosen. Projects are often inflexible once in operation and unable to respond to new requests as situations change. Finally, government has little or no say in choosing or specifying the many short-term experts who are brought in as part of larger projects. These challenges are preventing Kosovo from moving towards a co-ordinated technical co-operation.

Donor use of a partner country's established institutions and systems increases aid effectiveness by strengthening the government's long-term capacity to develop, implement and account for its policies to both its citizens and its parliament. The Paris Declaration commits donors to increase their use of country systems that are of sufficient quality, and to work with partner countries to strengthen systems that are currently weak. Indicator 5 is directly linked to Indicator 2 on the quality of public financial management (PFM) and procurement systems.

Indicator 5a measures the extent to which donors use partner country PFM systems when providing funding for the government sector. It measures the volume of aid that uses partner country PFM systems (budget execution, financial reporting and auditing) as a proportion of total aid disbursed for the government sector. The 2010 target is set relative to indicator 2a on the quality of PFM systems. For partner countries with a score of 5 or above on the indicator 2a scale the target is for a two-thirds reduction in the proportion of aid to the public sector not using the partner country's PFM systems. For partner countries with a score between 3.5 and 4.5 on Indicator 2a, the target is a one-third reduction in the proportion of aid to the public sector not using partner country's PFM systems. There is no target for countries scoring less than 3.5.

In 2010, 20% of aid to Kosovo used country PFM systems, an increase from 3% in 2007. This has been driven by increases by major donors such as EU Institutions, Germany, and the United Nations. The United States, the second largest donor to the government sector, did not channel any of its aid through country systems. There has been increased use of budget support modalities since 2008 and country stakeholders note that progress in alignment has notably been driven by an increased use of budget support modalities. However, payments of this type are currently suspended until at least 2010, pending Kosovo's continued participation in an IMF Stand-By Arrangement. For 2011, it is agreed that Kosovo will undertake a Staff Monitored Programme and eligibility for the Stand-By Arrangement will be reviewed in early 2012.

INDICATOR 5

Using country systems

INDICATOR 5a

Use of country public financial management systems

TABLE 6:
How much aid for the government sector uses country systems?

	Aid disbursed by donors for government sector (USD m)	Public financial management						Procurement			
		Budget execution	Financial reporting	Auditing	2005	2007	2010	Proc. systems	2005	2007	2010
		(USD m)	(USD m)	(USD m)	(for reference)	(for reference)	(%)	(USD m)	(for reference)	(for reference)	(%)
a	b	c	d			avg(b,c,d)/a	e			e / a	
Austria	2	0	0	0	--	0%	0%	0	--	26%	0%
Czech Republic	1	0	0	0	--	--	0%	0	--	--	0%
Denmark	1	0	0	0	--	0%	0%	0	--	0%	48%
EU Institutions	137	40	40	40	--	0%	29%	40	--	0%	29%
Finland	0	0	0	0	--	0%	--	0	--	0%	--
France	0	0	0	0	--	0%	0%	0	--	0%	0%
Germany	24	14	14	14	--	0%	57%	14	--	0%	57%
Global Fund	2	2	0	0	--	67%	33%	2	--	100%	100%
Hungary	0	0	0	0	--	--	0%	0	--	--	0%
IOM	0	0	0	0	--	0%	--	0	--	0%	--
Italy	3	0	0	0	--	--	0%	0	--	--	0%
Japan	1	0	0	0	--	0%	0%	0	--	0%	0%
Luxembourg	3	0	0	0	--	0%	0%	0	--	0%	0%
Netherlands	0	0	0	0	--	--	--	0	--	--	--
Slovak Republic	0	0	0	0	--	--	--	0	--	--	--
Sweden	3	0	0	0	--	12%	0%	0	--	0%	15%
Switzerland	10	0	0	0	--	6%	0%	1	--	6%	5%
Turkey	5	0	0	0	--	--	0%	0	--	--	0%
United Kingdom	4	0	0	0	--	0%	0%	0	--	0%	0%
United Nations	8	3	3	3	--	2%	37%	3	--	1%	38%
United States	76	0	0	0	--	0%	0%	0	--	0%	0%
World Bank	22	0	7	0	--	67%	11%	1	--	0%	5%
Total	301	59	63	57	--	3%	20%	61	--	1%	20%

While there have been improvements to PFM systems, such as the law on public financial management, the level of donor funds received directly by the Ministry of Finance still remains low. With the establishment of the Ministry of European Integration in April 2010, there are expectations that co-ordination among donors and the government will advance and increase the confidence in the country's PFM systems. The primary challenge is that in the absence of an aid strategy, there is not yet a clear policy on the part of government or donors to encourage or facilitate greater use of national PFM systems.

INDICATOR 5b
Use of country procurement systems

Indicator 5b follows a similar graduated target to indicator 5a which is set relative to Indicator 2b on the quality of procurement systems. For partner countries with a Procurement score of 'A', a two-thirds reduction in the proportion of aid for the public sector not using the country's procurement systems and for partner countries with a procurement score of 'B' to reduce the gap by one-third.

Kosovo received a score of 20% in 2010 for the use of country procurement systems. This is a significant increase from the 1% baseline level in 2007. As with use of PFM systems, increased use of public procurement systems by the major donors is also an improvement from the 2008 Survey. EU Institutions increased use of public procurement systems by 29% and Germany by 57%, however the United States did not utilise public procurement systems at all during both 2008 and 2011 surveys. The Global Fund, which uses national systems regularly, was the only donor that disbursed 100% of its aid through Kosovo's procurement systems. Similar to the use of PFM systems, even though efforts have been made to improve procurement processes, there has not been a clear policy by the government to encourage or facilitate the use of the national procurement system. Again, the lack of a defined policy hinders progress in this regard.

When providing development assistance, some donors establish dedicated project management units or implementation units (PIUs) – to support development projects or programmes. A PIU is said to be “parallel” when it is created by the donor and operates outside existing country institutional and administrative structures. In the short term, parallel PIUs can play a useful role in establishing good practice and promoting effective project management. However, in the long run, parallel PIUs often tend to undermine national capacity development efforts, distort salaries and weaken accountability for development.

To make aid more effective, the Paris Declaration encourages donors to “avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes.” Indicator 6 counts the number of parallel PIUs being used in partner countries. The target is to reduce by two-thirds the number of parallel PIUs in each partner country between 2005 and 2010.

INDICATOR 6
Avoiding parallel
implementation
structures

TABLE 7:
How many PIUs are
parallel to country
structures?

	Parallel PIUs		
	2005 (for reference)	2007 (for reference)	2010 (units)
Austria	--	5	4
Czech Republic	--	--	0
Denmark	--	0	0
EU Institutions	--	25	0
Finland	--	3	0
France	--	1	3
Germany	--	1	0
Global Fund	--	0	0
Hungary	--	--	0
IOM	--	0	0
Italy	--	0	1
Japan	--	0	0
Luxembourg	--	3	3
Netherlands	--	0	0
Slovak Republic	--	--	0
Sweden	--	4	0
Switzerland	--	9	5
Turkey	--	--	0
United Kingdom	--	5	8
United Nations	--	29	4
United States	--	21	0
World Bank	--	1	1
Total	--	107	29

In the 2011 Survey, Kosovo’s registered 29 parallel PIUs, a significant decrease compared to the 2007 figure of 107. In the case of Kosovo, it is clear that many aspects of project management sit outside national administration. The government has little or no involvement in project functions such as procurement, financial management, progress reporting or the contracting of short-term advisers. However, it should be noted that PIUs are not widespread, as major donors have internalised much of the implementation in their own offices. Where project teams are placed in ministries, they are primarily delivering project objectives though project teams will also generally manage some aspects of their own administration. Donors have therefore interpreted the guidance differently, and some have even changed their interpretation since the previous survey – in particular the EU and USAID are reporting zero PIUs in 2010, against 46 in 2007. This may explain the significant decrease in parallel PIUs since 2007.

While there has been some progress towards strengthening local capacity for planning, implementation and ongoing accountability, the outsourcing of project implementation and administration from government still seems the prevalent model. It appears that there are no strategies in place to change this position, either on the

part of government or of donors. One positive development to address parallel PIUs is the use of joint project steering committees consisting of donors, government and other stakeholders. These have been established for several large projects. However, it is recommended that the government develop more concrete guidance on its preferred modes for project implementation.

INDICATOR 8 Untying aid

Aid is “tied” when restrictions are placed on the countries that goods and services may be purchased from, typically including the donor country and/or another narrowly specified group of countries. Untied aid not only improves value for money and decreases administrative burdens, but also supports the use of local resources, country systems and the harmonisation of donor support provided through pooled or joint aid instruments and approaches.

Data on the extent to which aid is tied are based on voluntary self-reporting by donors that are members of the OECD’s Development Assistance Committee (DAC). The Paris Declaration target is to continue progress towards untying all aid between 2005 and 2010.

TABLE 8:
How much bilateral aid
is untied?

	Total bilateral aid as reported to the DAC in 2009	Untied aid	2005 (for reference)	2007 (for reference)	Share of untied aid
Austria	15.0	0.8	--	--	5%
Denmark	2.2	2.2	--	--	100%
Finland	5.3	5.3	--	--	100%
France	0.4	0.4	--	--	100%
Germany	48.7	47.0	--	--	97%
Greece	2.1	0.0	--	--	1%
Italy	2.1	1.9	--	--	90%
Luxembourg	7.1	7.1	--	--	100%
Netherlands	5.8	5.8	--	--	100%
Norway	22.1	22.1	--	--	100%
Spain	0.1	0.0	--	--	0%
Sweden	4.6	4.6	--	--	100%
Switzerland	14.3	14.3	--	--	100%
United Kingdom	8.0	8.0	--	--	100%
United States	122.1	33.1	--	--	27%
Total	260	153	--	--	59%

Source: OECD Creditor Reporting System.

In 2009, 59% of Kosovo’s bilateral aid was untied. Since untied aid was not evaluated in previous surveys, no conclusions can be made about the progress of this indicator or whether or not this indicator is positive. Most donors to Kosovo completely untie their aid, with the exception of Austria (5%), Spain (0%), and the United States (27%). There is no information on untied aid at country level provided by the country report, thus no inferences can be drawn related to the nature of untied aid in Kosovo.

CONDITIONALITY

As defined in the respective Memoranda of Understanding signed with individual donors, the disbursement of direct donor budget support by EU Institutions, IMF and World Bank has been linked to the maintenance of macro-fiscal sustainability and the finalisation of conditionality criteria. This is a positive step towards making public all conditions linked to disbursements at the country level. ■

HARMONISATION

POOR CO-ORDINATION OF AID increases the cost to both donors and partner countries and significantly reduces the real value of aid. Harmonisation of aid delivery procedures and the adoption of common arrangements help reduce duplication of effort and lower the transaction costs associated with aid management. The Paris Declaration focuses on two dimensions of aid as a proxy for assessing overall harmonisation: the use of common arrangements within programme-based approaches (PBAs) and the extent to which donors and partner countries conduct joint missions and co-ordinate analytic work.

Aid effectiveness is enhanced when donors use common arrangements to manage and deliver aid in support of partner country priorities. A good mechanism for aid co-ordination can be described as one that has shared objectives and integrates the various interests of stakeholders. Indicator 9 assesses the degree to which donors work together – and with partner governments and organisations – by measuring the proportion of total ODA disbursed within programme-based approaches (PBAs). In practice, there are many different approaches and modalities which can use PBAs and harmonisation takes place at various levels.

At one level, the partner country is responsible for defining clear, country-owned programmes (*e.g.* a sector programme or strategy) and establishing a single budgetary framework that captures all resources (both domestic and external). At another level, donors are responsible for taking steps to use local systems for programme design and implementation, financial management, monitoring and evaluation. Finally, partner countries and donors are jointly responsible for donor co-ordination and harmonisation of donor procedures. The 2010 target is that two-thirds of aid flows are provided in the context of PBAs.

INDICATOR 9 Using common arrangements

TABLE 9:
How much aid is
programme based?

	Programme-based approaches			Total aid disbursed (USD m) d	2005 (for reference)	2007 (for reference)	2010 (%) e = c / d
	Budget support (USD m) a	Other PBAs (USD m) b	Total (USD m) c = a + b				
Austria	0	0	0	4	--	42%	0%
Czech Republic	0	0	0	1	--	--	0%
Denmark	0	0	0	1	--	0%	0%
EU Institutions	40	0	40	138	--	0%	29%
Finland	0	0	0	2	--	0%	0%
France	0	0	0	0	--	0%	0%
Germany	0	0	0	29	--	0%	0%
Global Fund	0	0	0	2	--	0%	0%
Hungary	0	0	0	0	--	--	0%
IOM	0	0	0	2	--	0%	0%
Italy	0	0	0	5	--	0%	0%
Japan	0	0	0	1	--	0%	0%
Luxembourg	0	1	1	7	--	0%	19%
Netherlands	0	0	0	3	--	0%	0%
Slovak Republic	0	0	0	0	--	--	0%
Sweden	0	0	0	8	--	8%	0%
Switzerland	0	0	0	13	--	4%	0%
Turkey	0	0	0	12	--	--	0%
United Kingdom	0	0	0	4	--	0%	0%
United Nations	3	4	7	30	--	9%	24%
United States	0	0	0	97	--	2%	0%
World Bank	0	0	0	22	--	0%	0%
Total	43	5	48	381	--	2%	13%

In the 2011 Survey 13% of Kosovo's aid was programme-based and made use of common arrangements or procedures. This figure is an increase from 2% in 2007, but is still far below the 2010 target of 66%. Excluding the EU's general budget support programme, which specifically targets the transfer and use of financial resources to a partner countries PFM system to be used by PBAs, only the UN and Luxembourg have recorded activity of common arrangements or procedures within PBAs. While there are a growing number of sectoral strategies in Kosovo, there are concerns that few of these strategies contain a programme and budget framework which can serve as a base for PBAs. This is represented by the weak structures in most sectors for co-ordinating dialogue and planning between government and donors, though it is expected that the recently adopted regulation on donor co-ordination will go some way to addressing this. In some sectors, government strategies are neither fully owned nor have they triggered a discussion about how they might affect the direction of donor assistance. Thus initial steps towards PBAs have generally depended on leadership from particular line ministries or donor agencies, and not so much from the government. Optimistic examples include a sector wide approach (SWAp) framework in education to develop the necessary tools to implement sector goals. This approach is recommended for the development of other sectors.

INDICATOR 10a
Joint missions

A common complaint of partner countries is that donors make too many demands on their limited resources: country authorities spend too much time meeting with donor officials and responding to their many requests. The Paris Declaration recognises that donors have a responsibility to ensure that, to the greatest extent possible, the missions and analytical work they commission are undertaken jointly – *i.e.* that the burden of such work is shared. The 2010 target is that 40% of donor missions to the field are conducted jointly.

TABLE 10:
How many donor
missions are
co-ordinated?

	Co-ordinated donor missions* (missions) a	Total donor missions (missions) b	2005* (for reference)	2007* (for reference)	2010* (%) c = a / b
Austria	0	1	--	0%	0%
Czech Republic	1	1	--	--	100%
Denmark	0	0	--	0%	--
EU Institutions	0	123	--	40%	0%
Finland	0	10	--	0%	0%
France	0	8	--	0%	0%
Germany	7	16	--	0%	44%
Global Fund	0	3	--	0%	0%
Hungary	0	0	--	--	--
IOM	0	2	--	--	0%
Italy	0	16	--	0%	0%
Japan	0	3	--	--	0%
Luxembourg	0	1	--	100%	0%
Netherlands	0	1	--	0%	0%
Slovak Republic	0	0	--	--	--
Sweden	3	10	--	0%	30%
Switzerland	2	17	--	0%	12%
Turkey	0	16	--	--	0%
United Kingdom	0	27	--	0%	0%
United Nations	14	45	--	25%	31%
United States	1	20	--	0%	5%
World Bank	8	31	--	25%	26%
Total	23	351	--	11%	7%

*The total of coordinated missions has been adjusted to avoid double counting.
A discount factor of 35% is applied.

In 2010, 7% of donor missions were co-ordinated. This is a setback compared to the 11% reported in 2007. Of major donors in this regard, the Germany co-ordinated 44% of its missions followed by the United Nations at 31% and the World Bank at 26%. Most donors do not co-ordinate any missions at all. Currently there is no process or mechanism in place to facilitate co-ordinated joint missions in Kosovo. On the other hand, it is anticipated that the emerging framework for sectoral co-ordination, such as SWAPs and sector working groups for donor co-ordination, will address the issue of co-ordinating joint missions. A useful first step would be to compile a detailed data on the composition of each donor's portfolio of missions and distribute this across sectors.

Country analytic work is the analysis and advice necessary to strengthen policy dialogue, and to develop and implement country strategies. It includes country or sector studies and strategies, country evaluations and discussion papers. The Paris Declaration foresees that donors should conduct analytic work jointly where possible as it helps curb transaction costs for partner authorities, avoids unnecessary duplicative work and helps to foster common understanding. Indicator 10b measures the proportion of country analytic work that is undertaken jointly. The 2010 target is that 66% of country analytic work is carried out jointly.

INDICATOR 10b
Joint country analytic work

	Co-ordinated donor analytic work* (units) a	Total donor analytic work (units) b	2005* (for reference)	2007* (for reference)	2010* (%) c = a / b
Austria	0	1	--	0%	0%
Czech Republic	0	0	--	--	--
Denmark	0	0	--	0%	--
EU Institutions	1	8	--	100%	13%
Finland	0	4	--	--	0%
France	0	0	--	--	--
Germany	2	2	--	0%	100%
Global Fund	0	0	--	0%	--
Hungary	0	0	--	--	--
IOM	0	0	--	0%	--
Italy	0	2	--	--	0%
Japan	0	0	--	--	--
Luxembourg	1	2	--	--	50%
Netherlands	0	0	--	--	--
Slovak Republic	0	0	--	--	--
Sweden	3	4	--	0%	75%
Switzerland	1	1	--	100%	100%
Turkey	1	1	--	--	100%
United Kingdom	0	3	--	25%	0%
United Nations	10	25	--	40%	40%
United States	5	7	--	0%	71%
World Bank	2	2	--	40%	100%
Total	19	61	--	27%	31%

TABLE 10:
How much country analytic work is co-ordinated?

*The total of coordinated missions has been adjusted to avoid double counting. A discount factor of 25% is applied.

In 2010, 31% of Kosovo's analytical work was co-ordinated among donors. This is a slight improvement from the 27% figure reported in 2007, yet is still far from the 66% target. Germany, Switzerland, Turkey, and the World Bank have co-ordinated 100% of their analytical work. Donors who did not co-ordinate any joint analytical work include Austria, Finland, Italy, and the United Kingdom. Similar to co-ordinated joint missions, there is currently no process or mechanism in place to facilitate better co-ordination in analytical work. Again, it is hoped the emerging framework for sectoral co-ordination will address this issue, and it is also recommended that more detailed data on the composition of each donor's portfolio of engagement be made available across sectors in order to lay a foundation for co-ordination.

AID FRAGMENTATION

Fragmented aid – aid that comes in many small slices from a large number of donors – creates high transaction costs and makes it difficult for partner countries effectively to manage their own development. Aid fragmentation also increases the risk of duplication and inefficient aid allocation among donors.

Fragmentation in Kosovo remains high. In March 2011, the Aid Management Platform (AMP) recorded 448 on-going projects with an average value of only EUR 1.8 million (OECD, 2011b). There is also a wide variability in the number of donors devoted to each sector. There has not been a systematic attempt to address this issue, though, as noted elsewhere, the data available from the AMP provide a valuable platform for the government to begin developing a strategy. The annual Ministry of European Integration (MEI) report, generally produced in the second quarter of each year, will also include analysis of these issues. ■

MANAGING FOR RESULTS

BOTH DONORS AND PARTNER COUNTRIES should manage resources according to well-defined, desired results, measuring progress toward them and using information on results to improve decision making and performance. Achieving this implies strengthening capacity to undertake such management and emphasising a focus on results. Countries are expected to develop cost-effective and results-oriented reporting and performance assessment frameworks, while donors commit to use them and refrain from requiring separate reporting.

Indicator 11 assesses the quality of a country's results-oriented frameworks. In particular, it considers the quality of the information generated, stakeholder access to information, and the extent to which the information is utilised within a country level monitoring and evaluation system. The government provides evidence against these criteria through the survey, and this is translated by the World Bank into a score running from A (highest score) to E (lowest score).

The Paris Declaration 2010 global target is to reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third.

In the 2011 Survey, Kosovo received an overall score of E from the World Bank for its results-oriented frameworks. Kosovo received such a score because a national monitoring and evaluation (M&E) system does not exist yet. It is recommended that the government develop its national priorities, strategy and structures. With these in place, the development of a better system for managing for results should then be implemented. The law on public financial management and accountability provides for regular reports of budget execution, which is a positive step forward. Public expenditure data are available on the internet and in hard copy, quarterly, in Albanian and Serbian. There are additional forms of data collection, but it is mostly evaluation-oriented rather than results-oriented, meaning that data is currently more qualitative than quantitative. Qualitative data is more anecdotal and offers no aggregate indicators that can be measured regularly over periods of time. Data collection is on-going but not yet comprehensive enough for monitoring purposes, or utilised in a timely manner. Again, given the context of Kosovo's new independent and transitioning government, developing a national strategic policy is the main challenge and must be completed before a results-oriented framework can be pursued. ■

MUTUAL ACCOUNTABILITY

STRONG AND BALANCED MECHANISMS that support accountability are required at all levels for aid to be most effective. Donors and partner country governments should be accountable to their respective publics and to each other for implementing their commitments on aid, its effectiveness, and the results to which it contributes.

INDICATOR 11

Do countries have results-oriented frameworks?

INDICATOR 12

Mutual accountability

Indicator 12 examines whether there is a country-level mechanism for mutual assessment of progress on partnership commitments, including on aid effectiveness. There are three criteria that must all be met: the existence of an aid policy or strategy agreed between the partner country government and donors; specific country-level aid effectiveness targets for both the partner country government and donors; an assessment towards these targets undertaken by both partner and donors in the last two years, and discussed in a forum for broad-based dialogue.

The 2010 target is for all partner countries to have mutual assessment reviews meeting these criteria in place.

Presently, Kosovo does not have a mutual accountability structure in place. Kosovo has neither attempted to undertake a mutual assessment of progress, nor proposed one. As such, the development a system for mutual accountability has not changed since the 2008 Monitoring Survey. Nevertheless since 2007, some important foundations have been formed to support mutual accountability. First, the Aid Management Platform provides a valuable emerging dataset on donor practice, which can generate reports for sectors and for municipalities. Second, the annual High-Level Forum, which has met twice, can potentially provide the appropriate platform for discussion of mutual accountability and to mandate a mutual assessment. Third, there has been some useful work at the sector level which could provide models for mutual assessment and accountability. The prime example of useful sector work includes a joint annual review process in the education sector – the first joint annual review is scheduled for the first half of 2012. This model is being encouraged for replication in other sectors. These three initiatives are improvements, although explicit actions that target the development of a mutual accountability structures have not been pursued yet. Again, this can be attributed to Kosovo's transition period towards to a new policies and strategies. ■

NOTES

1. This is without prejudice to the status of Kosovo under international law.

The quantitative information presented in this chapter is taken from data provided by national co-ordinators up to 31 July 2011, following the data validation process with stakeholders at the country level. It was not possible to modify or correct any data received after this date.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

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