



# The political economy of donor intervention in Western Balkans and Turkey: mapping and potential for stronger synergies

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## LIST OF ACRONYMS

<b>CEB</b>	Council of Europe Development Bank
<b>CoE</b>	Council of Europe
<b>DAC</b>	Development Assistance Committee
<b>DoL</b>	Division of Labour
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EC</b>	European Commission
<b>EIB</b>	European Investment Bank
<b>ERI SEE</b>	Education Reform Initiative of South Eastern Europe
<b>eSEE</b>	Electronic South Eastern Europe Initiative
<b>FDI</b>	Foreign Direct Investment
<b>FMEIA</b>	Federal Ministry for Europe, Integration and Foreign Affairs (Austria)
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>GNI</b>	Gross National Income
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>IDA</b>	International Development Association
<b>IFC</b>	International Finance Corporation
<b>IFI</b>	International Financial Institution
<b>IPA</b>	Instrument for Pre-Accession
<b>JICA</b>	Japan International Cooperation Agency
<b>JHA</b>	Justice and Home Affairs
<b>KfW</b>	Kreditanstalt für Wiederaufbau
<b>NALAS</b>	Network of Associations of Local Authorities of South East Europe
<b>NGO</b>	Non-Governmental Organisation
<b>NIPAC</b>	National IPA Coordinator
<b>NORAD</b>	Norwegian Agency for Development Cooperation
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OOF</b>	Other Official Finance
<b>OSCE</b>	Organisation for Security and Cooperation in Europe
<b>PAR</b>	Public Administration Reform

<b>PFM</b>	Public Financial Management
<b>RAI</b>	Regional Anti-corruption Initiative
<b>RCC</b>	Regional Cooperation Council
<b>REC</b>	Regional Environmental Centre for Central and Eastern Europe
<b>ReSPA</b>	Regional School of Public Administration
<b>SDC</b>	Swiss Development Cooperation
<b>SEECEL</b>	South East European Centre for Entrepreneurial Learning
<b>SEECp</b>	South East Europe Cooperation Process
<b>SEEHN</b>	South East European Health Network
<b>SEETO</b>	South East Europe Transport Organisation
<b>SEIO</b>	Serbia European Integration Office
<b>SIDA</b>	Swedish International Development Assistance
<b>TA</b>	Technical Assistance
<b>TFCS</b>	Task Force on Culture and Society
<b>UNDP</b>	United National Development Programme
<b>UNICEF</b>	United National Children's Emergency Fund
<b>UNHCR</b>	United Nations High Commissioner of Refugees
<b>USAID</b>	United States Aid
<b>WBIF</b>	Western Balkans Investment Framework
<b>WISE</b>	Western Balkans Research and Innovation Strategy Exercise Facility

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## HIGHLIGHTS

In recent years (2010 to 2012), as a consequence of the economic crisis, flows of international assistance to the Western Balkans<sup>1</sup> and Turkey have fallen, along with inflows of private finance. The main reason has been reduced inflows of non-concessional 'other official finance' (OOF). Inflows of Official Development Assistance (ODA) have increased, but not sufficiently to make up the shortfall.

There are substantial inequalities and imbalances in the distribution of international assistance between countries. ODA flows per capita are relatively high in Kosovo<sup>2</sup>, while they are relatively low and declining in the former Yugoslav Republic of Macedonia.

Inflows of ODA are inversely related to the level of Gross National Income (GNI) per capita. In relation to the predicted levels, both Albania and the former Yugoslav Republic of Macedonia receive low inflows of ODA (in relation to their income per capita). The reason for this may be the relative isolation of these countries from strong political supporters overseas.

In contrast, inflows of OOF are positively correlated with levels of GNI per capita. This suggests that OOF does not compensate for low levels of income, but seeks bankable projects in the more prosperous countries. Therefore, 'blending' ODA and OOF instruments may not achieve expected effects, as blended loans may be mainly directed towards the more advanced countries or to a few favoured sectors. Consequently, there should be strong participation by the relevant actors (National IPA Coordinators (NIPACs), RCC, EU Delegation sector experts) in selection committees that process loan applications counteract the inherent biases in the criteria in use.

Donor coordination mechanisms and databases can be useful tools to inform pre-accession assistance programming, contribute to objectives of the Enlargement Strategy, and contribute to the 'sector approach' to be introduced in planning pre-accession assistance. However, this can only be achieved as part of a wider set of reforms to improve strategic planning and policy design and delivery.

Sector budget support can promote harmonisation and alignment on national policies, contribute to lower transaction costs and encourage results based approaches. However, most Enlargement countries are not yet in a position to benefit from this, as they have not completed the necessary public financial management reforms.

The various national donor coordination databases currently in place lack sufficient resources and fail to deliver the information that is most needed by donors and beneficiaries to underpin the process of donor coordination and sector programming. A possibly more effective approach would be to combine resources at regional level through a regional donor coordination database.

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<sup>1</sup> For the purpose of this report, the Western Balkans include Albania, Bosnia and Herzegovina, Kosovo<sup>2</sup>, the former Yugoslav Republic of Macedonia, Montenegro, and Serbia.

<sup>2</sup> This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.



The analysis has shown that in most countries, most donors are active in more than two sectors, often in many more, suggesting that there may be plentiful opportunities for specialisation of donor effort, which could increase the effectiveness of international assistance.

We have found many instances where there are more than five donors per sector, suggesting a large potential for rationalisation of donor support and reduction of transaction costs facing beneficiaries who have to deal with a large number of donors per sector.

The study found that relatively few regional initiatives communicate with the NIPACs. These regional initiatives should be integrated into donor coordination structures at country level by encouraging greater communication and coordination of activities with the NIPACs.

The Western Balkans Investment Framework (WBIF) is seen by many to be a good example of effective regional cooperation in practice. The WBIF has coordinated a large programme of much needed infrastructure investment in the Western Balkans. Some concerns have been raised over a sense of disconnect between the WBIF and the in-country EU Delegations (EUDs). This should change following the creation of a single pipeline of projects under IPA II<sup>3</sup>, which will provide a more transparent basis for ranking projects according to their greatest economic and social benefits. One lesson is that at submission stage a letter of endorsement from the Ministry of Finance or equivalent would be beneficial to indicate a clear commitment beforehand while a wide range of local interests including NGOs should be involved in the post-submission screening of investments.

The study also focused on the geopolitics of donor interventions through a case study of the Energy sector, which examined the gas supply industry. Intense geo-political competition may eventually drive up energy costs in the region through a duplication of infrastructure. Therefore the extension of an effective regulatory arrangement that would encompass also non-EU suppliers in an open and competitive market seems necessary as a complement to the donor interventions in this sector. A second case study of the Transport sector revealed the strong and growing involvement of new and emerging donors.

New and emerging donors are increasingly active in the region. These donors have more relaxed conditionality than traditional donors that are aligned with the EU Enlargement process. There is a risk that new donors may reduce the effectiveness and 'transformative power' of EU conditionalities. The risk is currently low, as the scale of the interventions by new donors is limited. However, efforts should be made to involve the new donors in the existing donor coordination mechanisms and also to adopt a more flexible approach to conditionalities that reflects the realities of the new donor landscape.

The responses to a donor questionnaire revealed that the most important aims of donor interventions were to support the EU accession of the beneficiaries and support their social and economic development. Less important aims were to support the commercial trade or

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<sup>3</sup> IPA II is the European Commission Instrument for Pre-accession Assistance. The IPA II Regulation came into force on 16<sup>th</sup> March 2014 and is applied retroactively from 1<sup>st</sup> January 2014. Implementation of IPA 2007-2013 is still underway.

investment relations of the donor country, or the prestige of the donor, although these factors do have a role to play.

The questionnaire revealed that beneficiaries are mostly fully compliant with the aims of international interventions. Encouragingly, there were no cases of reluctant compliance. However, a significant number of donors said that the beneficiaries only partly comply with donor interventions.

In a situation in which multiple donors each pursue different objectives and offer a variety of uncoordinated policy advice there is ample opportunity for beneficiaries to play donors off against each other. In one sense this is a negative aspect of donor fragmentation that raises transaction costs, in another sense it can be seen as healthy competition that favours the consumer of donor services.

The analysis revealed substantial gaps between beneficiary preferences and donor priorities. There is scope to improve the matching of donor interventions to domestic priorities, especially in the sectors of social policy, human rights and minorities, and agriculture and rural development.

Although donor coordination in the region is a stated priority of most donors, implementation is not always effective. Sector Working Groups often practice information sharing rather than genuine cooperation to improve strategic plans, division of labour, complementarity of efforts, or joint programming. Genuine cooperation within a sector approach is a complex process that should be approached cautiously, with due attention to ensuring effective donor coordination and monitoring of results.

## EXECUTIVE SUMMARY

Over the last twenty years, the countries of the Western Balkans<sup>4</sup> have benefited from large inflows of international assistance from both bilateral and multilateral donors. Despite the enormous inflow of assistance, while some progress has been made in the EU accession process, the foundations for sustained economic development and growth have not been established in the Western Balkans, none of which are yet considered to be a functioning market economy. There is a widespread concern that poor government policies and inadequate donor coordination have reduced the effectiveness of international assistance. Growth has been more sustained in Turkey, which is in a somewhat different situation to the Western Balkan countries on account of its size and development processes. Given the diminishing budgets for international assistance in the current European and global economic climate, there is a need for a rapid improvement in aid effectiveness. This is especially important in relation to EC IPA II assistance, which envisages a reinforced link between financial assistance and the accession policy agenda *inter alia* by following a sector-based approach, and stronger ownership by the beneficiaries to underpin improved governance and capacity building.

At the same time, the level of private sector external finance has declined rapidly due to the impact of the economic crisis on private financial flows. Declining FDI inflows, bank deleveraging and the contraction of credit to the business sector have continued in the early part of 2014 and are likely to continue in the near future. Turkey has been in a rather different position, with robust growth during the period of economic crisis, though even there the policy of 'tapering' in the USA has led to an outflow of funds and a decline in growth. Turkey has been both a recipient of EU assistance and a donor to the region in her own right. However, the fall in private finance to the Western Balkans poses problems for future economic growth and social development in the region, and further challenges for the international assistance efforts of the donor countries.

The purpose of the study is to identify lessons learned about creating synergies among donors and provide an improved understanding of differing forms of donor assistance and specialisation in different sectors in the Western Balkans and Turkey in order to enhance efficiency in the use and allocation of official development assistance and promote improved aid effectiveness in the region. The study has explored the political economy of donor interventions in the region both from the side of the donors and public sector financiers that are most engaged in the provision of funds and technical assistance, and from the perspective of the beneficiaries themselves. The research has pursued a mixed methods methodology exploring the large amount of data that is available on donor projects, carrying out interviews with donors, beneficiaries and implementing agencies, and gathering data through original questionnaires delivered to bilateral donors, financial institutions and regional initiatives.

The research has examined the flows of donor assistance based upon an analysis of data on over 18,000 project disbursements that have been carried out in the Western Balkans and Turkey in the three-year period from 2010-2012 drawn from the OECD/DAC database on

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<sup>4</sup> For the purpose of this report, the Western Balkans include Albania, Bosnia and Herzegovina, Kosovo<sup>5</sup>, the former Yugoslav Republic of Macedonia, Montenegro, and Serbia.

official development assistance. The analysis has shown that the total flows of international assistance have been falling over this period. Together with declining private inflows, it is not surprising that the countries have experienced an economic crisis that has found its expression in rising levels of unemployment, soaring youth unemployment, and high and sharply rising rates of non-performing loans in the business sector indicating a highly vulnerable economic and social situation. As mentioned above, Turkey has been somewhat insulated from these developments, as were Kosovo<sup>5</sup> and Albania for a while, though these countries are now beginning to experience economic downturns too.

Examination of the data shows that the main reason for the fall in international assistance over the period 2010-2012 has been reduced inflows of non-concessional 'other official finance' (OOF), while inflows of official development assistance (ODA) have increased slightly, but not by enough to fill the gap. In this context, we have also found that there are substantial inequalities and imbalances in the distribution of international assistance between beneficiaries. ODA flows per capita have been relatively high in Kosovo though declining, and relatively low in the former Yugoslav Republic of Macedonia. It could be expected that ODA would be inversely related to the standard of living of a country as expressed by the level of GNI per capita (income per capita), and this relationship is found to hold for the Enlargement countries. The analysis reveals that both Albania and the former Yugoslav Republic of Macedonia receive relatively low inflows of ODA compared to what would be expected given their level of income per capita. The reason for this may be the relative isolation of these countries from strong overseas political support— there is no international political constituency that is pressing for increased levels of ODA to these countries. It seems likely that other countries have stronger sponsors among the donor community. For example, 40% of ODA flows to Montenegro are from Germany and 33% of ODA flows to Kosovo are from the USA, both powerful and successful sponsors. On the other hand the largest donor to Albania is Greece a country that has experienced economic crisis in recent years. While the former Yugoslav Republic of Macedonia's strongest supporter is the USA, accounting for a relatively low 20% of its ODA, the second largest inflow is from the UAE (18%), a relatively new donor in the region.

The flows of OOF i.e. non-concessional public loans, are positively correlated with levels of GNI per capita. These flows do not compensate for low levels of income, but on the contrary seek bankable projects in the more prosperous countries. This has several policy implications. First it means that non-concessional OOF loans have a different logic to the flows of ODA that pursue development purposes. Consequently, blending ODA flows with OOF flows may not achieve the desired effects, as such blended loans may be mostly directed towards the more advanced countries of the group. Secondly, from the sector perspective, loans from the IFIs are mainly directed at the Private Sector Development sector, credit lines for the financing of SMEs, and infrastructure investments in the Energy, Environment and Transport sectors. There are far fewer investments in other sectors covered by IPA II such as Employment, Education and Social Sectors. Consequently, where donor funds are committed to blending with IFI loans, there should be strong participation by the

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<sup>5</sup> This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

relevant actors (NICAPs, RCC, EU Delegation sector experts) in the selection of grant applications in order to ensure a sufficiently wide coverage of sectors.

The study has also assessed the role of donor coordination mechanisms, aid management platforms and associated project databases. Under IPA II, in order to tailor assistance to the needs and characteristics of each country, the preparation of the Country Strategy Papers (CSPs) has been based on partnerships between the EC and the beneficiary countries. This approach is designed to increase the sense of local ownership by ensuring that CSPs and projects are in line with the beneficiaries' own development strategies, and to secure broad consensus on the strategies to be put in place through enhanced participation of beneficiaries in each country.

The EU Code of Conduct on Complementarity and Division of Labour in Development Policy is an important basis for ensuring the complementarity of donor contributions in order to overcome donor fragmentation and increase the efficiency and effectiveness of assistance. It aims at reducing the number of donors in overcrowded sectors and increasing support for 'orphan' sectors, making use of the donors' comparative advantages.

The study has examined various donor coordination mechanisms and databases and has shown that they may in theory be useful tools to inform pre-accession assistance programming, contribute to the objectives of the Enlargement Strategy, complement the Fast Track Initiative on the Division of Labour, and contribute to the 'sector approach' in pre-accession assistance. However, donor coordination mechanisms and information platforms cannot play these roles *per se* but only as part of a wider set of reforms to improve strategic planning and policy design and delivery (including budgeting and resource allocation processes as well as procurement). Sector budget support can play a complementary role in the sector approach and can promote harmonisation and alignment on national policies, contribute to lower transaction costs and encourage results-based approaches. However, most Enlargement countries are not yet in a position to benefit from this, as they have not completed public financial management reforms, and donors are often unwilling to provide funds direct to the recipient budget due to concerns about corruption and potential misuse of funds that have not yet been sufficiently addressed.

Moreover, the various databases that have been set up at national level (developed in response to broader coordination needs) have been found to be inadequate for these purposes, as despite much effort, they are mainly incomplete as they are not regularly updated, lack sufficiently substantial resources and are not specifically designed to deliver the information that is most needed by donors and beneficiaries in order to underpin the process of donor coordination and sector programming. Moreover they use different methodologies that make comparison between them difficult, and hinder peer learning by the key actors in the enlargement process. A possibly more effective approach would be to either redesign them in accordance with precise, country-wide criteria, also bringing them under the respective NIPAC in each country, or to combine the resources directed to fragmented national databases at regional level to set up a regional donor database. The latter would enable a concentration of resources to support an effectively designed database of donor projects at regional level that could be regularly updated. It would provide a unique user-friendly interface that could provide flexible reporting to suit a variety of national needs. At national level, local in-country staff would be released from the need to maintain individual

idiosyncratic databases and could be trained to make use of the range of joint regional-level database as well as the various international donor databases, such as the OECD database, that are publicly available and which already provide detailed data on projects funded by the majority of donors.

In the light of the findings concerning donor coordination mechanisms, the study has analysed the flows of ODA also from the country perspective. The EU Code of Conduct on Complementarity and the Division of Labour in Development Policy sets out the principle of 'focal sectors', which refers to the number of *sectors per donor*, under which each donor should specialise in no more than two sectors. The analysis has shown that in most countries, most donors are active in more than two sectors, and often in many more than two sectors, contradicting the Code of Conduct. While the Code is not mandatory in the Enlargement countries, which are governed by the Enlargement Strategy rather than the development policy, the focus on specialisation seems appropriate especially for the smaller donors in order to improve aid effectiveness. Where donors have an interest in more sectors, the Code of Conduct recommends that they should delegate their funds and responsibilities to a lead donor in those sectors. The findings of this study suggest that there are numerous opportunities for specialisation of donor effort, which would increase the effectiveness of the international assistance in the Enlargement countries.

In addition, the Code sets out the principle of 'appropriate support' in strategic sectors, which refers to the number of *donors per sector*, and recommends that there should be between three and five donors per sector at most. In our analysis we have found many instances where there are more than five donors per sector, suggesting a large potential for rationalisation of donor support and reduction of transaction costs facing beneficiaries who have to deal with a large number of donors per sector.

The study enquired into the role of international assistance in supporting regional cooperation through the regional initiatives sponsored by the Regional Cooperation Council. A questionnaire survey sought detailed information about the relationships between the donors and the regional initiatives. A main finding was that while most of the twelve regional initiatives that responded to the survey communicate with line ministries and coordinate with donors, relatively few communicate with the NIPACs. There is an opportunity here to integrate these regional initiatives into the donor coordination structures at country level by encouraging greater communication and coordination of activities with the NIPACs, especially if these initiatives expect to receive IPA II funding as most, but not all, of them do. Since the SEE 2020 Strategy will be delivered at country level, and will be integrated and aligned with National Development Plans and CSPs, it would seem essential that a greatly improved coordination with the NIPACs should be instituted.

In relation to regional cooperation in infrastructure investment, the Western Balkans Investment Framework (WBIF) is seen by many to be a good example of effective regional cooperation in practice. The WBIF has coordinated a large programme of much needed infrastructure investment in the Western Balkans. Despite the success of the WBIF, it has inevitably encountered a number of problematic issues. One difficulty has been a sense of disconnection between the central management of WBIF in Brussels and the in-country EU Delegations (EUDs). This should change following the creation of a single pipeline of projects under IPA II, which will provide a more transparent basis for ranking projects according to



their greatest economic and social benefits. This should do much to reduce the information asymmetries that have enabled actors to game the system, occasionally resulting in investments with little real social benefit. One lesson is that at submission stage a letter of endorsement from the Ministry of Finance or equivalent would be beneficial to indicate a clear commitment beforehand while a wide range of local interests including NGOs should be involved in the post-submission screening of investments,

The study also focused on the geopolitics of donor interventions through a case study of the Energy sector, which examined the gas supply industry. The case study showed that the emerging gas supply network to the Western Balkans and Turkey could be seen as a welcome development for the countries of the region as it promises to boost their energy supplies. At the same time it also presents an intense geo-political competition between the countries involved in the supply of gas. Less transparently, Russia and Azerbaijan have also made some donor-type interventions in the region but at a much lower scale, and have mainly concentrated on commercial contracts. All of this provides a strong incentive for the continued involvement of these countries in providing financial assistance to the region in order to solicit local political support for their gas supply projects. This may lead to a potentially wasteful duplication of infrastructure that may eventually drive up energy costs in the region. Therefore the extension of an effective regulatory arrangement that would encompass non-EU suppliers in an open and competitive market seems necessary as a complement to the donor interventions in this sector. Whether this will be possible in the current climate of international political discord seems however unlikely for the time being. A second case study of the Transport sector revealed the strong and growing involvement of new and emerging donors.

New and emerging donors are increasingly active in the region; they have more relaxed conditionality than the traditional donors that are aligned with the EU Enlargement process. There is a risk that new donors may reduce the effectiveness and 'transformative power' of EU conditionalities, although this risk is currently low, as the scale of the interventions by new donors is limited. However, efforts should be made to involve the new donors in existing donor coordination mechanisms and to adopt a more flexible approach to conditionalities to reflect the realities of the new donor landscape.

Responses to a survey of donor organisations in the Enlargement region have revealed a range of motivations of donor organisations, the most important of which are to support the EU accession and social and economic development of the beneficiaries. Less important aims are to support the prestige, commercial trade or foreign investments of the donor, although these factors do have a role to play.

In order to identify differences in behaviour of beneficiaries the survey asked about the extent to which beneficiaries comply with donor interventions. Most donors replied that beneficiaries are fully compliant with their interventions while there were no cases of reluctant compliance. However, there is evidence that some beneficiaries only partly comply with donor interventions. Significantly, most replies confirming partial compliance were from Bosnia and Herzegovina, the least advanced in EU accession, while a minority were from Albania.

In a situation of ambiguous compliance and with multiple donors pursuing different objectives and offering uncoordinated policy advice, there is ample opportunity for beneficiaries to play donors off against each other. While this can be interpreted as a negative aspect of donor

fragmentation, it can also be interpreted as healthy competition that favours the consumers of donor services. Donors tend towards the former interpretation, viewing partial compliance as a result of opportunistic behaviour by the beneficiaries, and supporting the case for applying a 'results framework' that rewards compliance and penalises opportunism. It should however be also recognised that the degree of legitimacy of donor interventions is a complicating factor that may undermine compliance in cases where legitimacy is low, irrespective of the extent of rewards and penalties that are imposed.

A comparison of priority sectors identified by beneficiaries with the allocation of assistance by donors has shown that there are substantial gaps between beneficiary priorities and donor allocations. It is often said that reform is "donor-driven" and our findings seem to support that perspective<sup>6</sup>. There is therefore ample scope for improving the matching of donor assistance to domestic priorities. The sectors where this is most apparent are in social policy, human rights and minorities, and in agriculture and rural development.

The survey revealed that donor coordination is a priority for most donors, outweighing competition between donors. However there are numerous obstacles to operationalising the donor coordination principle through Sector Working Groups. Experience with these institutions reveals that often the interests of donors are not aligned with one another and that donor coordination meetings often achieve little more than information sharing rather than improving strategic plans, division of labour or complementarity of efforts. Genuine donor cooperation within a sector approach is a complex process and should be approached cautiously to enable the sector approach to fulfil its potential.

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<sup>6</sup> This may partly explain the relatively high lack of willingness to comply in Bosnia and Herzegovina noted in the analysis in section 4.3 .



## 1 INTRODUCTION

Over the last twenty years, the countries of the Western Balkans<sup>7</sup> have passed through a prolonged period of adjustment that has involved transition, state break-up, military conflict, a European pre-accession process, and the heavy impact of the global financial crisis and the Eurozone's double dip recession. Throughout this period the region has benefited from large inflows of international assistance in the form of both bilateral and multilateral donor funds. Turkey has also undergone a profound transformation on the basis of rapid economic development, becoming a candidate for EU membership and a recipient of EU assistance, while also being a donor to the region in its own right. Since 2003, following the Thessaloniki Declaration that initiated the pre-accession process for the region, the EU has been the largest donor of international assistance through various grant aid programmes. The other multilateral and bilateral donors have also made a significant contribution, as have the International Financial Institutions (IFIs), which have provided assistance in the form of concessional development loans.

Yet, despite an enormous inflow of aid for reconstruction and technical assistance for pre-accession institutional change, while some progress has been made in the EU accession process, the foundations for sustained economic development and growth have not been established in the Western Balkans. None of the Western Balkan countries is yet considered to be functioning market economies<sup>8</sup>. Growth has been more sustained in Turkey, which is in a somewhat different situation considering its size and development processes. Considering the effectiveness of overall assistance programmes to the Western Balkans, and EU pre-accession assistance to Turkey, concerns have arisen that poor government policies and inadequate donor coordination have reduced the effectiveness of such assistance. Given reducing budgets for international assistance in the current European and global economic climate, there is a need for a rapid improvement in aid effectiveness and in coordination of donor intervention, ideally under the leadership of the national authorities. This is especially important in relation to EC IPA II assistance, which envisages a reinforced link between financial assistance and the accession policy agenda *inter alia* by following a sector-based approach, stronger ownership by the beneficiaries, and issues of good governance and capacity building.

In contrast to other regions in which EU external assistance is provided, donor interventions in this region are not necessarily justified by development purposes, while geopolitical considerations as much as economic interests or recipient needs may justify the intervention of the different actors. The different political and economic agenda of other actors outside the EU (bilateral and multilateral partners) underlines the need for a better understanding of the geo-political context of the financial and political cooperation in the region.

The diversity of the countries involved in the accession process is another factor that makes the analysis of donor presence and intervention relevant. Since the countries have different degrees of integration with the EU and different economic structures some have been hit harder than others by the Eurozone crisis (Bartlett and Prica, 2011). All are characterised by historical ties with

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<sup>7</sup> For the purpose of this report, the Western Balkans include Albania, Bosnia and Herzegovina, Kosovo\*, the former Yugoslav Republic of Macedonia, Montenegro, and Serbia.

\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

<sup>8</sup> See "EU Enlargement Strategy 2013-2014", Brussels, 16.10.2013, COM(2013) 700 final

different EU Member States and with other Eastern partners. The study therefore seeks to provide a better understanding of the presence of the different technical and financial cooperation partners in these countries, and the link between their presence and the political agenda. This improved understanding is expected to support improved coordination, a more efficient distribution of work, fewer instances of duplication, an improved articulation of sector interventions and modalities of intervention<sup>9</sup>, and steer the accession process within a politically competitive arena.

The new EU assistance, IPA II, will be based on a sector approach in relation to seven-year Country Strategies and accompanying Sector Strategies. Donor coordination will be increasingly important in ensuring aid effectiveness and appropriate aid allocation. In this respect, the 'Fast Track Initiative' for the division of labour between donors, which aims to limit the number of donors per sector and identifies a lead donor for each sector, is highly relevant. In this study we identify the extent to which such ideas are being adopted in practice in the beneficiary countries.

The relationship between grant giving donors such as the EC (DG ELARG) and providers of soft loans or development loans such as the IFIs are emerging as key issues in the strategies of donors and beneficiaries especially in the context of new financing arrangements such as the 'blending' of Technical Assistance with concessional and development loans. The aim is to use the EU funds to leverage larger amounts of finance from the IFIs and perhaps even from the private sector. The Western Balkans Investment Framework (WBIF), as a forum for coordination of International Financial Institutions (IFIs), is especially important in this debate. It will be important to further strengthen the WBIF to ensure long term sustainable, smart and inclusive growth in the Western Balkans.

The financing of international assistance that is in line with beneficiary government priorities is being given increased attention, since capacities for financing accession priorities and development priorities of the beneficiary countries are increasingly constrained. As pointed out in the IPA Annual Report for 2008: "...the Beneficiaries have been obliged to adopt prudent fiscal and monetary policies to maintain economic growth. Today this leads to a situation where investment needs are still high while the Beneficiaries' capacities to incur an ever-increasing external debt are moving towards a ceiling. Non-repayable grants both from the EU and from other donors including the Member States combined with International Financial Institutions' loans have become a crucial resource for private sector development, investments in energy efficiency, and infrastructure remediation and upgrading without overburdening the Beneficiaries with excessive debts" (European Commission 2008: 17).

Countries can draw on several sources of funds to achieve their objectives including domestic public finance and private finance in addition to international public finance in the form of ODA (EC 2013). An integrated approach to financing should ensure that all available resources are considered together, while the mix of policies, financing and instruments should be decided at country level. Financial assistance should support synergies, and all funds should be monitored in a harmonised manner to ensure transparency and mutual accountability (EC 2013: 10). A significant element of IPA support has been provided in the form of infrastructure investments (so-called works and supplies). This has provided the 'hardware' for the development of the beneficiary countries within the context of their accession aspirations. However, the immense needs for IPA

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<sup>9</sup> Aid modalities are the ways in which aid is managed and delivered. They range from financing and providing technical assistance via projects, supporting programme-based or sector-wide approaches to basket funding, and sector budget support.

works and supplies are not always appropriately counterbalanced with objective prioritisation and selection, which need improvements in the near future.

Over the last few years the level of private sector external finance to the Western Balkans has declined rapidly due to the impact of the economic crisis on FDI flows and flows of bank credit (Bartlett and Prica, 2013). Bank deleveraging and the contraction of credit to the business sector are on-going (Vienna Initiative 2013, 2014). As the supply of bank credit to the business sector in the Western Balkans has diminished, many companies have been unable to roll over their loans and the proportion of non-performing loans in total loans has increased sharply. In response to this development, the “Vienna Initiative 2.0” has been established to provide a policy forum for international assistance to the banking sector in the region. Although Turkey has been less affected by deleveraging, in the latter part of 2013 foreign banks began to scale back their funding even there, partly due to the global impact of “tapering” of US monetary policy on the emerging market economies more generally.

International public financial assistance by the donor community and the international and European development banks should be considered in relation to private investment flows including private credit, FDI and remittances, and in relation to public and private domestic investment plans. According to the European Commission analysis, “innovative modalities of delivering finance can increase effectiveness and should be scaled up. Blending of grants with loans and equity, as well as guarantee and risk-sharing mechanisms can catalyse private and public investments” in support of public goals such as EU accession and economic development (EC 2013: 8). Such blending involves making use of grant funds to attract, leverage and multiply available investment. Grants and loans can be blended to multiply infrastructure investments based on long-run strategic development plans. The grant element can be blended in different ways. It can be used as an interest rate subsidy, to lengthen the grace period of a loan, allowing for a longer repayment period, to underpin a guarantee scheme, or to decrease the costs of due diligence by development partners known as ‘technical leverage’. The aim is to use the grant funds in order to multiply the resources available for investment.

In this context, this study aims to identify lessons learned about creating synergies among donors and to provide an improved understanding of differing forms of donor assistance and specialisation in different sectors in the Western Balkans and Turkey so as to contribute to the greater efficiency in the use and allocation of official development assistance and promote improved aid effectiveness in the region. The findings and recommendations of the study provide lessons learned relevant to the implementation of EU assistance and to monitoring progress in the effectiveness of aid delivery in the region.

The study additionally aims to provide an overall understanding of strategies, geo-political drivers, programmes, operating structures and levels of activity of bilateral and multilateral donors in the Western Balkans and Turkey (mapping). It assesses the political economy of synergies between the accession strategy, policy dialogue and financial assistance and how these synergies may be supported through improved donor coordination. It also studies synergies between donors, implementing agencies and beneficiaries in the various policy sectors to enable a more effective delivery of assistance programmes. In addition it provides an analysis of aid coordination mechanisms to inform governments and donors on different ways to track and share information related to aid-funded activities and identifies the role and involvement of each beneficiary country in regional programmes and initiatives. The study has carried out a comprehensive donor mapping to support improved EC and donor coordination taking into account different ethical, political

economy, and geo-political perspectives. The results of this mapping exercise provide a set of analytical and descriptive Tables that identify the providers of external technical and financial assistance and the scale and scope of their activities.

In order to better understand the political economy of donor interventions, the study analyses the relationships between donors and beneficiaries, between donors and implementing organisations, and between donors and other donors. Three different approaches, influence theory, principal-agent theory, and the 'co-opetition' model are used to encompass the variety of situations relevant to good practice in donor coordination. Influence theory addresses synergies between donors and beneficiaries, principal-agent theory addresses synergies between donors and their implementing agencies, and co-opetition theory addresses synergies between donors and other donors. The analysis gives rise to policy conclusions and suggestions to improve the design, programming and implementation of donor interventions, to improve the management of relationships between donors, implementing agencies and beneficiaries, and to improve the division of labour among donors.

This report summarizes the main findings of the study and suggests key issues and recommendations on improvements in future technical and financial assistance and policy, on ways to reduce duplication, to avoid waste of resources, to diminish the negative impact of divergent modes and drivers of intervention, and to increase coherence in implementing sector approaches. It provides suggestions on an improved division of labour among donors to encourage the involvement of external donors in IPA II management in areas with a comparative advantage.

The report is organised as follows. Section 2 sets out an analysis of the political economy of donor interventions. Section 3 presents a mapping of the flows of donor assistance to the region. Section 4 reviews the principles of donor coordination for improved aid effectiveness and presents results from a donor survey that relates these to the political economy theories of donor coordination introduced in section 2. Section 5 present the beneficiary perspective on donor interventions in the region and applies the principles of donor coordination developed in the previous section to the Enlargement countries in the context of the sector approach to EU assistance. Section 6 applies the principles of donor coordination to the case of regional cooperation in the Western Balkans. Section 7 discusses the geo-political interests behind donor interventions in two key sectors - energy and transport - as case studies and assesses the implications for donor coordination in these sectors. In section 8 we set out our overall conclusions and policy recommendations.

## 2 THE POLITICAL ECONOMY OF DONOR INTERVENTIONS

The typical reasons for donor interventions vary from humanitarian concerns about reducing poverty and improving living conditions in the beneficiary countries and strengthening global public goods, to more self-interested calculations of donor country commercial interests and national strategic interests. Historical ties between donor and beneficiary countries often also play a strong role in the allocation and volume of bilateral aid flows (Riddell, 2007). Recent research studies have found considerable evidence that the pattern of aid giving is dictated by political and strategic considerations (Alesina and Dollar, 2000; McGillivray 2003). Other studies have also shown that aid allocation across countries bears little relation to human needs (Akram, 2003) or that aid allocation is driven by both altruistic motives and national interest motives (Feeny and McGillivray, 2008). Berthélemy (2006) shows that Switzerland, Austria, Ireland and Nordics have altruistic motivations while aid flows from Japan and the USA are more driven by national self-interest, a finding that is supported by Harrigan and Wang (2011). Hoeffler and Outram (2011) find that aid is allocated according to donor self-interest and recipient need, but not according to recipient merit, with the exception of Japan and UK, which allocate aid more in accordance with the merit of the beneficiary. Sobis and de Vries (2009) distinguish between financial aid and technical assistance and argue that the former is driven more by political factors while the latter is more likely to be driven by the needs of the beneficiaries. In the context of the Enlargement countries, support for the EU accession process is also high on the agenda of both donors and beneficiaries as a reason for providing international assistance.

Various other motivations for the allocation of assistance between countries have been identified. Younas (2008) argues that aid allocations between countries are related to trade flows between the donor and beneficiary; Frot et al. (2014) concur that assistance to CEE countries is driven by commercial motivations. Czaika and Mayer (2011) identify a link between aid flows and the presence of refugees from the beneficiary country in the donor country. Donors also face a choice of the channel through which aid is provided, whether through in-house provision, through an agency, through NGOs or through multilateral organisations. McLean (2012) analyses the choice to distribute aid through multilateral organisations, and Raschky and Schwindt (2012) argue that the choice of channel is determined by the strategic interest of the donors who tend to allocate to multilateral organisations that have aims in line with their own strategic priorities.

Many studies have shown the negative effects of donor proliferation and donor fragmentation. Kimura et al. (2012) show that aid proliferation has a negative effect on economic growth of the beneficiary. Few donors use country systems of procurement in practice (Knack, 2013), while Aldasaro et al. (2010) show that donor specialisation is rarely put into practice. Djankov et al. (2009) show that the presence of multiple donors makes aid less effective. In an analysis of donor fragmentation, Annen and Kosempel (2009) show that technical assistance has a positive effect on growth while other types of aid do not. Rahman and Sawada (2012) argue that donor proliferation leads to the problem of free riding where smaller donors rely on the effort of larger donors to achieve their objectives.

Supporters of donor coordination often point to the large transaction costs associated with donor proliferation within countries, and too wide a spread of donor effort across too many countries. A study by Anderson (2012) identified the transaction costs due to the fragmentation of bilateral donors' aid across recipient countries and estimated that transaction costs could be reduced by US\$2.5 billion per year through greater recipient country specialisation. Other observers agree with



the argument that transaction costs could be reduced through donor specialisation (Ashford and Biswas, 2010). Kilby (2011) shows that donor fragmentation is associated with smaller aid projects, leading to more administrative work and higher transaction costs for recipient governments. The presence of multiple donors in a beneficiary country can raise transaction costs for a number of reasons identified by Acharya et al. (2006). These reasons include competition between donors for skilled personnel, poaching of skilled personnel from government agencies and ministries, and the tendency of some donors to indulge in excessive amounts of training leading to a 'training fatigue' among civil servants. In addition, a diversity of aid channels can enable politicians to protect their vested interests in particular projects by excluding aid projects from public budgetary processes reducing the effectiveness of public administration and public financial management. A multiplicity of donors also diffuses responsibility for outcomes and makes results-based assistance more difficult to achieve.

Donors are often faced with the decision whether to provide aid in the form of project based aid or through budget support. Cordella and Dell'Araccia (2007) show that budget support is preferable to project aid when the preferences of donor and recipient are aligned. Budget support may also be preferable in a context in which project aid managers fail to make due allowance for the on-going maintenance costs of infrastructure projects (Arimoto and Komo, 2009).

The above discussion has provided a brief survey of the literature on the motivations for providing assistance and the structural features of the donor landscape on aid effectiveness and transaction costs.

In further analysing the political economy of donor intervention, aid effectiveness and the potential for stronger synergies, three theoretical approaches seem to be relevant.

Firstly, "influence theory" deals with the relationship between a donor and a beneficiary. In the influence model, the beneficiary's behaviour determines the effectiveness of the service being supplied. If the behaviour is cooperative then the assistance may be supplied effectively, but if the behaviour is opportunistic then the aid effectiveness may be reduced. Three possible behaviours are compliance, identification and internalisation (Kelman, 1958; 1961). When the beneficiary simply 'complies' with donor requests for reform, fake agencies may be established that tick boxes but have no real impact on the ground. Under the response of 'identification' the beneficiary undertakes reforms when the donor makes the assistance conditional on the reform but not otherwise. When the need reform is 'internalised' then real reforms may take place on the own initiative of the beneficiary. Such differences in response behaviour have an impact on aid effectiveness. For further analysis see Section 4.3 below.

Secondly, "principal-agent theory" deals with the relationship between a donor and an implementing agency. This describes the situation of donor and a decentralised agency in which a principal tries to provide an incentive structure for the agency to carry out the principal's objective. The principal can be thought of as a donor organisation and the agent as an implementing body working in the recipient country (Martens et al., 2002; Monkam, 2012). If the agent has different objectives to the principal (e.g. profit maximization versus social utility maximisation) then coordination problems may arise. The long chains of principals and agents that characterise the institutional setup, including donor ministries, donor agencies, local counterpart agencies, and recipient principals in the form of ministries that represent the interests of the ultimate beneficiaries of assistance programmes, provide many points at which the effectiveness of international assistance may be reduced. For further analysis see Section 4.4 below.

Thirdly, “co-opetition theory” deals with the issue of coordination between donors (including here financiers). These organisations may be partly in a cooperative relationship and partly in a competitive relationship with one another (Bengtsson and Kock, 2000; Brandenburger and Nalebuff, 1996). The ‘co-opetition’ model recognises the role of “complementers” alongside “competitors”. Complementing organisations are those whose services are complementary to the donor and with whom cooperative relations are therefore beneficial. It suggests that donors whose activities complement each other may benefit from cooperation and coordination, while donors whose activities are substitutes may better serve their beneficiaries by competing to provide assistance programmes. For further analysis see Section 4.5 below.

The above issues are taken up at various points throughout this Report in mapping the flows of donor assistance to the region (Section 3), in considering the arrangements for donor coordination with and by the beneficiaries (Section 4 and Section 5), and in the consideration of the issue of regional cooperation and donor interventions at regional level (Section 6).

### 3 MAPPING THE FLOWS OF INTERNATIONAL ASSISTANCE

In this section we present an analysis of the flows of international assistance to the Western Balkans and Turkey as recorded in the OECD/DAC database on official development assistance (ODA) and other official finance (OOF) between 2010 and 2012 (the latest year for which data are available). The first part reviews the distribution of donor flows by donor organisation; the second part breaks down the flows of international assistance by beneficiary. These flows are then further analysed in relation to the level of GNI per capita in the beneficiary countries in order to understand the degree to which flows follow the objective needs of the beneficiary countries. In the third part we bring these two perspectives together through an analysis of the breakdown of donor assistance by donor and by beneficiary in 2012, the most recent year for which data are available.

#### 3.1 Mapping international assistance – the donor perspective

International assistance can be viewed through the perspective of the donors or from the perspective of the beneficiaries. The focus of this section is on the donor perspective. Numerous bilateral donors are active in providing international assistance in the Western Balkans and Turkey, some providing significant amounts of assistance, but many providing rather small amounts. A few even register negative net disbursements as the repayment of concessional loans exceeds the inflow of new grants or concessional loans.

**Table 3-1 Official Development Assistance to the Western Balkans and Turkey by Main Donors, (2010-2012, average annual net disbursements, €m)**

	Average annual net disbursement	Cumulative % non-EU	Technical Cooperation %	Grants %
<b>EU Institutions</b>	2,589.2	..	7.2%	35%
<b>United States</b>	181.8	13.4%	9.6%	100%
<b>Germany</b>	180.0	26.6%	78.0%	98%
<b>Japan</b>	171.7	39.3%	9.4%	16%
<b>France</b>	93.2	46.2%	25.6%	36%
<b>Switzerland</b>	88.9	52.7%	42.0%	100%
<b>Sweden</b>	75.7	58.3%	47.9%	100%
<b>Austria</b>	74.6	63.8%	88.5%	100%
<b>Turkey</b>	56.5	67.9%	50.7%	100%
<b>Norway</b>	51.6	71.7%	14.5%	99%
<b>OSCE</b>	51.5	75.5%	0.0%	100%
<b>World Bank</b>	49.0	79.1%	5.2%	12%
<b>Greece</b>	46.4	82.5%	78.1%	100%
<b>Italy</b>	39.3	85.4%	4.1%	38%
<b>Spain</b>	29.5	87.6%	12.8%	16%
<b>United Kingdom</b>	25.2	89.5%	53.2%	98%
<b>Korea</b>	15.8	90.6%	2.9%	5%
<b>UNHCR</b>	15.1	91.7%	0.0%	100%
<b>Netherlands</b>	15.0	92.8%	15.9%	100%
<b>Global Fund (GFATM)</b>	14.8	93.9%	0.0%	100%
<b>Luxembourg</b>	12.9	94.9%	3.4%	100%



<b>United Arab Emirates</b>	12.7	95.8%	0.0%	11%
<b>Finland</b>	10.0	96.5%	59.7%	100%
<b>TOTAL of above</b>	3,900.3			
<b>TOTAL of all bilateral donors</b>	3,947.3	100.0%		

Source: OECD International Development Statistics database. The flows reported are from DAC and non-DAC country donors and from multilateral sources, both donors and financiers (Note: the Table shows only donors who contributed in total more than €10 million over the three year period from 2010-2012; it also excludes donors whose net disbursements were negative amounts)

Bilateral and multilateral donors have made net average disbursements to the Western Balkans of almost €4 billion per annum in recent years. Some €2.5 billion of this has been from the EU Institutions which includes the European Commission IPA programme and other funds, and from the EIB in the form of concessional loans. Non-EU donors from around the world have disbursed an average of €1.5 billion annually.

Following the EU Institutions, a second group of countries disburses over €100m of ODA annually to the Western Balkans and Turkey. These are USA, Germany and Japan, which account for 39% of net disbursements by non-EU donors. A third group distribute over €50m annually. These are France, Switzerland, Sweden, Austria, Turkey, Norway, and OSCE and they account for 36% of net disbursements by non-EU donors. A larger fourth group of donors disbursed between €10m and €50m over the period. These are the World Bank (through IDA), Greece, Italy, Spain, United Kingdom, Korea, UNHCR, Netherlands, the Global Fund, Luxembourg, United Arab Emirates, and Finland, which together account for 21% of net disbursements by non-EU donors. A further set of 28 countries disbursed an annual average of €47m over the three years, equivalent to an annual average amount of €1.7m each, with a range from €0.3m to €7.7m. A small group of five donors managed to make a negative annual average net disbursement of ODA to the region (as did Spain in 2012). The full set of data on annual net disbursements is presented in Annex 4.

The aid modalities among the largest donors are quite varied. Most provide their assistance only in the form of grants (EU IPA, USA, Switzerland, Sweden, Austria, Turkey, OSCE, Greece, UNHCR, Netherlands, Global Fund, Luxembourg, and Finland). Others provide mainly concessional loans (Japan, Spain, Korea, IDA). Yet others provide ODA through a mix of aid and concessional loan modalities. The relatively low share of grant finance provided by the EU Institutions reflects large concessional loans to Turkey in 2011 and 2012, while EU assistance to the Western Balkans countries is almost all in the form of grants, mainly through IPA.

A part of grant aid is provided in the form of technical cooperation. Few of the large donors provide more than half of their ODA in this form (Germany, Austria, Greece, Turkey, Finland and UK). Organisations such as OSCE, UNHCR, the Global Fund as well as UAE, Italy and Korea provide none or only a very small proportion of their ODA in this form.

The motivations of donors appear to be quite varied. A few research studies have been carried out to identify the motivations of individual country donors. For example, a study by Nunnenkamp (2011) provides evidence that German official assistance is mainly directed on the basis of needs of the recipient countries. Other studies have found that donor country exports are positively correlated with the amount of aid provided, irrespective of whether or not the aid in question is tied, raising the issue whether bilateral assistance is motivated by commercial interests. Several studies have found that even untied aid can have a positive impact on a donor country exports (Nowak-Lehmann et al., 2009; Martinez-Zarzoso et al., 2009). The implication of these studies is that bilateral assistance can create a win-win situation in which both donor and recipient stand to

benefit from the flow of international assistance, the donors from increased exports and the beneficiaries from the positive impact of assistance on economic reform and growth. For Japan, one careful study showed that humanitarian concerns, human rights and poverty are important determinants of Japan's allocation of assistance between beneficiaries (Tuman et al. 2009). New donors from Eastern Europe such as the Czech Republic, Hungary, Poland and Slovakia seem to allocate their assistance on the basis of geographic proximity, and in line with their foreign policy and economic interests (Szent-Ivanyi, 2012).

A summary of the economic and geopolitical determinants of donor interventions in the Western Balkans is set out in Annex 11. This shows a wide variety of motivations for individual donors to provide assistance in the region. In some cases historical ties and proximity are especially important (Austria, Italy, Greece, Turkey). For other donors, economic interests are either paramount or are additional drivers of intervention (Austria, Germany, Greece, Italy, Sweden, Switzerland, USA as well as new donors such as China, Turkey and Russia). Other donors have more altruistic interests centred around issues such as human rights, rule of law and gender equality (Norway, Sweden, Denmark, Netherlands especially). Some countries have as a main driver of their interventions a desire to promote local economic development in order to limit the actual or potential migration from the region (Luxembourg, Switzerland, UK). Finally, other countries have a larger geopolitical perspective and see foreign assistance as an element of diplomacy (China, Russia, and the USA). A fuller analysis of individual donor organisations and motivations and the scale and scope of their interventions is presented in Annex 2 and Annex 3.

### 3.1.1 IFI financial flows

The International Financial Institutions (IFIs) (sometimes referred to as 'financiers') are very active in the Western Balkans and Turkey, providing concessional and non-concessional loans and credit lines to governments in support of infrastructure development, private sector development and other development and social aims. The main IFIs engaged in these activities are multilateral development banks such as the International Bank for Reconstruction and Development (IBRD – the World Bank) and the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). Motivations for the involvement of the IFIs in the region are mainly centred on an interest in promoting economic development and to a lesser extent social development (with the exception of the CEB whose mandate is exclusively devoted to social development). This is not surprising, as they have been established as public development banks. While a summary of their aims is provided here, further information on their activities can be found in Annexes 3, 11 and 12.

The EIB is 'Europe's Development Bank'. Its economic rationale is twofold: (a) to support the convergence of less developed regions and (b) to support large-scale cross-border infrastructure projects within the EU. More recently its mandate has extended to the Western Balkans. It aims to provide low-cost concessional infrastructure investment to support economic growth and convergence in the region as well as cross-border infrastructure in transport and other sectors. The EIB is the largest international financier in the Western Balkans and has been active in the region since 1977. EIB loans are concessional in nature and considered to be Official Development Assistance (ODA).

The World Bank Group prioritises shared prosperity, i.e. a concern for inclusive growth. It aims to foster the income growth of the bottom 40% in every country. It has developed Country Partnership Strategies for each of the countries of the Western Balkans. The World Bank Group's financing

commitment to the region is about € 6 billion. World Bank loans through IBRD are not concessional and are not considered to be ODA.

The EBRD's strategic priority is to support and sustain the continuing recovery of the region in the aftermath of the global financial crisis, fostering and strengthening local currency and capital markets, tackling energy security and energy efficiency as key challenges of the transition region. Investing primarily in private sector clients whose needs cannot be fully met by the market, the Bank fosters the transition towards open and democratic market economies, following high standards of corporate governance and sustainable development. In all of its operations, the EBRD maintains a close political dialogue with governments, authorities and representatives of civil society to promote its goals. Over the next two year period, the Bank has committed to provide financing to the Western Balkans region of € 4 billion. Additionally, the EBRD acts as a donor of ODA when financing projects from its net income through the EBRD Shareholder Special Fund (SSF). Since 2008 SSF grants in excess of EUR 60 million have been allocated to the Western Balkans region to support the Bank's business including infrastructure projects in the sectors of transport, energy and environment.

The CEB interventions respond to the significant increase in unemployment resulting in greater vulnerability, both economic and social, of the emerging countries of the Western Balkans. . Due to its specific mandate CEB concentrates its activities in sectors like education, health and judiciary, as well as supporting SMEs in order to create job opportunities. It aims to alleviate the consequences of the crisis in the public social sectors and to facilitate further investments and reform programmes. The CEB also aims to develop new, innovative, instruments that provide flexible financing to public agencies. The main lines of innovation that could be followed to increase the added value of CEB financing are cooperation with the private sector (public-private partnerships and equity participation), risk sharing mechanisms (especially in support of micro-credit) and improving the non-lending forms of intervention.

Data on the flows of loans and investments from the IFIs to the Western Balkans are available from the database of the Western Balkans Investment Framework (WBIF) and are shown in Table 3-2 for the period from 2010-2014. The Table also includes the German development bank KfW which acts rather like the IFIs in providing substantial sums for investment purposes in the region<sup>10</sup>.

**Table 3-2: IFI financial flows to Western Balkans through WBIF, 2010-2014**

	Total Loan Amount	Total Grant Amount	Sum Loans and Grants	Grant element	Leverage ratio	No. of WBIF Projects
<b>CEB</b>	1,084.7	76.1	1,161	6.6%	14.3	44
<b>EBRD</b>	4,469.8	234.7	4,705	5.0%	19.0	110
<b>EIB</b>	5,898.7	119.5	6,018	2.0%	49.3	114
<b>KfW</b>	1,029.3	155.7	1,185	13.1%	6.6	104
<b>WB</b>	2,484.5	79.1	2,564	3.1%	31.4	73

<sup>10</sup> The data shown in the Table include only those investments that are coordinated through the WBIF, which as explained in the text excludes Turkey and only covers a limited range of sectors in which most infrastructure investment takes place. Other donors also make infrastructure investments but to a lesser extent and as they are not IFIs are not included in the Table. Italy and Switzerland can be noted as large financiers in the Western Balkans, providing a total investment in infrastructure of €93.0 million and €217.3 million respectively from 2010-2014 (source: WBIF database). The associated grant element for these two donors was 65.6% and 97.3%, with leverage ratios of 0.5 and 0.0 respectively.

<b>Total</b>	<b>14,967.1</b>	<b>665.2</b>	<b>15,632</b>	<b>4.3%</b>	<b>22.5</b>	<b>445</b>
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Source: Calculated from WBIF database. Note: the survey covered a limited number of sectors: energy, environment, private sector development, transport and social issues

As can be seen from Table 3.2, the IFIs provide a ‘blend’ of loans and grants in the financial assistance. As explained below, the IFIs rely on contributions from donors to support their grant funding, which mainly supports technical assistance for project preparation but increasingly also supports the construction phase after loans are signed. Blending – combining EU grants with loans or equity from public and private financiers – is recognised as a vehicle for leveraging additional financing and increasing the impact of EU aid. It is a method to overcome market failures in the financial sector<sup>11</sup>. Blending is among the tools of external policy used by the European Commission since 2008 and is gradually evolving into an important tool for EU development cooperation, complementing other aid modalities<sup>12</sup>. The use of public grants through blending can reduce risk profiles and make projects more bankable and acceptable to private financiers. Most investments supported through blending have been made through public financing, but blending also has potential as a catalyser for private financing. Small business support is an example of an area in which blending can leverage private financing to help businesses grow and create jobs.

The four financiers listed in Table 3-2 use blends of grant and loans with a grant element of between 0.0% and 3.6%. Among IFIs, the CEB has the highest ratio of grants to loans with €660 euros of grant for every €10,000 of loan, compared to just €200 for the EIB. In making this comparison it should be recognised that, unlike the other banks, CEB operates in the social sectors, which by their nature have smaller sized projects for which the ratio of grants to loans is inevitably higher<sup>13</sup>. The comparison is perhaps more justified in the case of the World Bank and the EBRD, which deal with similar sectors to the EIB (e.g. infrastructure), although they also have a greater involvement in non-infrastructure loans. Looked at from another perspective, a grant to the EIB could potentially leverage a larger amount in loans than a grant to either the CEB or the EBRD. The “leverage ratio” for grants used by the EIB is 49.3 compared to a leverage ratio of 19.0 for the EBRD<sup>14</sup>. There might be some advantage for IPA II to differentiate its ‘blending’ activities to the most suitable financier where there is an effective choice. It should be noted of course that the data on which this conclusion is based do not refer to blended loans as such, but rather to all loans provided by each institution, whether blended or not. The leverage ratio shown in the Table refers to what might be called the “institutional leverage” meaning the leverage of the IFI for its whole loan portfolio, whether or not the grants in question are tied to specific loans. It gives an impression of the overall extent to which loans provided by the institution are supported by grants. Considering only those loans that are actually combined with grants raises the leverage ratios significantly. The WBIF database lists 99 such loans with an average leverage ratio of 75.1, ranging from 223.2 for the IBRD and 149.5 for the EIB to 62.4 for the CEB, 43.4 for the EBRD and 12.9 for the KfW<sup>15</sup>.

<sup>11</sup> See <http://www.eudevdays.eu/topics/blending-catalyser-private-financing>

<sup>12</sup> Ibid.

<sup>13</sup> Social sector projects have a smaller total amount of investment but usually require the same and sometimes higher cost in absolute amounts of technical assistance – and almost always proportionately more due to relative amounts. Therefore the leverage effect is by definition almost always significantly lower in social sector projects.

<sup>14</sup> The leverage ratio is here defined as the ratio of loan amount to grant amount for an institution, following the methodology developed by the WBIF. See <http://www.wbif.eu/leverage>

<sup>15</sup> See <http://www.wbif.eu/leverage>

Moreover the mix of sectors differs between institutions, as does the average size of loans, which may go some way to explain the differences in the grant/loan and leverage ratios. Therefore, the estimates provided here for the leveraging effect should be treated with caution. They do, however, point to the possible variation in leveraging effects between institutions, which should be investigated further.

### 3.2 Mapping international assistance – the beneficiary perspective

International assistance is made either in the form of Official Development Assistance (ODA) or in the form of Other Official Flows (OOF). ODA can be either in grant form or in the form of concessional loans, while OOF reflects non-concessional loans. According to the OECD/DAC definition a concessional loan is classified as ODA if it contains a grant element of at least 25%.

**Table 3-3: Official Flows to the Western Balkans and Turkey (Net Disbursements, €m)<sup>16</sup>**

	Official Development Assistance			Other Official Flows			Total Official Flows		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
<b>Albania</b>	257	252	266	59	135	160	316	387	426
<b>BiH</b>	385	449	445	161	-18	-1	546	431	443
<b>Kosovo</b>	468	472	442	11	-13	-21	479	459	421
<b>Montenegro</b>	61	90	80	72	18	91	133	109	171
<b>Serbia</b>	498	991	848	660	459	72	1,158	1,450	920
<b>The former Yugoslav Republic of Macedonia</b>	141	140	116	107	53	26	248	193	142
<b>(W. Balkans)</b>	1,809	2,395	2,197	1,070	635	326	2,879	3,029	2,523
<b>Turkey</b>	790	2,291	2,361	3,972	1,503	1,056	4,761	3,794	3,417
<b>Total</b>	<b>2,599</b>	<b>4,685</b>	<b>4,558</b>	<b>5,042</b>	<b>2,138</b>	<b>1,382</b>	<b>7,641</b>	<b>6,823</b>	<b>5,940</b>

Source: OECD International Development Statistics database. The flows reported are from DAC and non-DAC country donors and from multilateral sources, both donors and financiers.

Total international assistance as measured by Total Official Flows (TOF) to the Western Balkans and Turkey fell from €7.6 billion in 2010 to €5.9 billion in 2012 (see Table 3-3). Such flows fell by between 15% and 45% in all countries except Albania and Montenegro, which were the only ones to register an overall increase in international assistance at this time. Total flows to Turkey fell from €4.8 billion to €3.4 billion mainly as a result of decreased flows of non-concessional loans. Total flows to the Western Balkans (excluding Croatia) fell from €2.9 billion to €2.5 billion.

The composition of the flows changed too. The share of OOF fell from 66% of total flows in 2010 to 23% of total flows in 2012; in the Western Balkans alone, these flows fell from 37% to just 13% of total flows over the same period. In absolute amounts, total OOF fell by more than two thirds, from €5.0 billion in 2010 to €1.4 billion in 2012. It should be noted that about three quarters of such flows were directed to Turkey. Net disbursements of OOF to Kosovo and Bosnia and Herzegovina actually turned negative in 2011 and 2012 as earlier loans were paid off. Large proportionate decreases in OOF occurred in the former Yugoslav Republic of Macedonia, Serbia and Turkey

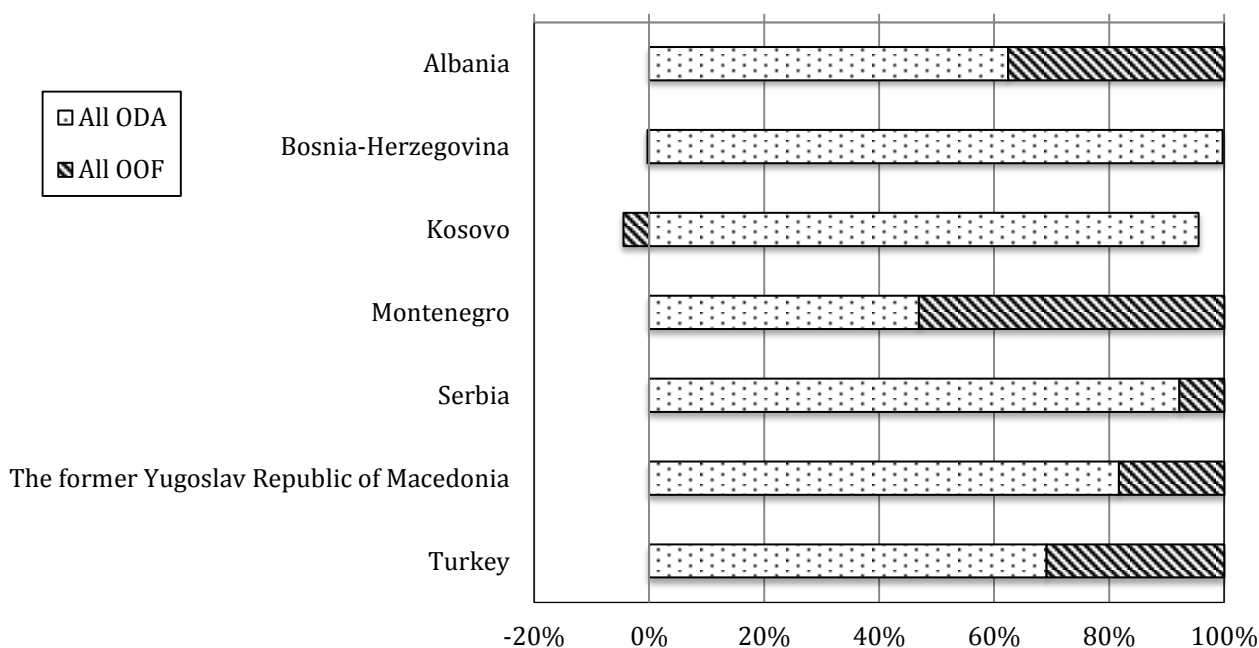
<sup>16</sup> Total official flows consists of Official Development Assistance (ODA) and Other Official Flows (OOF) given to countries on the DAC list of aid recipients, on which all the countries involved in this study appear. For definitions of ODA and OOF see Appendix.



where flows fell by three quarters or more. The absolute fall was especially noticeable in the case of Turkey.

On the other hand, inflows of ODA, including both grants and concessional loans, have increased overall, although not by enough to offset the decline in OOF. Total ODA flows rose from €2.6 billion in 2010 to €4.6 billion in 2012. The flow of ODA increased three-fold to Turkey. There was also a large increase to Serbia (by three quarters), while flows of ODA to the former Yugoslav Republic of Macedonia fell by one fifth. As a consequence of the different pattern of change to individual beneficiaries, ODA flows to the Western Balkans as a whole did not change much, increasing by one fifth from €1.8 billion in 2010 to €2.2 billion in 2012.

**Figure 3-1: Distribution of official flows between ODA and OOF, 2012**



Source: OECD International Development Statistics database. The flows reported are from DAC and non-DAC country donors and from multilateral sources, both donors and financiers.

The distribution of official flows between ODA and OOF is shown in Figure 3-1. In the cases of Bosnia and Herzegovina, all flows were in the form of ODA with a negative flow of OOF recorded. Montenegro had the highest share of OOF in total flows with more than one half of all assistance provided as non-concessional loans, while more than one fifth of total flows to Albania and Turkey were in this form.

**Table 3-4: Per capita official flows to the Western Balkans and Turkey (Net disbursements, €)**

Per capita flows	Official development assistance			Other official flows			Total official flows		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
<b>Albania</b>	81	79	84	18	43	50	99	122	134
<b>BiH</b>	100	117	116	42	-5	0	142	112	115
<b>Kosovo</b>	216	218	204	5	-6	-10	221	212	194
<b>Montenegro</b>	96	144	128	115	29	145	211	173	272
<b>Serbia</b>	68	135	115	90	62	10	158	197	125
<b>The former Yugoslav Republic of Macedonia</b>	69	68	57	52	26	13	121	94	69
<b>Turkey</b>	11	32	33	56	21	15	67	53	48

Source: OECD International Development Statistics database. The flows reported are from DAC and non-DAC country donors and from multilateral sources. Data refer to net disbursements, current prices.

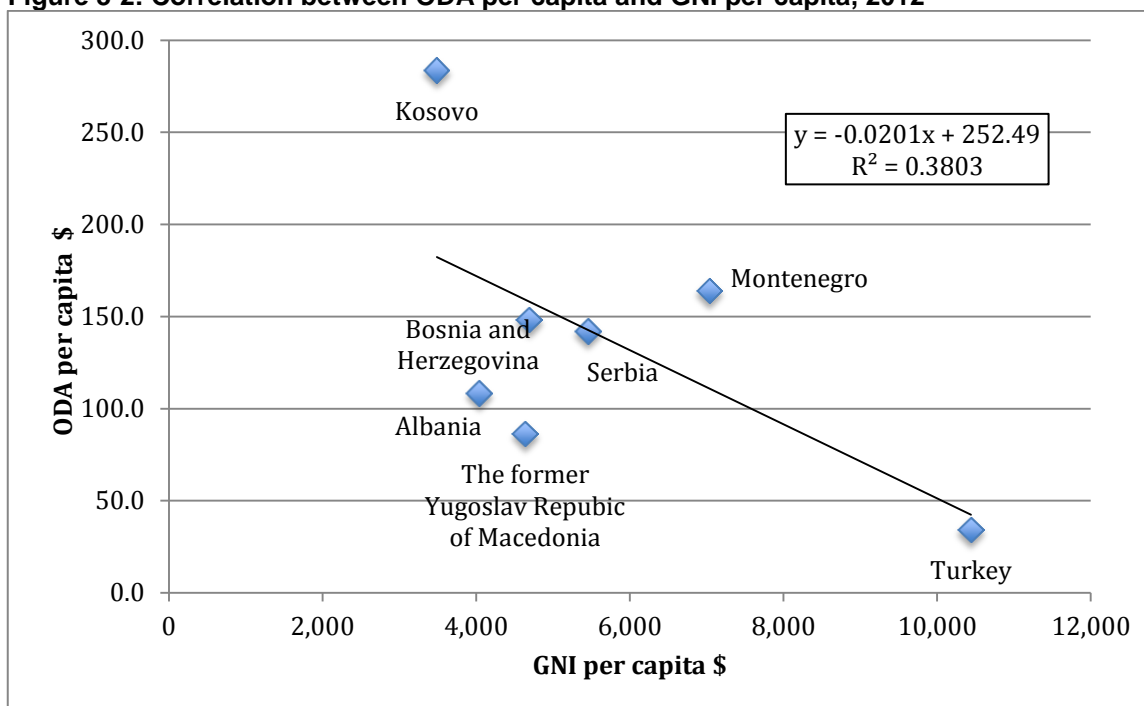
Table 3-4 shows the flows of international assistance in per capita terms. The data reveal significant differences in total official flows (TOF) per capita between beneficiaries. In 2012, the largest TOF per capita were to Montenegro (€272) and Kosovo (€194) and the lowest in the former Yugoslav Republic of Macedonia (€69) and Turkey (€48). Between 2010 and 2012, the TOF per capita to Bosnia and Herzegovina, Kosovo, the former Yugoslav Republic of Macedonia, Serbia and Turkey all fell, while TOF per capita to Albania and Montenegro increased. The most spectacular fall occurred in the case of the former Yugoslav Republic of Macedonia, where TOF per capita fell by about one half of the 2010 amount to becoming the smallest per capita flow in the Western Balkans and just one quarter of the corresponding flows to Montenegro.

Inflows of per capita OOF were variable, with high amounts observed in Montenegro, reaching €145 in 2012. Per capita inflows of OOF fell sharply in Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo<sup>17</sup>, Serbia and Turkey. The net inflows turned negative in Kosovo in 2011 and 2012.

The flows of Official Development Assistance varied markedly across beneficiaries. The highest ODA inflow was to Kosovo (€204 per capita in Kosovo in 2012), and the lowest was in Turkey (€33 in 2012, although up threefold from €11 per capita in 2010). In 2012, Albania and the former Yugoslav Republic of Macedonia received less than €100 per capita, Bosnia and Herzegovina, Montenegro and Serbia received more than one hundred euros per capita, and Kosovo more than €200 per capita.

<sup>17</sup> This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

**Figure 3-2: Correlation between ODA per capita and GNI per capita, 2012**



Source: International assistance per capita, OECD DAC database, Relative GDP per capita Eurostat database

International assistance per capita should be larger for less developed countries, and so we would expect to see an inverse relationship between assistance inflows and levels of development (Dudley and Montmarquette, 1976). Figure 3-2 shows that there is indeed an inverse relationship between per capita inflows on international assistance and the level of economic development measured by gross national income (GNI) per capita in the Western Balkans and Turkey. International aid seems to be going to the countries most in need. However, there are some exceptions. The regression line can be interpreted as the expected level of ODA per capita for any given level of GNI per capita. Inspection of the position of individual countries in relation to this line shows their deviation from predicted levels of ODA per capita. It can be seen that Albania and the former Yugoslav Republic of Macedonia are receiving less than their expected level of ODA per capita, while Kosovo and Montenegro receive more than their expected amounts, especially so in the case of Kosovo.

**Table 3-5: ODA disbursements as a share of GNI (%)**

	2010	2011	2012
<b>Albania</b>	2.9	2.7	2.6
<b>Bosnia-Herzegovina</b>	3.0	3.4	3.3
<b>Kosovo</b>	10.9	9.9	8.9
<b>Montenegro</b>	2.0	2.9	2.5
<b>Serbia</b>	1.8	3.3	3.0
<b>The former Yugoslav Republic of Macedonia</b>	2.0	1.9	1.6
<b>Turkey</b>	0.1	0.4	0.4

Source: OECD StatsExtract international assistance database

International assistance flows vary substantially in terms of their contribution to the economies of the recipient countries. Table 3.5 shows the share of ODA flows in GNI of the recipients. It can be seen that the largest flows measured in this way have been to Kosovo, which received an inflow



equivalent to almost 11% of GNI in 2010. The share fell by two percentage points by 2012 and appears to be on a downward trend. The other Western Balkan countries received between 1.6% and 3.0% of GNI in the form of ODA. Turkey by contrast has received a far smaller share of GNI in the form of ODA.

**Table 3-6: Technical Cooperation, share of total ODA disbursements (%)**

	2010	2011	2012
<b>Albania</b>	29.7	27.8	27.8
<b>Bosnia-Herzegovina</b>	27.1	18.6	17.9
<b>Kosovo</b>	44.3	50.1	43.2
<b>Montenegro</b>	36.4	11.9	11.4
<b>Serbia</b>	19.3	8.5	9.6
<b>The former Yugoslav Republic of Macedonia</b>	36.6	22.6	32.2
<b>Turkey</b>	14.7	4.7	5.3

Source: Calculated from OECD StatsExtract international assistance database

A part of the ODA distributed to the Western Balkans and Turkey is in the form of Technical assistance (TA) or as it is more often called nowadays, Technical Cooperation (TC). Table 3.6 shows the value of TC as a share of total ODA. The distribution varies across countries and over time. Kosovo and the former Yugoslav Republic of Macedonia receive a greater proportion of assistance in the form of TC (43% and 32% respectively in 2012), while Serbia and Turkey have received the lowest share (10% and 5%). The proportion has been relatively constant in the cases of Albania, Kosovo and the former Yugoslav Republic of Macedonia, but has fallen quite sharply in Bosnia and Herzegovina, Montenegro, Serbia and Turkey.

**Table 3-7: ODA flows from bilateral donors (net disbursements, €m)**

	Total ODA (€m)			ODA per capita (\$)		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	180.3	151.4	146.2	57.2	48.0	46.2
<b>Bosnia-Herzegovina</b>	205.1	214.0	180.4	53.3	55.7	47.1
<b>Kosovo</b>	231.7	216.5	248.4	130.5	120.9	137.5
<b>Montenegro</b>	41.4	26.0	33.1	66.7	41.8	53.2
<b>Serbia</b>	244.4	200.1	139.2	33.5	27.6	19.3
<b>The former Yugoslav Republic of Macedonia</b>	94.7	59.9	71.1	45.0	28.5	33.8
<b>Turkey</b>	566.4	279.9	85.7	7.9	3.8	1.2
<b>Total</b>	<b>1,564.1</b>	<b>1,147.9</b>	<b>904.0</b>	..	..	..

Source: OECD International aid statistics extracted through QWIDS

Bilateral donors have cut back their activities in the region quite significantly, with total disbursements almost halving from 2010 to 2012 (see Table 3-7). Large decreases in bilateral ODA have occurred to all beneficiaries except Kosovo, which by 2012 received the largest amount of bilateral ODA both in total and per capita. Differences in per capita flows are quite striking with a wide range from the negligible €1.20 per capita in Turkey and the more substantive but still relatively low €19.30 in Serbia to €53.20 in Montenegro and €137.50 in Kosovo.

### 3.2.1 International Financial Institutions and Other Official Flows

As noted above, the International Financial Institutions (IFIs) provide substantial concessional loans to the beneficiaries in the Western Balkans and Turkey. This section reviews the distribution

of IFI finance across the beneficiaries. IFIs provide a mix of concessional and non-concessional loans and hence are provider of both Official Development Assistance (ODA) and Other Official Flows (OOF).

**Table 3-8: Total gross concessional ODA Loans, 2010-2012, (€m)**

	2010	2011	2012
<b>Albania</b>	59.7	48.5	29.1
<b>Bosnia-Herzegovina</b>	34.9	60.4	17.3
<b>Kosovo</b>	0.0	0.1	0.1
<b>Montenegro</b>	9.3	2.8	6.2
<b>Serbia</b>	66.4	66.8	38.0
<b>The former Yugoslav Republic of Macedonia</b>	19.3	14.1	22.6
<b>Turkey</b>	698.8	414.8	232.9
<b>Grand Total</b>	888.4	607.4	346.3

Source: OECD StatExtracts

The ODA provided by the IFIs has been falling in recent years, in total from €888m in 2010 to just €346m in 2012. This is especially noticeable in Albania, Bosnia and Herzegovina, Serbia and Turkey. One reason, especially in the Western Balkan countries, has been the policy of fiscal consolidation that has been adopted at the insistence of the IMF and the EU in response to the economic crisis, which has meant that the countries have ever more limited capacity to accept soft loans.

In recent years, several new international actors have begun to provide development loans to the region including Russia (mainly in Serbia), China (in Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia Montenegro and Serbia), Azerbaijan (in Serbia), UAE (in Albania, Montenegro and Serbia) and Turkey (in Kosovo and Bosnia). Some of these actors offer incentives to take up loans. For instance, China proves study trips to China to visit major infrastructure facilities for ministries of infrastructure and other public officials<sup>18</sup>. Taking loans at the national level is often a political decision, and in some cases especially among the new donors, regulated by non-transparent bilateral contracts. The implementation of these loans is not always carried out within the established mechanisms of donor coordination.

**Table 3-9: OOF net disbursements (€m)**

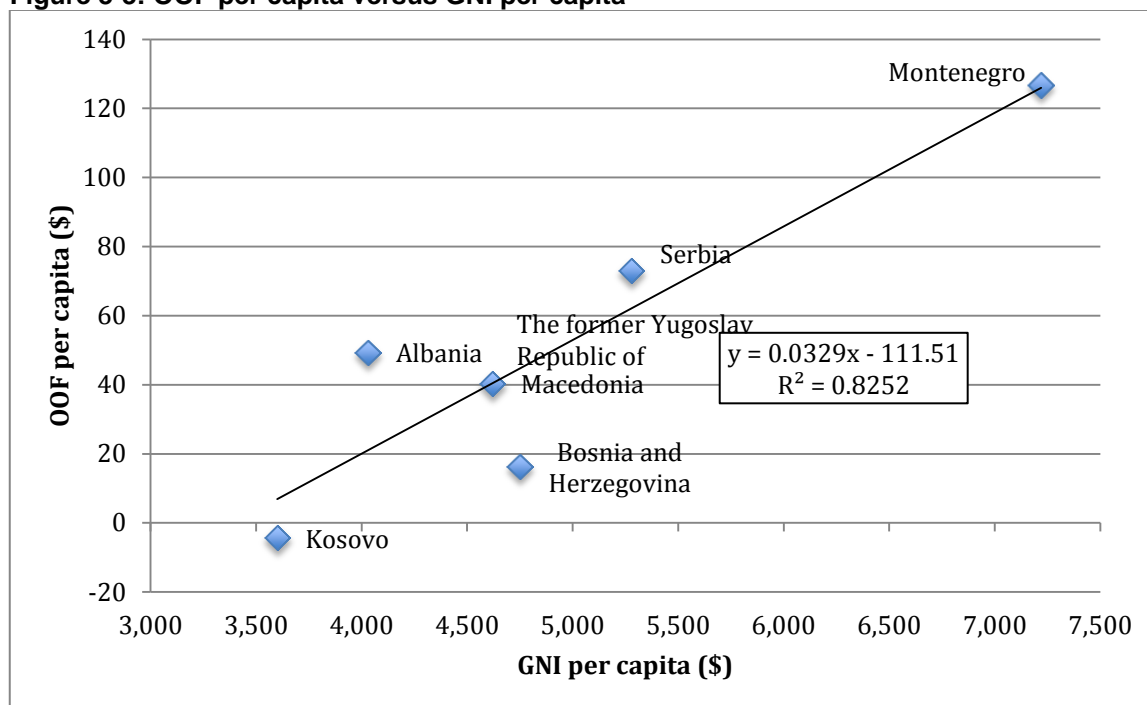
	2010	2011	2012	Annual average
<b>Albania</b>	58.6	135.4	159.9	118.0
<b>Bosnia-Herzegovina</b>	160.8	-17.9	-1.3	47.2
<b>Kosovo</b>	11.2	-13.2	-20.7	-7.6
<b>Montenegro</b>	72.4	18.4	90.9	60.6
<b>Serbia</b>	660.1	459.1	71.5	396.9
<b>The former Yugoslav Republic of Macedonia</b>	107.3	52.9	26.0	62.1
<b>Turkey</b>	3,971.5	1,503.2	1,056.1	2,176.9

Source: OECD QWIDS online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

<sup>18</sup> China provides trainings and study trips to China to visit major infrastructure for Albanian public officials, in addition to those from Bosnia and Herzegovina, The former Yugoslav Republic of Macedonia Montenegro and Serbia.

As can be seen from Table 3-9, the flows of Other Official Finance to the region have been quite substantial, especially to Turkey where the average over the three years was €2.2 billion. Substantial flows were also recorded to Serbia in 2010 and 2011, averaging around €550m. Some loans have had a clear investment purpose. In 2012, for example, the EBRD contributed a loan to Albania for the Albania Roads Project, a flagship project of WBIF. This project is an example of co-financing between the EBRD and the EIB with a total investment of €100 million (€50 million provided by each institution). It also benefited from WBIF grants of €4 million and IPA funding of €34.5 million. In the same year, the Islamic Development Bank gave a loan to Albania amounting to €73m<sup>19</sup>. In 2010, the World Bank gave a set of development policy loans to Turkey in the field of equitable growth and employment that were classified as OOF loans amounting to €1.2bn. Prominent among these OOF flows are also EBRD credit lines.

**Figure 3-3: OOF per capita versus GNI per capita**



Source: OECD DAC database and World Bank Development Indicators database

As can be seen from Figure 3-3, the relationship between OOF and GNI per capita is positive, and strongly significant for the Western Balkan countries. While bilateral association between these two variables does not demonstrate causation, it is suggestive of a possible relationship between the allocation of finance and the level of development of a country. The addition of Turkey reduces the statistical significance of the relationship, suggesting that there are different factors driving the flow of OOF to Turkey than to the Western Balkans. Turkey is a more developed country in terms of per capita GNI and has weathered the economic crisis better than the Western Balkan countries. She therefore benefits from a larger flow of FDI, and this has potentially reduced her need for OOF inflows, which are relatively low compared to her level of GNI per capita.

The fact that the relationship between OOF per capita and GNI per capita is positive (upward sloping) also indicates that there may be quite different factors driving OOF flows compared to

<sup>19</sup> Although the loan and its amount are recorded in the OECD/DAD international development assistance database, the purpose of the loan and its sector of activity are not recorded.

ODA flows (which have a negative association to GNI per capita). This difference in the behaviour between the two types of financial flows may be related to the non-concessional nature of OOF flows. Since these flows are required to finance bankable projects, they are more likely to be market seeking than the concessional loans and grants that make up the bulk of ODA flows. Since there are likely to be a larger number of bankable projects in countries with a higher level of GNI per capita than in poorer countries, it should only be expected that a positive relationship between OOF and the level of development should be found. This seems to be reflected in the result obtained above.

It is relevant to compare flows of assistance with other financial flows in order to identify the extent and nature of aid dependencies in the Enlargement countries.

**Table 3-10: Official development assistance compared to foreign direct investment (%)**

	Average values 2010-2012 (€m)				Ratio to FDI		
	FDI	ODA	OOF	TOF	ODA /FDI	OOF /FDI	TOF/ FDI
<b>Albania</b>	930.2	258.4	117.9	375.7	28%	13%	40%
<b>BiH</b>	315.3	426.3	46.5	473.5	135%	15%	150%
<b>Kosovo</b>	331.3	461.0	-7.5	453.5	139%	-2%	137%
<b>Montenegro</b>	482.9	77.2	59.7	136.6	16%	12%	28%
<b>Serbia</b>	1,098.3	781.8	401.2	1,183.0	71%	37%	108%
<b>The former Yugoslav Republic of Macedonia</b>	269.5	132.7	62.2	194.9	49%	23%	72%
<b>Turkey</b>	9,394.6	1,816.1	2,177.2	3,993.3	19%	23%	43%
<b>Total</b>	12,822.2	5,460.6	4,364.5	8,318.1	43%	34%	65%

Source: Table 1 above and UNCTAD online data; Note: FDI = Foreign Direct Investment; ODA=Official Development Assistance; OOF=Other Official Flows; TOF=Total Official Flows= ODA + OOF

International assistance flows have been quite large in relation to FDI inflows in some of the Enlargement countries (see Table 3-10). For all countries, ODA flows were equivalent to about two fifths of FDI flows while, taking into account other official flows, the total flow of international assistance was equivalent to three fifths of FDI flows. Bosnia and Herzegovina and Kosovo stand out as countries in which ODA flows were far higher than total FDI flows, indicating a high level of aid dependence. ODA inflows were also relatively high compared to FDI in Serbia. Taking other official flows into account, the ratio of total public international assistance to private foreign direct investment was more than 100% in Bosnia and Herzegovina, Kosovo and Serbia. Montenegro and Turkey were more reliant on FDI than international assistance, and this perhaps accounts for the relative lack of interest in donor coordination mechanisms in those two countries (see below), although this argument does not apply in the case of Albania, which has also benefitted significantly less from ODA than from FDI.

### 3.3 Mapping international assistance – donors by beneficiaries

The pattern of flows from donors to beneficiaries in the Western Balkans and Turkey is diverse. Some donors have a wide spread of interventions throughout the region, while other donors focus their assistance on one or just a few countries (see Table 3-11). The larger donors tend to have a wider regional reach as might be expected. The EU Institutions, Germany and the USA fall into this category. Other donors have tried to focus their assistance on a smaller group of beneficiaries.

Considering amounts of €10m or more to define “focus” it can be seen that in 2012, Norway, Sweden, Switzerland provided focused assistance to three countries, while Austria, Japan, Turkey and UK focused on just two beneficiaries<sup>20</sup>. Other donors have a focus on just one beneficiary, related to reasons such as historical ties (Austria with Bosnia and Herzegovina) or migration flows, (Greece and Italy with Albania). Luxembourg has allocated substantial assistance to Kosovo. The UAE has allocated most of her assistance to Albania, and Japan has allocated most of her assistance to Turkey.

**Table 3-11: ODA flows from bilateral donors to beneficiaries (net disbursements, 2012, €m)**

	AL	BH	MK	XK	ME	RS	TR	Total
<b>EU Institutions</b>	99.3	242.6	42.4	156.4	38.2	688.5	2,268.5	3,535.9
<b>USA</b>	17.0	30.0	13.1	77.5	6.1	32.4	10.9	186.9
<b>Germany</b>	20.1	33.4	26.3	22.1	4.7	40.9	22.5	170.1
<b>Switzerland</b>	8.8	14.6	5.3	50.1	0.1	16.0	1.2	96.0
<b>Austria</b>	6.9	21.6	2.2	8.8	0.7	8.8	30.8	79.9
<b>Sweden</b>	9.5	23.0	2.6	17.8	0.5	14.7	9.6	77.5
<b>Turkey</b>	6.1	16.6	9.4	15.6	2.1	4.7	..	54.5
<b>Norway</b>	1.2	15.1	3.8	11.5	2.7	11.9	1.7	47.9
<b>Japan</b>	-0.5	2.1	1.5	6.2	0.9	5.2	26.1	41.3
<b>Greece</b>	30.5	0.3	0.4	0.2	0.2	0.8	2.0	34.5
<b>UK</b>	0.8	2.8	1.7	12.7	0.6	4.0	10.6	33.3
<b>Italy</b>	24.9	2.9	-0.3	0.4	2.0	-1.9	-2.4	25.6
<b>UAE</b>	13.9	0.4	..	..	5.5	..	-1.6	18.3
<b>Luxembourg</b>	0.1	..	..	11.3	4.2	2.1	0.1	17.9
<b>Netherlands</b>	..	6.1	0.0	3.5	..	0.0	0.2	9.9
<b>Finland</b>	0.3	0.6	0.1	2.8	..	4.9	0.2	8.8
<b>Russia</b>	0.1	0.0	..	..	0.0	7.4	0.4	7.9
<b>Czech R.</b>	0.3	2.5	0.1	1.8	0.1	1.9	0.1	6.7
<b>France</b>	3.3	2.1	2.1	0.5	0.5	8.4	-16.6	0.2
<b>Poland</b>	0.1	1.3	0.0	..	-0.7	-2.6	0.0	-1.8
<b>Spain</b>	-1.2	-3.0	..	0.4	..	-2.2	1.2	-4.8
<b>Kuwait</b>	1.3	-3.1	..	..	..	..	-11.0	-12.8
<b>Denmark</b>	1.2	0.2	0.0	3.9	0.6	-25.0	0.6	-18.5

Source: OECD International Development Statistics database. The flows reported are from DAC and non-DAC country donors.

Apart from the EU Institutions, which have been the largest donors in all countries, some notably large allocations of assistance in 2012 were €77m provided to Kosovo by the USA, €50m provided to Kosovo by Switzerland, and €41m provided by Germany to Serbia (see Table 3-11). Several countries provided assistance in the range from €30m-€40m, including from USA to Bosnia and Herzegovina and Serbia, from Germany to Bosnia and Herzegovina, from Austria to Turkey, and from Greece to Albania. Both Bosnia and Herzegovina, and Kosovo seem to have attracted much

<sup>20</sup> This is of course an arbitrary classification, but it serves to make comparisons across donors of the scale of their interventions in particular countries. Readers may adjust the classification to suit their own preferences.

attention due to their economic situation (high unemployment and poverty), as well as their political status as non-EU candidates and semi-protectorates.

Donors' "favourite" beneficiaries can also be identified as the one to whom donors allocate the largest share of their total assistance. Taking only the Western Balkan beneficiaries (i.e. excluding for the moment Turkey) Albania is the favourite of Greece, Italy and the UAE, which respectively allocate 94%, 89% and 70% of their total assistance for the Western Balkans to Albania. Bosnia and Herzegovina is the favourite of five donors: Austria (33% of her total assistance), Netherlands (64%) Norway (33%), Sweden (34%) and Turkey (31%). Kosovo is also the favourite of five donors: Luxembourg (64%), Japan (40%), Switzerland (53%), UK (56%) and USA (44%), Serbia is the favourite of two donors: Germany (28%) and the EU Institutions (54%). Neither the former Yugoslav Republic of Macedonia nor Montenegro is a favourite of any donor; in the language of the donor policy discourse they could be considered the "orphans" of the donor effort in the region.

**Table 3-12: Shares of bilateral donors other than EU Institutions in total ODA to Enlargement countries, 2012**

	AL	BA	MK	XK	ME	RS	TR	Total
<b>United States</b>	12%	18%	20%	<b>33%</b>	<b>20%</b>	<b>23%</b>	10%	21%
<b>Germany</b>	14%	<b>21%</b>	<b>40%</b>	9%	15%	<b>29%</b>	20%	19%
<b>Switzerland</b>	6%	9%	8%	<b>21%</b>	0%	11%	1%	11%
<b>Austria</b>	5%	13%	3%	4%	2%	6%	<b>28%</b>	9%
<b>Sweden</b>	7%	14%	4%	8%	2%	11%	9%	9%
<b>Turkey</b>	4%	10%	14%	7%	7%	3%	0%	6%
<b>Norway</b>	1%	9%	6%	5%	9%	9%	2%	5%
<b>Japan</b>	0%	1%	2%	3%	3%	4%	<b>23%</b>	5%
<b>Greece</b>	<b>22%</b>	0%	1%	0%	1%	1%	2%	4%
<b>United Kingdom</b>	1%	2%	3%	5%	2%	3%	10%	4%
<b>Italy</b>	18%	2%	0%	0%	7%	-1%	-2%	3%
<b>United Arab Emirates</b>	10%	0%	0%	0%	18%	0%	-1%	2%
<b>Luxembourg</b>	0%	0%	0%	5%	14%	2%	0%	2%
<b>Total</b>	100%	100%	100%	100%	100%	100%	100%	100%

Source: OECD StatExtracts

Several additional observations about the distribution of bilateral assistance to the region as a whole can be made on the basis of Table 3-12 which shows the donor shares of bilateral aid flows received by each beneficiary (the Table excludes the EU Institutions)<sup>21</sup>. First, consider the donors. In 2012, three bilateral donors provided just over one half of all bilateral ODA (excluding EU Institutions): USA, Germany and Switzerland. Of these, USA and Germany, as noted above, had a significant presence in all the countries, contributing 10% or more of bilateral aid received by each country (9% in the case of German aid to Kosovo). It is notable that Germany had a significant presence in the former Yugoslav Republic of Macedonia and that the USA had a significant presence in Kosovo. Switzerland was a little more selective, contributing more than one fifth of all aid going to Kosovo, but contributing not at all to Montenegro or Turkey. Three further donors made up a further quarter of all bilateral aid: Austria, Sweden and Turkey. Of these, Austria is a

<sup>21</sup> The EU Institutions are excluded in this Table, as they are so dominant in the pattern of flows of ODA to the region. The Table provides a picture of the allocation of assistance for each country by donors other than the EU Institutions.



significant contributor in Bosnia and Herzegovina and Turkey, Sweden is a significant contributor in Albania, Bosnia and Herzegovina, Serbia and Turkey, and Turkey is in turn a significant contributor in Bosnia and Herzegovina, and the former Yugoslav Republic of Macedonia. Other donors, though smaller, maximise their potential by specialising their assistance in one or two countries. Thus, Norway contributes significantly in Montenegro and Serbia, Japan has a relatively large presence in Turkey, Greece, focuses on Albania, as does Italy, in each case reflecting historical links. The UK focuses her assistance on Turkey. The UAE focuses on Albania and Montenegro, where there are large Muslim communities. Luxembourg focuses on Montenegro due to the large number of refugees from that country who entered Luxembourg in the 1990s.

Donor fragmentation is a concern to policy makers. It has been addressed in the EU Code of Conduct<sup>22</sup>, which recommends that donors should designate a limited number of countries or sectors of intervention. Overcrowding of donors in a country or sector is thought to impose significant administrative burdens and high transaction costs in the beneficiary countries, to diffuse policy dialogue, reduce transparency and increase the risk of corruption. Countries with low donor fragmentation each have at least one donor who contributes 20% or more to the flow of non-EU bilateral ODA, achieving a leading position as donor in those countries - Germany in Bosnia and Herzegovina, The former Yugoslav Republic of Macedonia, and Serbia; the USA in Kosovo, Montenegro and Serbia; and Austria in Turkey; Switzerland in Kosovo; Greece in Albania; and Japan in Turkey. Some countries have one main bilateral donor – Albania (Greece<sup>23</sup>), Bosnia and Herzegovina (Germany), The former Yugoslav Republic of Macedonia (Germany) and Montenegro (USA). Other countries have two main donors – Kosovo (Switzerland and USA), Serbia (USA and Germany) and Turkey (Austria and Japan).

### 3.4 Interests and drivers of donor interventions

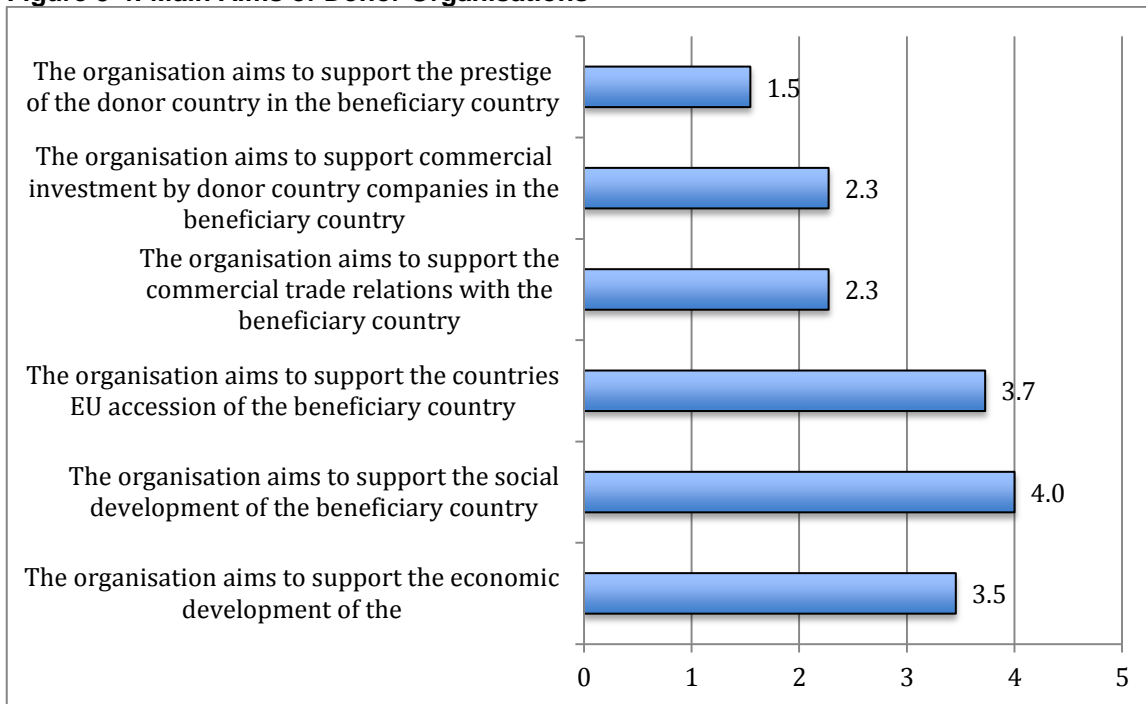
In order to gain an insight into the behaviour and motivations of donors we carried out a small survey of donor organisations in the Enlargement region. The responses of the 11 donor organisations that replied to the questionnaire revealed a range of motivations of donor organisations.

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<sup>22</sup> The EU Code of Conduct on Complementarity and the Division of Labour in Development Policy is available at: [http://europa.eu/legislation\\_summaries/development/general\\_development\\_framework/r13003\\_en.htm](http://europa.eu/legislation_summaries/development/general_development_framework/r13003_en.htm)

<sup>23</sup> This is a long debated issue between the Government of Albania and Hellenic Aid. Although the OECD data shows that Greece is the main donor in Albania, this includes as ODA the scholarships that are provided to Albanian emigrants and their families who live in Greece. Most of the reported funds are not channelled through the Government of Albania. It could therefore be argued that Italy and Germany are the main bilateral donors in Albania

**Figure 3-4: Main Aims of Donor Organisations**



Source: Pohl Consultants & Associates, donor survey. Note: responses were scored on a 1-5 scale. The horizontal bars represent the average of the scores reported by the respondents

The most important aims of donor interventions are to support the EU accession of the beneficiary country and to support the social and economic development of the beneficiary<sup>24</sup>. Less important were aims to support the commercial trade or investment relations of the donor country or the prestige of the donor, although these factors do have some role to play (see Figure 3-4). This seems to support the findings of the research literature reported in the previous section, which suggests a range of motivations for donor interventions, including a mix of benevolence and self-interest of donors. In the case of the Western Balkans and Turkey the evidence from this study provides some limited support for the view that the former is a more significant motivation than the latter.

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<sup>24</sup> It is worth noting that the aims of the Council of Europe Development Bank are well aligned with the main aims of the donor organisations as reported in Figure 3-4



## 4 DONOR COORDINATION

This section examines aid coordination mechanisms and their potential to assist governments and donors to track and share information related to aid-funded activities. It analyses the advantages and disadvantages of the donor coordination mechanisms in the Enlargement countries. Firstly, we examine the principles set out in the OECD/DAC Paris Declaration (2005), the Accra Agenda for Action (2008) and the Fourth High Level Forum on Aid Effectiveness (2011) which led to the “Busan Partnership for Effective Development Cooperation” to which the EU is fully committed<sup>25</sup> and which establishes a framework for enhancing the effectiveness of its assistance and its development impact. Secondly, we assess donor coordination mechanisms in the Enlargement countries<sup>26</sup>. In the next three subsections we discuss coordination between donors and beneficiaries, coordination between donors and implementing agencies and coordination between donor organisations themselves. We end this section with some conclusions on the strengths and weaknesses of donor coordination in the region<sup>27</sup>.

### 4.1 The wider context of enlargement assistance

Under the leadership of DG DEVCO, the EU has committed itself to the core principles of the OECD/DAC Paris Declaration, the Accra Agenda for Action and the Busan Partnership for Effective Development Cooperation, as follows:

1. **Ownership:** Beneficiary countries should set their own national development strategies and take the lead in deploying both domestic and external resources to support their implementation processes.
2. **Alignment:** Donors should align behind the objectives set out in the recipient countries’ own strategies, using local in-country systems for the delivery of assistance.
3. **Harmonisation:** Donors should improve their coordination, streamline their support efforts, simplify procedures and share information to avoid duplication of efforts (fragmentation) – thereby increasing cost efficiency.
4. **Results:** Recipient countries and donors should focus on the real and measurable impact of assistance. National development strategies and related policy instruments should be directed to achieving clear goals. Progress towards these goals should be monitored so that outcomes can be measured.
5. **Mutual accountability:** Donors and recipient countries are jointly responsible and accountable for achieving these goals and development results.

In this broad framework, accountability entails that donors should disclose regular, detailed information on how much, when and where they invest as well as the results of their investments, while recipient countries should establish processes enabling parliaments to keep track of their

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<sup>25</sup> “The EU is fully committed to make progress on the five guiding principles of the 2005 Paris Declaration on improving aid effectiveness... As a member of the OECD-DAC the EC has been at the forefront of these international fora to improve the impact of development cooperation and has consistently encouraged increased effectiveness of global development assistance by aiming for ambitious targets and reforming the way it delivers aid in order to meet those targets.” <http://ec.europa.eu/europeaid/what/delivering-aid/aid-effectiveness/>

<sup>26</sup> See also Annexes 7 & 8 for a more complete description and summary of the donor coordination mechanisms in each of the Enlargement countries.

<sup>27</sup> See also Annex 9 for a formal SWOT analysis of donor coordination mechanisms in the region

programmes and Civil Society Organisations should ensure that donors and beneficiaries fulfil their commitments by encouraging greater transparency in public financial management.

These themes are underpinned by the principle of predictability, whereby donors should provide recipient countries with information on the volume of assistance they can expect to receive, when and in which areas they can expect to receive it. They should also mutually agree the conditions attached to the way in which pre-accession funds are spent, while beneficiary countries should strengthen their capacities for strategic management and budget planning.

Through the European Code of Conduct on Complementarity and the Division of Labour in Development Policy, the EU has taken a lead role in implementing the Paris Declaration commitments on improving aid delivery. In a joint statement called “The European Consensus on Development”, the Council and representatives of other institutions stated that

“National ownership, donor coordination and harmonisation, starting at field level, alignment to recipient country systems and results orientation are core principles in this respect”; and that the EU “has in this context made four additional commitments: to provide all capacity building assistance through coordinated programmes with an increasing use of multi-donors arrangements; to channel 50% of government-to-government assistance through country systems, including by increasing the percentage of our assistance provided through budget support or sector-wide approaches; to avoid the establishment of any new project implementation units; to reduce the number of un-coordinated missions by 50%”<sup>28</sup>.

However, in relation to the IPA programme the European Consensus on Development states that:

“The Pre-Accession Policy, insofar as it concerns developing countries, aims to support the membership perspective of candidate and pre-candidate countries .... Whilst these policies have a clear integration focus, they usually include significant development aspects. ... The instruments that may provide technical and financial assistance to support these policies will include, where appropriate, development best practice to promote effective management and implementation. Policies guiding these instruments will be realised within a broader framework, set out in the ... Pre-Accession Policies, and will form an integral part of wider Community external actions.”<sup>29</sup>

This makes it clear that there is a distinction between policies that have a clear integration focus and policies that include significant development aspects. While the Paris/Accra Declaration, especially concerning the concept of ownership, may be critically important to development policies, it is not clear that they have equal relevance to the Enlargement Strategy, as the key objectives and strategic orientation here are inevitably set by the donor (the EU and other donors who align behind the enlargement strategy) rather than the beneficiary. The statement quoted above emphasises that experience of best practice from the development context may be used in the enlargement process “where appropriate”, but that the policies will be realised “within a broader framework” set out in the enlargement strategy. This makes it clear that for the Enlargement countries and IPA II, the adherence to the Paris Declaration is not an integral part of the

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<sup>28</sup> “Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy: ‘The European Consensus’” (OJ 2006/C 46/01), p.6.

[http://ec.europa.eu/development/icenter/repository/european\\_consensus\\_2005\\_en.pdf](http://ec.europa.eu/development/icenter/repository/european_consensus_2005_en.pdf)

<sup>29</sup> European Consensus on Development, 2005, para 6.2

Enlargement Strategy. It is to be drawn upon as and when it may be useful to meet the wider aims of enlargement and the accession process, and where it is instrumental and functional for improving the delivery of the accession-oriented assistance programmes. Indeed, Article 1 of the IPA II Regulation makes it clear that the aim of pre-accession assistance is to enable beneficiaries “to progressively align to the Union’s rules, standards, policies and practices, with a view to Union membership.”<sup>30</sup> In other words, enlargement countries are to align behind EU priorities, not the other way round.

A donor conference held in Brussels in 2008 DG concluded, perhaps more positively,

“...the spirit and the relevant principles of the Paris Declaration on Aid Effectiveness should guide donor coordination in the Western Balkans and Turkey. All five principles - ownership, alignment, harmonisation, managing for results and mutual accountability - are already built into IPA programming and implementation mechanisms, but some areas need to be strengthened, particularly ‘harmonisation’ and ‘managing for results’. Efforts should be made both by donors and by beneficiary countries to define specific indicators for progress, such as the adoption by the beneficiary countries of their own Country/ National Strategies as the basis for the alignment of financial assistance. In sectors where there is a common donor interest, the Commission, the IFIs, the Member States and non-EU donors will coordinate on the ground so as to identify which donor may take the sectoral lead, based on comparative advantages and value added.”<sup>31</sup>

The lessons seems to be that while country ownership and alignment of donor interventions to national priorities of the beneficiaries is not a requirement for IPA II programming, there is broad agreement that the general principles of donor coordination should guide approaches to improving aid effectiveness in practice.

However, a recent study of the implementation of the Paris Declaration by donors from around the world has cast doubt on the extent to which these principles have been and can be put into operation:

“The widespread failure of donors to keep the promises made in the Paris Declaration arguably reflects the complex political economy of the international aid system. Even if donor countries and aid agencies were purely altruistic and their overarching goal was to provide effective aid, existing information asymmetries would create incentive problems. This is because the donor institutions are ultimately accountable to domestic taxpayers, who usually do not have the information required to assess the success or failure of specific aid interventions. As a result, donors might be inclined to ‘plant their flag’ and engage in a broad range of highly visible projects in order to demonstrate their engagement and secure future funding” (Nunnenkamp et al. 2013: 558).

In section 5 we present evidence from the Enlargement region that comes to a similar, rather negative, conclusion. But first, we set out the formal donor coordination mechanisms that have

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<sup>30</sup> Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March establishing an Instrument for Pre-accession Assistance (IPA II)

<sup>31</sup> Conclusions of the Donor Coordination Conference - Improving aid effectiveness in the Western Balkans and Turkey held in Brussels, 23-24 October 2008.  
[http://ec.europa.eu/enlargement/pdf/donor\\_conference/conclusions\\_donor\\_conference\\_en.pdf](http://ec.europa.eu/enlargement/pdf/donor_conference/conclusions_donor_conference_en.pdf)

been put in place in these countries, and assess their strengths and weaknesses from an institutional point of view.

#### 4.1.1 The EU Code of Conduct

In May 2007, the General Affairs and External Relations Council adopted the EU Code of Conduct on Complementarity and Division of Labour in Development Policy (EU CoC DoL)<sup>32</sup>. The Division of Labour (DoL) concept is about *reducing the number of sectors in which a donor operates*, and thus making use of the donors' comparative advantages to ensure the complementarity of their contributions. Country-led DoL builds on the principles contained in the Paris Declaration on the effectiveness of development aid. It is important for implementing the principle of harmonisation, ensuring that the complementarity of aid contributions overcomes increasing proliferation and fragmentation. The Code of Conduct sets out the principle of "focal sectors", which states that *each donor should operate in no more than two sectors*. This identifies the advantages of *specialisation* by each donor in a number of focal sectors.

At the same time, donor coordination also addresses situations in which there are too many donors in the same sector (i.e. fragmentation of donor contributions). The aim is to reduce the number of overcrowded sectors and increase support for "orphan" sectors. The Code of Conduct sets out the principle of "appropriate support in strategic sectors" which addresses the issue of the *number of donors per sector*, and states that *no more than three to five donors* should be active in any one sector. Donor coordination and division of labour should take place together and complement each other.<sup>33</sup>

The Code of Conduct is supported by the 'Fast Track Initiative for the Division of Labour' in 31 partner countries. This is a mechanism designed to speed up the Division of Labour between EU donors to underpin complementarity of donor interventions and improve the efficiency and effectiveness of aid delivery. Three of the Enlargement countries – *Albania*, with Italy as the lead facilitator, *the former Yugoslav Republic of Macedonia*, facilitated by Slovenia, and *Serbia*, with Sweden as the facilitator – are on the current Fast Track Initiative list. Progress has been monitored on a regular basis, most recently in February 2011<sup>34</sup>. It aims to enhance collaboration among European donors in order to increase the coherence of EU assistance, and to reduce transaction costs to achieve more effective interventions. A Memorandum of Understanding for the Fast Track Initiative was signed between the Albania and participating donors (Austria, EU Delegation, Germany, Italy, Sweden, and Switzerland) in May 2010.

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<sup>32</sup> "Communication from the Commission to the Council and the European Parliament of 28 February 2007 entitled "EU Code of Conduct on Division of Labour in Development Policy" [COM(2007) 72 final - Not published in the Official Journal].

<sup>33</sup> "Commission Staff Working Document - EU Accountability Report 2011 on Financing for Development; Review of progress of the EU and its Member States", Brussels, 19.4.2011 - SEC(2011) 502 final. Accompanying document to the "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Enhancing EU Accountability on Financing for Development towards the EU Official Development Assistance Peer Review - VOL III" {COM(2011) 218 final}

<sup>34</sup> Albania and Serbia were among the counties that responded; The former Yugoslav Republic of Macedonia was requested but failed to respond.

#### 4.1.2 [Transparency](#)

A core principle of donor engagement in beneficiary countries under the Accra Agenda for Action is that of 'transparency'. An International Aid Transparency Initiative was established in 2008, and began to publish data in 2011. The donor governments that have so far become "publishers" on the IATI database are as follows:

- > Australia
- > Canada
- > Denmark
- > Finland
- > France
- > Germany
- > Ireland
- > Japan
- > Netherlands
- > New Zealand
- > Spain
- > Sweden
- > Switzerland
- > United Kingdom
- > United States

Data on aid flows is already published by the OECD-Development Assistance Committee (DAC), and is a valuable source of information that is used extensively in this report. However, it tends to be available only with a considerable time lag – the latest currently available is for 2012, almost 18 months in arrears. The aim of the IATI registry is to have much more up to date and forward looking information that can be used by developing countries, and should also be useful to the Western Balkans and Turkey when the system is fully established.

In developing the IATI standard, IATI has been careful not to duplicate the work already being done by other organisations such as the OECD/DAC, which produce statistics about past aid flows. Instead, the IATI standard builds on – and goes beyond – the standards and definitions that have already been agreed by the DAC Creditor Reporting System (CRS).

## 4.2 Donor coordination mechanisms in the Enlargement countries

The European Commission has continued to pursue the donor coordination agenda in line with the commitments made in Busan, and has taken steps to ensure the alignment of funding under the IPA programme with international standards on aid transparency<sup>35</sup>. The sector approach adopted under IPA II is also seen as being in line with the donor coordination agenda and the commitments made by the European Commission at Busan, especially the principle of a results-based approach.

Under IPA II, the preparation of the Country Strategy Papers (CSPs) is based on partnerships between the EC and the beneficiary countries in order to tailor assistance to the needs of each country, and programming will be based on the relevant national planning documents. The strategic planning framework for IPA II will require enlargement countries to set up comprehensive

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<sup>35</sup> See "2012 Annual Report on Financial Assistance for Enlargement", Brussels: Directorate General for Enlargement, pp. 8-9



national strategies that IPA II can support. The NIPACs, as the main partners in drafting the CSPs for each Beneficiary, will be supported by the EU Delegations, especially in regard to donor coordination and in organising consultations with stakeholders and civil society. Such partnerships will be most relevant in the countries where NIPACs also have the role of Donor Coordinators.

IPA II is designed to increase the sense of local ownership by ensuring that CSPs are in line with the development strategies of each beneficiary, and to secure broad consensus on the strategies through enhanced participation of beneficiaries in each country in the programming process.

The EU Code of Conduct on Complementarity and Division of Labour (EU CoC DoL) of May 2007 has emerged as an important instrument for achieving complementarity of donor contributions, overcoming donor fragmentation, and increasing the effectiveness of international assistance. The implementation of the EU CoC DoL is supported by a Fast Track Initiative in a number of countries, including three of the IPA beneficiaries: Albania, Serbia and the former Yugoslav Republic of Macedonia. The Fast Track Initiative aims to reduce the number of donors in overcrowded sectors and increasing support for “orphan” sectors, making use of the donors’ comparative advantages<sup>36</sup>, thereby complementing donor coordination in order to deal with the situation of too many donors working in the same sector (fragmentation).

If the donor coordination mechanisms and databases were effective tools, able to inform pre-accession assistance programming for IPA II, they could contribute to the objectives of the Enlargement Strategy and could complement the Fast Track Initiative in the beneficiary countries, in particular under the ‘sector approach’ to be introduced into pre-accession assistance.

However, donor coordination mechanisms and information platforms cannot play these roles *per se* but only as part of a wider set of reforms to improve strategic planning and policy design. In the following sub-sections we analyse the implementation of these principles focusing on *ownership* and *alignment* in those beneficiary countries that use donor coordination mechanisms and that have participated in the latest OECD/DAC 2011 “Survey on Monitoring the Paris Declaration”<sup>37</sup>.

#### 4.2.1 [Ownership](#)

Both the European Consensus on Development and IPA II implementation emphasise a ‘country-owned’ approach to international assistance. The IPA II Implementing Regulation for example states in Article 4 that “The ownership of the programming and implementation of IPA II assistance

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<sup>36</sup> “Commission Staff Working Document - *EU Accountability Report 2011 on Financing for Development; Review of progress of the EU and its Member States*”, Brussels, 19.4.2011 - SEC(2011) 502 final. Accompanying document to the “Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Enhancing EU Accountability on Financing for Development towards the EU Official Development Assistance Peer Review - VOL III” {COM(2011) 218 final}

<sup>37</sup> “*Aid Effectiveness 2011 - Progress in Implementing the Paris Declaration*”, OECD, 04 March 2013. It 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 governments, which incorporates feedback from donors and other stakeholders. In this review we do not cover the issue of managing for results as this topic receives less attention in the OECD survey report. An update of the monitoring report was issued as “*Making Development Cooperation More Effective: 2014 Progress Report*”. This report was published after this report was completed and has not been taken into account. Within the Western Balkans, only Albania and Kosovo\* took part in the 2014 monitoring exercise.

lays primarily with the IPA II beneficiary.”<sup>38</sup> Ownership in this sense concerns ability to carry out two inter-linked activities:

- a) Exercising leadership over development policies and strategies
- b) Coordinating of donors activities.

Throughout the region there is a growing understanding of the benefits of effective country ownership of development cooperation, and that political engagement and leadership are the most important factors in determining how much a country will exercise ownership in practice.

#### 4.2.2 Alignment

The European Consensus on Development and the Paris Declaration envision donors basing their support on partner countries’ aims and objectives as set out in their own development strategies. They should also help strengthen capacity in local, in-country systems, such as those for procurement and public financial management, as far as possible and use them for the delivery of their assistance<sup>39</sup>. Having a national policy for economic development and EU integration which provides a strategic framework is an important basis for the alignment of assistance to national priorities.

There are a number of initiatives for strengthening country systems in the areas of planning, financial management, audit and procurement in the Western Balkans and donor communication channels and donor coordination mechanisms have played a significant role in these initiatives.

Where countries have reliable procurement systems, donors are encouraged to use them for the delivery and management of assistance; this helps to align assistance more closely with national strategies and enhances its effectiveness. Therefore, there have been expectations that coordination among donors and governments will advance and increase the confidence in such systems.

Nevertheless, we find that this has not happened. The public financial management systems have been used by only 11% and 20% of aid flows respectively in Albania and Kosovo, and 50% in BiH (almost in its entirety corresponding to World Bank loans). Similarly, the respective use public procurement systems was of 10% and 20% respectively for Albania and Kosovo, and 45% in BiH (again, mostly World Bank loans).

The reliability of public financial management (PFM) depends on whether PFM systems meet broadly accepted good practices and on whether credible reform programmes are in place. This implies 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

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<sup>38</sup> “Commission Implementing Regulation (EU) No. 447/2014, 2 May 2014 on the specific rules for Implementing Regulation (EU) No 231/2014 of the European Parliament and the Council establishing an Instrument for Pre-accession assistance (IPA II)”. Country ownership is institutionalised through the office of the National IPA Coordinator (NIPAC).

<sup>39</sup> “In order to enhance partner countries’ ownership of their development processes and the sustainability of external aid, and in line with international aid effectiveness commitments entered into by the Union and partner countries, the Union should promote, where appropriate in light of the nature of the action concerned, the use of partner countries’ own institutions, systems and procedures.”, Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March laying down common rules and procedures for the implementation of the Union’s instruments for financing external action”, Recital 18, OJ 15/3/2014, p. 97.



predictable way; and timely and accurate accounting and fiscal reporting, including audited public accounts with effective arrangements for follow up.

Donor use of a partner's established institutions and procurement systems increases aid effectiveness by strengthening a 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. In section 5 we evaluate the use of country based systems in Albania, Bosnia and Herzegovina and in Kosovo using the findings from the latest OECD/DAC 2011 "Survey on Monitoring the Paris Declaration".<sup>40</sup> Before turning to that we present the results of our own small survey of the current state of donor coordination within the Western Balkans and Turkey.

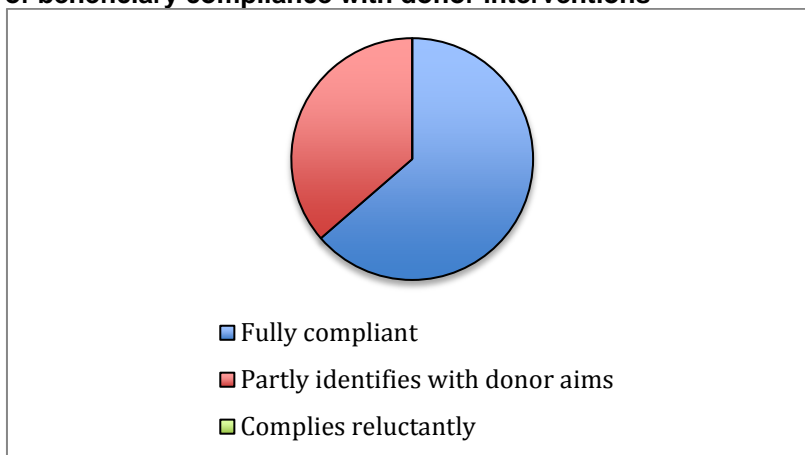
### 4.3 Coordination between donors and beneficiaries

The effectiveness of international interventions depends not just on the resources provided but also in the willingness of a beneficiary to cooperate with donors through an effective reform process. Cooperation by a beneficiary may be greater in cases where the beneficiary "owns" the intervention, and where the intervention follows the aims of the beneficiary as set out in national or sectoral strategies. In other words, the effectiveness of international interventions is likely to be greater if beneficiaries are willing to carry out the needed institutional reforms. In order to analyse this interaction we use the "influence theory". In this approach, the beneficiary's response to an intervention determines the effectiveness of the service being supplied. If beneficiary behaviour is cooperative, then assistance may be supplied effectively, but if the behaviour is opportunistic then aid effectiveness may be reduced. Possible beneficiary behaviours are "compliance", "identification" and "internalisation" (Kelman, 1958, 1961). In the first case, in which the beneficiary simply "complies" with donor requests for reform, donor interventions are expected to be ineffective. For example, fake agencies may be established that tick boxes but have no real impact on the ground. In the second case, in which the beneficiary "identifies" with the intervention, the beneficiary is expected to carry out reforms only if the donor makes assistance conditional on the reform but not otherwise. In the third case, in which the beneficiary "internalises" the aims and purposes of the intervention, the beneficiary is expected to carry out genuine reforms on its own initiative. Such differences in response to donor interventions are expected to have an impact on aid effectiveness. The issue in question, therefore, is the extent to which beneficiary governments internalise the reforms and their implementation, identify with reforms only when the beneficiary lays down conditions, or unwillingly complies with proposals for reforms without any real intention to implement them in an effective way.

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<sup>40</sup> "Aid Effectiveness 2011 - Progress in Implementing the Paris Declaration", OECD, 04 March 2013. It 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.

**Figure 4-1: Extent of beneficiary compliance with donor interventions**



Source: Pohl Consultants & Associates donor survey. Note: responses were scored on a 1-5 scale

In trying to identify this distinction in behaviours of the beneficiaries we asked a question in the donor survey about the extent to which it is thought that the beneficiaries comply with donor interventions. In all, 11 donors responded to the survey<sup>41</sup>. Most respondents replied that the beneficiaries were fully compliant with their interventions. Encouragingly, there were no cases of reluctant compliance. However, a significant number of donors said that the beneficiaries only partly comply with the donor interventions. Significantly, most of these replies confirming partial compliance came from Bosnia and Herzegovina<sup>42</sup>, while a minority also came from Albania.

The ambiguous nature of beneficiary compliance, identification or internalisation of donor aims and objectives is highlighted by the qualitative research findings from interviews with key informants in the region. The extent to which governments have a sense of ownership of the reforms advocated by donors often varies among different departments of government. In some cases ministries have a complete lack of interest in donor activities, while in other cases donors have direct access to ministers and provide effective advice. Between these extremes there is a variety of strengths of engagement, reflecting the differing capacities of different ministries. For example, the Environment sector is typically a rather weak ministry in most countries. Influence depends on the status of the ministry and the internal power dynamics within the government, as well as on the nature of donor interventions and the extent of donor coordination.

In a situation of ambiguous compliance, and where there are multiple donors each pursuing different objectives and offering a variety of policy advice, there is ample opportunity for beneficiaries to play donors off against each other. In one sense this is a negative aspect of donor fragmentation in another way it can be seen as healthy competition that favours the consumer of donor services. The donors tend to see this as in terms of the opportunistic behaviour by the beneficiaries. To the extent that it is a significant factor that affects the effectiveness of donor interventions there could be a case for applying a 'results' framework' that rewards compliance and

<sup>41</sup> The project involved a combination of desk research, qualitative interviews, and three separate but related questionnaire surveys of Donors, Financiers and Implementing agencies. Unfortunately too few Financiers and Implementing agencies replied to the questionnaire to make meaningful analysis possible (3 replies in each case). Results of a fourth supplementary questionnaire of Regional Initiatives supported by the Regional Cooperation Council are reported in Section 5 of this report.

<sup>42</sup> This might be related to the weak implementation of the donor coordination principles by the donor side as much as by the beneficiary side, given the weak implementation of the Paris Declaration principles by the donors and the existence of continuing donor fragmentation.

penalises opportunism (while at the same time being aware of the effect of the legitimacy of the interventions in question as a complicating factor that may undermine compliance irrespective of the extent of rewards and penalties that are imposed).

Moreover, analysis of the correspondence between beneficiary aims as revealed through the priority sectors identified in national strategies and the allocation of international assistance identified through our analysis of the pattern of donor assistance projects identifies substantial gaps between beneficiary preferences and donor priorities. This evidence suggests that there is ample scope for the improvement of the matching of donor interventions to domestic priorities. The sectors where this is most apparent are in sectors such as social policy, human rights and minorities and the agriculture and rural development.

#### **4.4 Coordination between donors and implementing agencies**

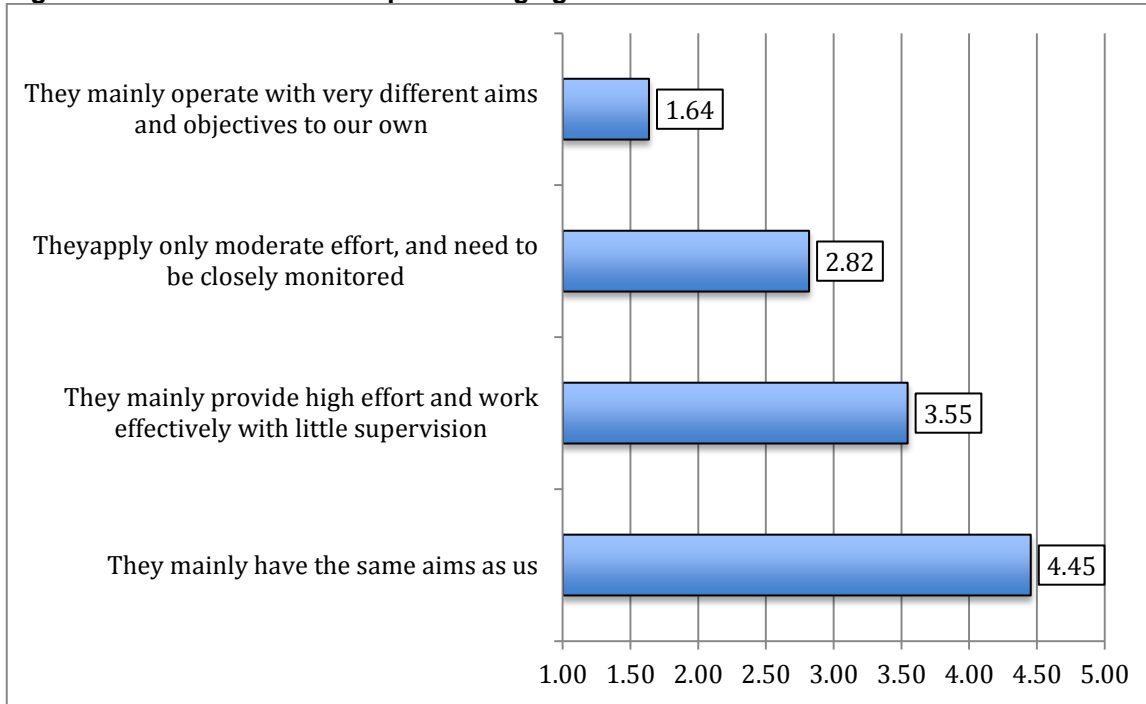
The principal agent model describes the situation of decentralised agency in which a “principal” tries to provide an incentive structure for an “agent” to carry out the principal’s objective. The principal can be thought of as a donor organisation and the agent as an implementing body working in the recipient country<sup>43</sup>. If the agent has different objectives to the principal (e.g. profit maximization versus social utility maximisation) then coordination problems may arise. The long chains of principals and agents that characterise the institutional setup, including donor ministries, donor agencies, local counterpart agencies, and recipient principals in the form of ministries that represent the interests of the ultimate beneficiaries of assistance programmes, provide many points at which the effectiveness of international assistance may be reduced. If the principals and agents do not share the same objectives and motivations, then inefficiencies may arise in the implementation of donor assistance programmes (Gibson et al., 2005, Martens et al. 2002). Where donors and beneficiaries share the same aims and motivations (e.g. a priority for EU accession) then such concerns may be mitigated.

The survey of donors showed their opinions on these points. On the whole, the donors consider that the implementing agencies mainly share the same aims as the donors, and that they mainly provide high effort and work effectively with little supervision. There was some concern that implementing agencies only apply “moderate effort” and need to be closely monitored but very little concern that a difference in aims and objectives is a problem.

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<sup>43</sup> See for example Martens, B., Mummert, U., Murrell, P. and Seabright, P. (2002) *The Institutional Economics of Foreign Aid*, Cambridge: Cambridge University Press and Monkam, N. F. (2012) "International donor agencies' incentive structures and foreign aid effectiveness," *Journal of Institutional Economics*, 8(3): 399-427

**Figure 4-2: Donor views on implementing agencies**



Source: Pohl Consultants & Associates donor survey. Note: responses were scored on a 1-5 scale

Donors expressed some views on the implementing agencies in our fieldwork. One-donor channels funds through the UN organisations and suggested that these were sometimes rather bureaucratic implementers and did not respond well to the needs of the beneficiaries.

## 4.5 Coordination between donors

This section deals with the issue of coordination between donor organisations who are partly in a cooperative relationship and partly in a competitive relationship<sup>44</sup>. Donors may have different interests and priorities from one another, and they therefore may both complement and compete against each other. The ‘co-opetition’ model recognises the role of organisations that are “complementers” alongside those that are “competitors”. Complementers are donor organisations whose services are dissimilar and complementary to each other and between whom cooperative relations are beneficial. Donors who provide essentially the same service are more likely to be in a competitive situation vis à vis the beneficiary.

This suggests that donors whose activities complement each other may benefit from cooperation and coordination, while donors whose activities replicate each other may do better for their beneficiaries by competing to provide assistance programmes. In other words there may be ‘too much’ donor coordination in circumstances in which organisations are natural competitors and provide essentially the same service. The WBIF may be an example of this, as the cooperation among financiers within the Framework has reduced provider competition in the provision of infrastructure finance to the countries of the Western Balkans. Whether this way to finance infrastructure loans is favourable for the beneficiaries depends upon whether the financiers involved in the WBIF complement each other or replicate each other. On balance, it could be argued that the members of the Framework complement each other, as they have different aims and objectives and serve different client groups. For example, EBRD serves private clients, whereas the EIB serves mainly public clients. The CEB aims to provide infrastructure in the social sector, which complements the aims of the other banks that focus more on economic development.

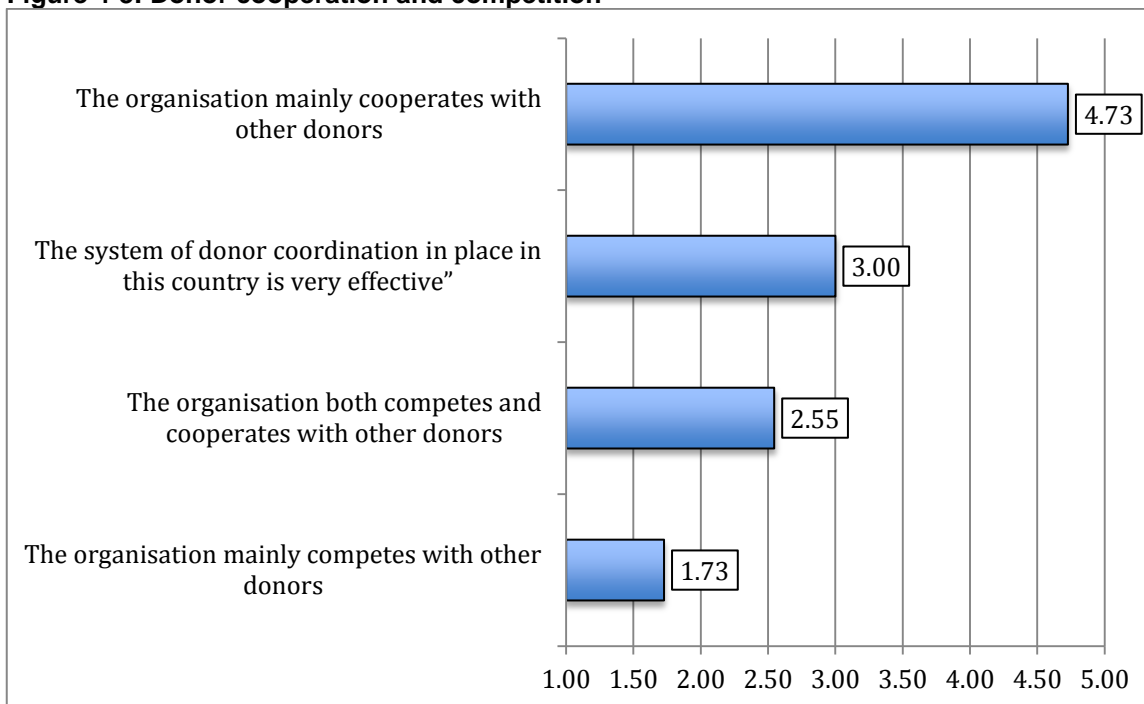
On the other hand, too much donor competition may undermine attempts to establish effective donor coordination, which may in turn weaken potential synergies. Our field research interviews came across examples where donor agencies do compete against each other for the projects that are available. While this is usually healthy competition, it can also undermine collaboration between donors. Thus, there is a strong view held by many that the WBIF approach to donor coordination represents beneficial cooperation between IFIs and donors, and is an example of effective donor coordination in practice.

Given these considerations, it seems that there is a balance to be struck between competition and cooperation between donors. It is not surprising therefore that donors display a variety of competitive and collaborative behaviours, as can be seen in Figure 4-3 below. Most donors report that they have good cooperation with other donors, but there is a substantial minority that report a more competitive environment. This is not necessarily a concern as inter-donor competition may benefit the recipient of assistance. More worrying is the finding that there is a rather low perception of the effectiveness of the system of donor coordinating that is in place in the region.

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<sup>44</sup> See for example Bengtsson, M. and Kock, S. (2000) “Coopetition” in business networks – to cooperate and compete simultaneously, *Industrial Marketing Management*, 29: 411-426, and Brandenburger, A. and Nalebuff, B. (1996) *Co-opetition*, New York: Doubleday

**Figure 4-3: Donor cooperation and competition**



Source: Pohl Consultants & Associates donor survey. Note: responses were scored on a 1-5 scale

Donor coordination in the region is a priority of most donors, and donor coordination is more significant than competition between donors. The donor coordination system is closely linked to the sector approach, through the functioning of Sector Working groups (SWGs) that aim to facilitate alignment of donor activities with the donor country Ministry or other organisation in charge of the sector. Generally the beneficiary Ministry chairs SWGs in order to ensure ownership of the process. However, there are numerous difficulties in place in operationalizing the donor coordination principle. The experience of SWGs reveals that government bodies hosting SWGs sometimes lack the capacity to manage and chair meetings on a regular basis. The interests of donor organisations are often not aligned, that meetings of SWGs often focus on information sharing rather than discussion on improving strategic plans, division of labour or complementarity of efforts. In some cases small informal meetings between the main donors active in a sector are seen as a more effective means to coordinate donor efforts than the formal meetings of SWGs. These are often large gatherings of all interested parties with too many participants, each making a self-presentation. It might be better in such circumstances to have a smaller SWG, with one large meeting once a year followed regular smaller meetings of the core group. Genuine cooperation within a sector approach is a complex process with potentially competing interests involved. It should be approached carefully, and pilot sectors should be introduced first to identify problems and design suitable corrective actions to enable the sector approach to fulfil its potential.

The requirements for bilateral donors to follow their own administrative regulations can be an additional obstacle to the sector approach. In cases where there are many donors financing many small projects it is often difficult to find a balance between donor and government views of policy. For example, in one SWG in the Environment sector, donor programmes were not sufficiently aligned with the government policy to separate the production and transmission of water, and the SWG was consequently unable to function effectively.

In addition, ministries are often under-staffed due to the pressures of fiscal consolidation, while the scope of responsibilities continues to expand. Governments also need to devote more resources for monitoring and evaluation.

#### **4.6 Strengths and weaknesses of donor coordination**

Donor coordination is an essential element of the sector approach to international assistance. Under IPA II, sector support will be provided through Sector Support Programmes, and where not possible, through projects. It is intended that Sector Support Programmes will be developed for sectors defined in the Country Strategy Papers and that each of these programmes should have clearly formulated objectives, targets and results (for more details see Annex 1).

The main strengths and weaknesses of the institutionalised donor coordination systems and web-based donor coordination information platforms in most countries of the Western Balkans, as well opportunities and threats, are summarised in the SWOT analysis presented in Annex 9. This analysis reveals both weaknesses and strengths, but also some significant opportunities for improvement of donor coordination mechanisms and associated databases in the region. Of particular note are the problems with existing databases that often fail to provide comprehensive information on the full range of donor activities, and that are not always easy to use even by the technically astute. Given the cost of maintaining such systems, their usefulness is open to question. Moreover there is a great variety of systems in use that do not provide easily comparable information. At the same time there is a duplication of resources in terms of database set-up costs, management costs and maintenance costs that seems difficult to justify. It might be more useful to engage a small information unit that would access the various international databases that are publicly available, and support dedicated information management professionals provide a service to interested parties. It might also be useful to establish a joint database at a regional level to provide comprehensive information on all the enlargement countries. A single joint database might be more easily managed, as it would be able to mobilise sufficient resources taking advantage of economies of scale, while at the same time being more cost effective than multiple small databases at national level.

Concerning the institutional aspects of the donor coordination mechanisms in place, a number of proposals for improvement are set out in the conclusions. These recommend a more profound donor coordination that would be integrated into the proposed sector approach, which in turn is likely to inspire, motivate and indeed require a far greater degree of donor coordination than currently exists, and to replace the existing emphasis on information sharing by real joint programming and deeper, mutually reinforcing interaction with the beneficiary institutions.



## 5 DONOR INTERVENTIONS IN THE ENLARGEMENT COUNTRIES

This section sets out the national strategies of the beneficiaries, and identifies the distribution of donor interventions by sector for each of them. The analysis identifies the sector distribution and the donor distribution of international assistance to the Western Balkans and Turkey that took place between 2010 and 2012 (the latest years for which consistent data are available). We examine the sector distribution of international ODA assistance per year and by annual average. This enables us to rank the sectors within each beneficiary by the amount of assistance received, and gives an impression of the overall importance attached to each sector by the donor community in each beneficiary. It shows that, for example, the sectors that received the largest amount of ODA over these three years differed across countries. Of course, the results depend on the definition of the sectors, as different definitions will highlight different sectors or groups of sectors. We have tried to give a definition of sectors that meets various criteria as set out in Annex 10. However, for completeness we also provide an analysis by the latest version of the IPA II sectors<sup>45</sup>.

It should also be noted that the real impact of interventions does not necessarily correspond to the amount disbursed. In order to assess impact one would need “output” data (economic and social returns to a project) as well as “input” data (disbursements). However, as such output data are not available on a consistent basis (or even on an inconsistent basis), we are forced to rely on input data for our analysis of the flows in international assistance to countries and to sectors. In addition, the composition of the contributions differs across countries (and sectors) in the balance between concessional finance and grants, as shown above in Table 3.6. We should therefore stress that nothing that we say in this section reflects on the actual impact of the interventions carried out. Indeed, smaller financial contributions may have just as much of an impact in some sectors as do larger financial contributions in other sectors.

The analysis furthermore identifies the extent to which donors have adhered to the European Code of Conduct on Complementarity and the Division of Labour, according to which they should “concentrate the activities on a limited number of national sectors (focal sectors). EU donors should confine their assistance in a partner country to two sectors in which they offer the best comparative advantage, as recognised by the government of the partner country and the other donors. Apart from these two sectors, donors can provide budget support and finance programmes relating to civil society, research and education.” If donors are interested in additional sectors they should remain committed through a delegated partnership agreement, redeploy the resources becoming available into budget support, or exit from the sector in a responsible manner. In addition, there should be a maximum of three to five active donors for each sector to avoid overloading the beneficiary with too much red tape and administration. Finally, at least one donor should be actively involved in each sector considered relevant for poverty reduction. In addressing these issues, we analyse the distribution of net disbursements by donors across sectors. In this way we are able to identify the number of sectors in which each donor is active and the number of donors that are active in each sector.

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<sup>45</sup> As communicated to us by DG ELARG in July 2014.

## 5.1 Albania

Albania has weathered the effects of the economic crisis quite well over the past five years, being until recently the only country apart from Kosovo to have avoided dipping into negative growth. However, in 2013, public expenditure became excessive and public debt increased to unprecedented levels. The growth rate diminished and reportedly fell into negative territory in the third quarter of 2013. The new government that was elected in June 2013 has therefore been faced with a difficult economic environment, and has set a target to reduce the public debt from 70% to 50%, reducing the beneficiary demand for soft loans has decreased. One symptom of this, which is an issue at the regional level, is the current focus of the WBIF on bringing existing plans to fruition rather than issuing new loans.

From 2007 – 2013 Albania had a “National Strategy for Development and Integration” (NSDI) that set out its long-term vision and sector strategies<sup>46</sup>. Its targets are prioritised and its medium-term budget programme integrates activities with the budget process. The NSDI supported decentralised decision-making and was based on extensive public consultation with a wide range of stakeholders. Seven donors established a Trust Fund to set up an Integrated Planning System to monitor NSDI implementation, supported by annual progress reports. Bi-monthly donor meetings and sector working groups were established, but did not always function effectively and in some cases rarely met. Regular monitoring of the implementation of the NSDI ceased to function early in the implementation of the process, a factor that should be kept in mind in developing the new NSDI for 2014-2020 to ensure that monitoring becomes an essential element of the process in the future. The new NSDI is currently under development and should be completed by the end of 2014.

The donor coordination mechanism has been instrumental in enabling the NSDI to engage a variety of stakeholders linked to a long-term vision, and linking the budget to national priorities and sector development strategies. Furthermore, it is instrumental in monitoring the NSDI implementation, and enables donors to support the NSDI process. Also, the donor coordination mechanism provides an institutionalised channel for communicating the NSDI to the donors, guiding them in drafting and implementing their strategies and supporting a country-owned approach to development.

The Albanian NSDI prioritises six sectors, of which five are reflected in the sectors to which most donor assistance flows (see table 5-1 below). These are Energy, Environment, Public administration reform, and Private Sector Development. The donor community therefore aligns itself fairly closely to the national development priorities of the Albanian government.

**Table 5-1: Sectoral distribution of ODA, all donors, Albania, 2010-12 (€m)**

	2010	2011	2012	Annual average
Transport	42.3	63.7	71.8	59.3
Education	53.3	53.5	57.9	54.9
Environment	30.1	41.0	35.4	35.5
Energy	36.4	30.8	10.6	25.9

<sup>46</sup> Although the NSDI is now out-dated the new authorities have failed to provide a ratified, up-dated version of the already existing 2013-2020 draft. Indeed it has remained at the same stage of development over the past 9 months. A final version is now promised for the end of 2014.

Public administration reform	24.1	18.3	16.8	19.7
Justice and home affairs	12.3	20.5	23.4	18.7
Private sector development	21.8	5.8	17.2	15.0
Social policies	12.2	12.0	12.5	12.2
Agriculture and rural development	11.1	10.8	11.6	11.2
Multisector	12.3	9.0	9.8	10.4
Health	10.6	10.5	8.6	9.9
Other	4.8	4.2	14.2	7.7
Security and migration	5.4	3.4	3.5	4.1
Human rights and minorities	3.8	2.5	2.6	3.0
Public financial management	0.8	2.7	2.1	1.9
<b>Total</b>	<b>281.4</b>	<b>288.6</b>	<b>298.1</b>	<b>289.4</b>

Source: OECD Creditor Reporting System Stat Extracts. Sectors are adapted from DAC 5-digit codes to reflect IPA programming sectors (see Annex 10). Data includes ODA from both bilateral and multilateral donors, net disbursements at current prices. The results are based on an analysis of data on 2,917 disbursements.

Total flows of ODA have been rather stable over the period from 2010 to 2012, at an average of €289m per year, despite variations from individual donors. Exceptions were the rather sharp reduction in flows to the Energy sector in 2012 and an increase in flows to the Justice and Home Affairs (JHA) sector in 2011. The latter has responded to a perceived need in relation to property rights issues. The largest ODA flows have been directed to the Transport, Education, Environment, and Energy sectors.

Although the share of total flows going to Public Financial Management (PFM) has been one of the lowest, this sector is important for the effectiveness of international assistance, especially given the move to a sector approach and potentially to sector budget support. During the past seven years, the government of Albania has been committed to improving PFM and procurement systems. As a result, the reliability of Albania's PFM system has increased significantly. In particular, all ministries now engage in a medium-term budget programme process. A Department of Public Investment and Management has been established and improved public management procedures have been developed. A Public Expenditure and Financial Accountability (PEFA) assessment for Albania was concluded in January 2012<sup>47</sup>. The PFM sector is gaining increased attention following elections held in 2013. The World Bank has approved a US\$100m (€75m) Development Policy Loan to support PFM reform through sector budget support direct to the Treasury based on a set of performance targets. The IPA 2013 programme will also provide a project on PFM reform.

In 2010, Albania's procurement systems were used by only 11% of aid flows with an evident downward trend, although both Japan and Sweden have been exceptions in using Albania's procurement system. Some donors, such as the EU, are unable to use the procurement system as they are required to adhere to their own rules and regulations. Other donors, such as the World Bank have plans to implement usage of such systems. The main barrier has been that donors are not familiar with Albania's procurement system and have lacked trust in their effectiveness.

Improvements to procurement processes in Albania were made following the adoption of a public procurement law in 2007, authorising electronic procurement, increasing transparency

<sup>47</sup> PEFA Assessment Report <http://www.pefa.org/en/assessment/al-jan12-pfmp-public-en>

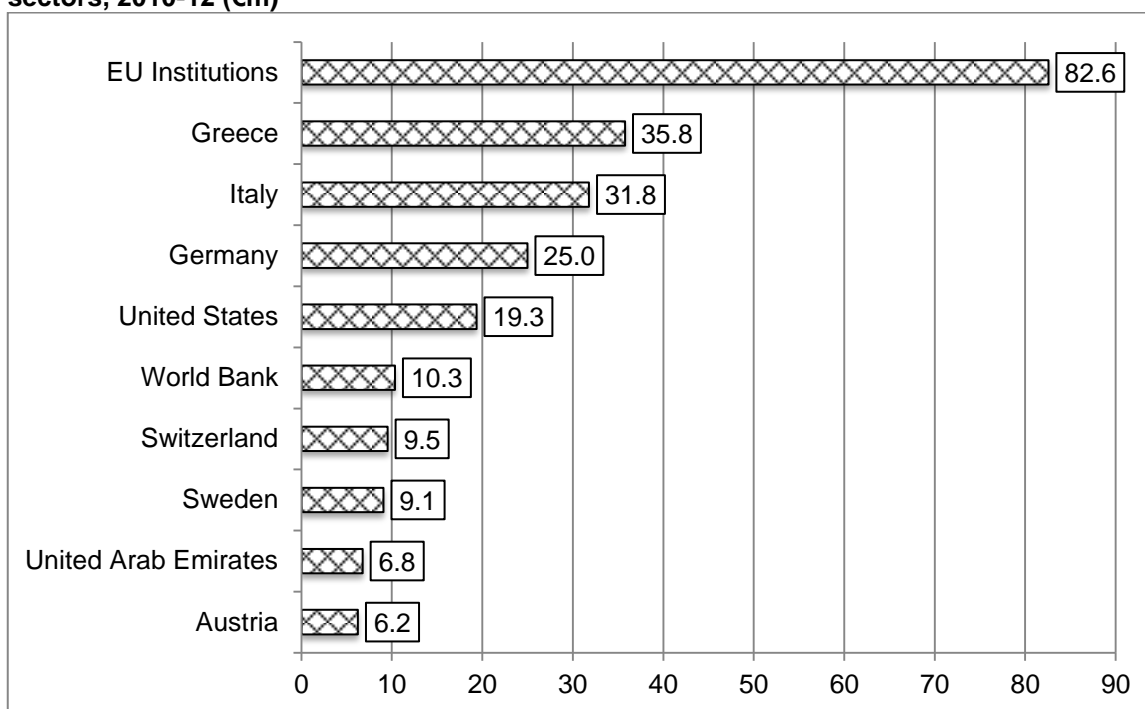
in procurement. Albania was the first country in the region to develop an obligatory electronic procurement system for all public sector procurements above a threshold of €3,000.

In recent years there has been an uncoordinated growth in investment projects that risk not being completed on time and add to public debt with little growth impact. Funds are often spread thinly across too many investment projects and there has been insufficient allocation of resources for maintenance, reducing the effectiveness of investment projects. More effective public financial management (PFM) is needed to prevent such overspending in the future. The PFM procedures often fail to prevent line ministries from overcommitting to investment projects, which can lead to abandoned infrastructure projects with the government unable to pay contractors. A political preference for new infrastructure, rather than for completing existing infrastructure projects, has led to examples of unfinished roads that have fallen into disrepair. More effective budgeting should therefore be put in place to ensure that the resources are available to maintain the new infrastructure. Albania needs a PFM reform to ensure better development planning. An example can be taken from the Environment sector, in which wastewater treatment plants financed by concessional loans have come under criticism from a number of sources. It seems there have been some investments in which inappropriately advanced technology has been used, with the result that several of these new plants lie idle as the municipalities cannot afford the running costs and maintenance costs. For this reason, one donor is designing a new wastewater treatment plant based on an older, more appropriate technology with minimal running costs and which is relatively easy to maintain.

Discussion of the sector approach has also become a priority, starting with the Environment sector. Until recently, the approach has not been successful as donors have not been willing to join the process and the Government of Albania has shown little interest or capacity to work with this coordinated approach. This appears to be changing with the impetus provided by a change of government, the new IPA II emphasis on the sector approach, and the support from donors such as the EU and Austria for the development of new sector strategies coordinated by the Prime Minister's Office.

Figure 5-1 shows the average distribution of disbursements of ODA assistance to Albania by donor organisation over the three years 2010-2012. The five largest donors were the EU Institutions, Greece, Italy, Germany and the USA. While the EU increased its disbursements, those of the three main bi-lateral donors decreased. Altogether, 37 donors were active in Albania, a feature of the donor landscape that justifies the large effort made in establishing a donor coordination system.

**Figure 5-1: Average annual net disbursements of ODA by top 10 donor organisation in Albania, all sectors, 2010-12 (€m)**



Source: OECD International aid statistics, QWIDS database. Data are converted to € using ECB reference exchange rates.

There is a concern among beneficiaries that disbursements by the EU Institutions and the World Bank tend to be rather slow in part due to the large number of safeguards and hurdles that are applied to project disbursements. Beneficiaries are also concerned that the bureaucratic nature of project formulation and disbursement under IPA is an obstacle to the effectiveness of interventions. This suggests that the emphasis of the IPA II Regulation on increased flexibility is appropriate.

**Table 5-2: Number of active sectors by main donor organisations in Albania, 2010-12**

	EU	EL	IT	DE	IDA	US	CH	SE
<b>Number of sectors per donor</b>	12	3	9	7	11	11	10	10
<b>Memo: Donor share in all ODA</b>	29%	12%	12%	11%	7%	7%	3%	3%

Source: OECD International aid statistics, Creditor Reporting System (CRS)

Table 5-2 shows the number of sectors in which each donor was active over period 2010-2012. Despite attempts at donor coordination, all donors were active in more than two sectors which goes against the 'focal point' principle of the Code of Conduct and suggest ample scope for rationalisation of activities, improved cost effectiveness and gains from specialisation. Donors have different levels of engagement across sectors. Greece focuses on the Education sector; Italy is very involved in Energy; Germany in Environment; the World Bank (IBRD) in Transport; the USA and Switzerland in Public Administration Reform; and Sweden in Justice and Home Affairs.

**Table 5-3: Main donors per sector, share of total disbursements and total number of active donors per sector, Albania, 2010-12**

Sector	Main donors (sector shares)	No. Active Donors (a)
Agriculture and rural development	EU (37%) IT (11%)	10
Education	EL (55%) DE (15%)	8
Energy	IT (49%) DE (22%) IDA (20%)	6
Environment	DE (37%) EU (31%)	10
General budget support	UAE (100%)	1
Health	IDA (22%) US (22%) JP (17%)	10
Human rights and minorities	EU (30%) SE (24%) US (19%)	8
JHA	EU (48%) US (18%) SE (11%)	7
Multisector	US (17%) OSCE (16%) EU (14%) IDA (14%)	10
Other	ADB (25%) IDA (16%) AT (13%)	12
PAR	EU (41%) US (22%) CH (12%)	9
PFM	EU (54%) IDA (19%) US (12%) SE (11%)	6
Private sector development	IT (46%) EU (16%) US (16%)	8
Security and migration	US (59%) EU (25%)	5
Social policies	EU (55%) SE (15%)	11
Transport	EU (54%) IT (12%)	7

Source: OECD International aid statistics, Creditor Reporting System (CRS). Note: (a) this column shows the number of donors contributing more than 1% of disbursed net ODA to a sector.

The donor landscape in Albania is fairly fragmented. There are only six sectors in which there is a lead donor providing more than 50% of the ODA amount (Education, PFM, Security and Migration, Social Policies and Transport). On the basis of amount disbursed (rather than administrative arrangements) Spain is the lead donor in Education, Italy is the lead donor in Energy and Private Sector Development (though with just under 50% of the disbursement in each sector); the EU institutions are lead donor in Transport, Social Policy, PFM and JHA (also with just less than 50% of disbursements to the latter sector); the USA is lead donor in Security and Migration. Considering the total number of active donors (providing at least 1% of a sector's total ODA disbursement from 2010-2012) all sectors have more than five donors, pointing a need for improved donor coordination and explaining the substantial efforts made by the Albanian government to install an elaborate donor coordination mechanism as explained above. This also suggests that there could be large gains in donor effectiveness if there were a consolidation of donor efforts in these sectors in accordance with the principle of appropriate support in strategic sectors set out in the EU Code of Conduct.

The Albanian government is making preparations to adopt a sector approach under IPA II and developing operational plans that are fully aligned with the budget. The Department for Strategy and Donor Coordination (DSDC) expects to use the existing structure of sector working groups. The sector approach requires a single framework aligned with the specific procedures of each donor. Some donors have signed a Memorandum of Understanding on donor coordination agreeing to use the country structures. Accreditation for decentralised management will be a strong signal to other donors to come on board. Sector budget support would also be useful to ensure ownership and alignment.



**Table 5-4: Distribution of ODA by IPA II sectors, all donors, Albania, 2010-12 (€m)**

Sector	Annual average	Proportion
Education, employment and social policies	77.0	26.6%
Transport	59.3	20.5%
Environment	35.5	12.3%
Energy	25.9	8.9%
Democracy and governance	25.7	8.9%
Rule of law and fundamental rights	21.7	7.5%
Competitiveness and innovation	15.0	5.2%
Agriculture and rural development	11.2	3.9%
Territorial cooperation and regional cooperation	10.4	3.6%
Other	7.7	2.7%
<b>Grand Total</b>	<b>289.4</b>	<b>100.0%</b>

Source: Table 5-1

Table 5-4 reproduces the data from Table 5-1 in accordance with the IPA II definition of sectors<sup>48</sup>. Looked at this way, the data reveal that the three main sectors in receipt of official development assistance in the period 2010-2012 were Education, Employment and Social Policies, Transport, and Environment, while Territorial and Regional Cooperation was relatively neglected. The contrast with the results presented in Table 5-1 indicates that the conclusions related to the sectoral allocation of assistance are quite sensitive to the definition of the sectors that is adopted, and indeed to the allocation of projects to sectors in the underlying OECD/DAC database.

Our interviews in Albania revealed significant additional obstacles to making the sector approach work. An important element in the success of the approach is an environment in which there is a history of collaboration, and that it may be difficult to install a sector wide approach in a sector where this has not been established. The key elements needed for success are data systems, information systems and monitoring, a strong government plan to which all actors can adhere, a clear strategy and an associated financing plan. At the same time, all donors should support the same results framework. Without these elements in place the system may be at a high risk of failure. It may be advisable to roll out the sector approach gradually in a pilot sector such as Transport or Water to identify potential problems of coordination and implementation.

## 5.2 Bosnia and Herzegovina

In Bosnia and Herzegovina a Country Development Strategy and complementary Social Inclusion Strategy (CDS/SIS) were completed in 2010, but never endorsed. In the absence of these, many donors seek to align their assistance to sector strategies, where they exist, although strategies are not in place for all sectors. Bosnia and Herzegovina has both a medium-term fiscal framework (MTFF) and a medium-term expenditure framework (MTEF). Neither of these is currently guided by the CDS, and they are reformulated annually.

The BiH development strategy prioritises eight sectors, only five of which appear among the top eight sectors by ODA disbursements over the period 2010-12 (Transport, Private Sector Development, Environment, Education, PAR) (see Table 5-5 below). The Labour Market and Social Inclusion sectors, which are included under the heading Social Policies, and Agriculture, are

<sup>48</sup> This list of sectors was provided to the authors by DG Enlargement.



given a relatively low priority by the donor community. This indicates that the BiH priority assessment has only been partially taken up by the donor community. This suggests that greater consideration should be given to aligning donor interventions with BiH's own strategic priorities.

**Table 5-5: Sectoral distribution of ODA, all donors, Bosnia and Herzegovina, 2010-12 (€m)**

	2010	2011	2012	Annual average
<b>Transport</b>	38.2	108.7	76.1	74.3
<b>Private sector development</b>	20.9	73.5	104.9	66.4
<b>Security and migration</b>	50.4	40.0	35.3	41.9
<b>Energy</b>	20.1	24.6	44.3	29.7
<b>Environment</b>	26.0	26.1	36.0	29.4
<b>Justice and home affairs</b>	27.2	26.0	31.3	28.2
<b>Education</b>	26.7	25.0	29.0	26.9
<b>Public administration reform</b>	27.9	26.5	23.5	25.9
<b>Health</b>	32.3	22.0	21.2	25.2
<b>Multisector</b>	23.0	33.0	18.6	24.9
<b>Social policies</b>	35.9	8.2	22.7	22.3
<b>Agriculture and rural development</b>	10.8	12.4	15.5	12.9
<b>Public financial management</b>	27.7	2.2	1.3	10.4
<b>Other</b>	5.9	11.6	6.4	8.0
<b>Human rights and minorities</b>	5.2	5.3	7.1	5.8
<b>General budget support</b>	1.3	1.7	1.1	1.4
<b>Total</b>	<b>379.4</b>	<b>446.8</b>	<b>474.2</b>	<b>433.5</b>

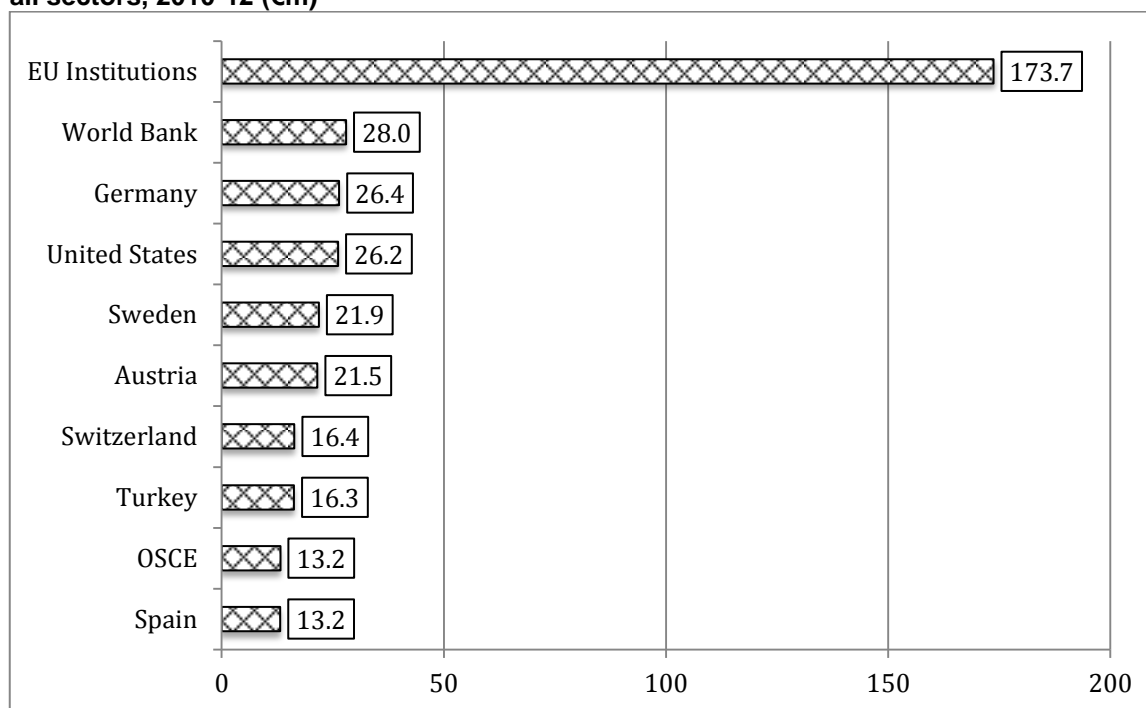
Source: OECD Creditor Reporting System Stat Extracts. Sectors are adapted from DAC 5-digit codes to reflect IPA programming sectors (see Annex 10). Data includes ODA from both bilateral and multilateral donors, net disbursements at current prices. The results are based on an analysis of data on 3,976 disbursements.

Table 5-5 shows that the largest amounts of ODA in Bosnia and Herzegovina from 2010-2012 went to the Transport sector and Private Sector Development. The third largest sector was Security and Migration covering security issues such as de-mining, post-war reconciliation, police reform. After the EU, Norway, Netherlands, Switzerland and Austria have been main donors in this sector. The donor effort in this sector has been declining, and there is opportunity for additional rationalisation of donor effort through the phased exit of smaller donors from the sector. Other sectors have attracted fairly similar level of donor assistance, including Energy, Environment, JHA, Education, PAR, Health, Multisector and Social policies, which suggests that there has been little attempt at prioritising individual sectors. Overall, donor assistance in Bosnia and Herzegovina could benefit from a stronger effort to prioritise specific developmental and accession related sectors in a more coherent and systematic way.

In recent years, the state, entity and cantonal levels of government have been implementing Public Financial Management (PFM) reforms. The goals of these reforms are to harmonise budgetary calendars and the technical planning processes, implement medium-term budgetary planning, and coordinate budgetary resources with economic and social policies. BiH seeks to ensure that programme-based budgeting represents information in such a way that budget resources are connected with the desired policy result. In 2010, about one half of aid flows used Bosnia and Herzegovina's PFM systems, most of which was supplied by the World Bank. Other donors made

little to no use of BiH PFM systems. The programme-based budgeting concept is still being piloted in both the state and the entities and as yet there is no legal requirement to introduce it. The existing public procurement strategy is close to expiration. A new law on public procurement was adopted at the end of April 2014.

**Figure 5-2: Average annual net disbursements of ODA by top 10 donors in Bosnia and Herzegovina, all sectors, 2010-12 (€m)**



Source: OECD International aid statistics, QWIDS database. Data are converted to € using ECB reference exchange rates.

Over the period 2010-2012, the largest donors in Bosnia and Herzegovina were the EU Institutions, the World Bank, the United States and Germany (see Figure 5-2). Although World Bank assistance fell quite sharply, net disbursements of ODA by the other three large donors increased by more. Other notable changes were a reduction in assistance from Austria and Spain. On the other hand, the Czech Republic entered as a donor for the first time in 2011. Altogether there were 34 donors in Bosnia and Herzegovina over these three years, a very large number of donors for a weak central administration to deal with.

**Table 5-6: Number of active sectors by main donor organisations in Bosnia and Herzegovina, 2010-12**

	EU	World Bank	US	DE	SE	AT	CH	ES
<b>Number of active sectors</b>	12	10	10	11	10	8	12	4
<b>Memo: Donor share in all ODA</b>	43%	10%	6%	6%	5%	4%	4%	3%

Source: OECD International aid statistics, Creditor Reporting System (CRS). Sectors are adapted from DAC 5-digit codes to reflect IPA Programming sectors (see Annex 10).

Several concentrations of donor activity were noticeable in Bosnia and Herzegovina per sector over the period 2010-2012 (See Appendix). The EU institutions focused their assistance on Transport and Private Sector Development; the World Bank was active in the Social Policy sector; the USA in JHA, Education and PAR; Germany in Education, the Environment, and Energy; Sweden in the Environment and PAR; Austria in Education; Switzerland on Security and Migration;

and Spain on Transport. There is little evidence of effective donor coordination in operation, as almost all donors with the exception of Spain were active in more than eight sectors, and some in as many as 12 sectors (see Table 5-6). There appears, on the basis of this evidence, to be ample room for consolidation and specialisation in the donor community in Bosnia and Herzegovina.

Table 5-7 shows the main sector focus of the main donors in Bosnia and Herzegovina in the period from 2010-2012, identified by the sectors in which more than 10% of their total net disbursements occurred.

**Table 5-7: Main donors per sector, share of total disbursements and total number of active donors per sector, Bosnia and Herzegovina, 2010-12**

Sector	Main donors (sector shares)	No. Active Donors (a)
Agriculture and rural development	EU (23%) World Bank (22%) US (21%)	12
Education	AT (41%) DE (29%) EU (12%)	10
Energy	EU (50%) World Bank (30%) DE (16%)	5
Environment	EU (29%) DE (20%) SE (15%) World Bank (13%)	8
General budget support	AT (97%)	2
Health	KO (51%) GF (24%)	8
Human rights and minorities	EU (35%) SE (30%)	10
JHA	US (30%) EU (21%) NO (12%) SE (11%)	11
Multisector	OSCE (50%) EU (27%)	8
Other	EU (25%) CH (20%) AT (17%) NL (13%)	9
PAR	EU (22%) US (18%) SE (17%)	11
PFM	World Bank (80%)	5
Private sector development	EU (82%)	6
Security and migration	EU (38%) NO (10%) NL (10%)	13
Social policies	World Bank (44%) EU (28%) SE (12%)	8
Transport	EU (75%) ES (17%)	3

Source: OECD International aid statistics, Creditor Reporting System (CRS). Sectors are adapted from DAC 5-digit codes to reflect IPA Programming sectors (see Annex 10). Note: (a) this column shows the number of donors contributing more than 1% of disbursed net ODA to a sector.

In Bosnia and Herzegovina there were seven sectors in which a lead donor contributed more than 50% of the total disbursements to the sector in 2010-12. These sectors were Energy, Health, PFM, Private Sector Development, Transport and Other and Multisector. The EU was the lead donor in Energy, Transport and Private Sector Development, and the World Bank in PFM. Several sectors did not have a dominant or lead donor, and fragmentation is evident in these. Three sectors have four large donors which each contributes more than 10% of the total donor disbursements to the sector (Environment, JHA and Other). In addition none of the sectors of Agriculture, Education, Human Rights and Minorities, Security and Migration and Social Policies had a lead donor. All of these sectors could benefit from consolidation of the donor effort. Considering the donor landscape as a whole, taking into account the donors who contributed at least 1% of the total disbursements to each sector, it can be seen that all but Transport had more than five donors. Some sectors had more than 10 active donors (Agriculture and Rural development, Education, Human Rights and Minorities, JHA, PAR and Security and Migration). The smaller donors should be encouraged to arrange a responsible and phased exit from these sectors, or delegate their resources and

responsibilities to one or other of the larger donors who would be willing to take on the administrative role of lead donor in these sectors.

**Table 5-8: Distribution of ODA by IPA II sectors, Bosnia and Herzegovina, 2010-12 (€m)**

Sector	Annual average 2010-2012	Proportion
Democracy and governance	78.2	18.0%
Education, employment and social policies	74.4	17.2%
Transport	74.3	17.1%
Competitiveness and innovation	66.4	15.3%
Rule of law and fundamental rights	34.0	7.8%
Energy	29.7	6.8%
Environment	29.4	6.8%
Territorial cooperation and regional cooperation	24.9	5.7%
Agriculture and rural development	12.9	3.0%
Other	9.4	2.2%
<b>Total</b>	<b>433.6</b>	<b>..</b>

Source: Table 5-5

Table 5-8 reproduces the data from Table 5-5 in accordance with the IPA II definition of sectors<sup>49</sup>. Looked at this way, the data reveal that the three main sectors in receipt of official development assistance in the period 2010-2012 were Democracy and Governance, Education, Employment and Social Policies and Transport, while Agriculture and Rural Development was relatively neglected. The contrast with the results presented in Table 5-1 indicates that the conclusions related to the sectoral allocation of assistance are quite sensitive to the definition of the sectors that is adopted and indeed to the allocation of projects to sectors in the underlying OECD/DAC database.

### 5.3 Kosovo

Kosovo is still in the initial stages of developing a national development strategy. The need for such a comprehensive NDS has been emphasised continuously by both Kosovo authorities and donors and, to address this challenge, a Strategic Planning Office of the Prime Minister has been established. A 'Kosovo Development Strategy Plan 2007-2013' was formulated in 2007, but had not been endorsed. The planning framework is currently made up of four elements, which the government is working to harmonise: the Medium-Term Expenditure Framework (MTEF), the European Partnership Action Plan (EPAP), the Economic Development Vision, and a range of sectoral strategies. The MTEF, established in 2007, is used as the main policy-planning document. It is primarily designed for planning with a limited-timeframe based on a sectoral approach that contains broad development objectives, yet obviously is not directly linked to a NDS. Since Kosovo has identified EU accession as its primary strategic priority, the EPAP is sometimes considered the government's main medium term planning document. However, it is an Action Plan concerned only with the specific requirements of accession and, while this overlaps with the development agenda in many ways, it omits a number of issues not covered by the EU acquis, e.g. a capital investment programme. Kosovo's new Economic Development Vision 2011-2014 focuses on improving economic performance. The Vision is seen as the last step before the adoption of a

<sup>49</sup> This list of sectors was provided to the authors by DG Enlargement.

comprehensive development strategy; its aims and objectives 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. It includes more than 180 concrete measures that should be translated into institutional, legislative and human resources changes during 2011-2014. The implementation 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. The multifaceted donor coordination architecture does not compensate for the authorities' failure to approve the Kosovo Development Strategy Plan 2007-2013, or for the still missing link between national priorities, several sectoral development strategies already formulated and the country's budget. Under the circumstances, the donor coordination structures already described contend to align external aid to the country's actual needs; but country ownership is far from accomplished.

Kosovo prioritises a remarkable 15 sectors in its national development plan (Investment and private sector development; Energy; Mining sector; Transport and Telecommunications; Agriculture and Rural Development; Foreign Policy and Economic Cooperation; Finance sector development; Rule of Law; Defence and Security; Public Administration reform; Human rights; Education; Diaspora policies; Health; Environment). Inevitably almost all of these appear in the list of donor sectors supported since it is such a wide list. The Kosovo government can hardly be said to engage in a rigorous process of prioritisation on this basis.

**Table 5-9: Sectoral distribution of ODA, all donors, Kosovo, 2010-12 (€m)**

	2010	2011	2012	Annual Average
<b>Security and migration</b>	182.7	202.5	60.2	148.5
<b>Justice and Home Affairs</b>	35.6	34.9	133.9	68.1
<b>Private sector development</b>	18.2	32.8	25.1	25.4
<b>Education</b>	22.9	24.1	26.5	24.5
<b>Public Administration Reform</b>	19.3	19.3	34.0	24.2
<b>Multisector</b>	22.2	20.3	22.2	21.6
<b>Environment</b>	12.2	20.4	27.6	20.1
<b>Agriculture and rural development</b>	10.2	14.2	22.4	15.6
<b>Energy</b>	13.1	13.9	19.4	15.5
<b>Public Finance Management</b>	25.7	8.6	10.7	15.0
<b>Other</b>	10.1	20.1	13.1	14.5
<b>Human rights and minorities</b>	12.2	13.3	13.1	12.9
<b>Social policies</b>	31.3	0.0	1.0	10.4

<b>Health</b>	11.0	11.8	8.3	7.2
<b>Transport</b>	7.9	6.1	7.7	2.7
<b>General budget support</b>	3.2	3.3	1.5	10.8
<b>Grand Total</b>	437.9	445.6	426.7	436.7

Source: OECD Creditor Reporting System Stat Extracts. Sectors are adapted from DAC 5-digit codes to reflect IPA programming sectors (see Annex 10). Data includes ODA from both bilateral and multilateral donors, net disbursements at current prices. The results are based on an analysis of 3,252 individual project disbursements.

From 2010-2012, donor activities in Kosovo were dominated by disbursements in the field of Security and Migration, possibly reflecting the costs of EULEX as well as ODA from Switzerland to support the International Civilian Office and KFOR<sup>50</sup>. Other main sectors supported were JHA and Private Sector Development; ODA flows to the JHA sector increased. Other sectors that experienced increased ODA inflows were PAR, Agriculture and Rural Development, Environment and Energy. Correspondingly, PFM, Social Policy, Health and Transport experienced declines.

The Sector Working Group on Rule of Law has been identified as an important part of the donor coordination mechanism.<sup>51</sup> The sector is led by EULEX, and sub-sector working groups are to focus on the judiciary, anticorruption and organised crime, visas, asylum, border management, customs and police. The first meeting of the Rule of Law Donor Coordination Sector Working Group was held in March 2010 at which all Kosovo institutions and representatives of the donor community formally agreed with the proposed sector structure for donor coordination.

The Ministry of European Integration has created Sector Working Groups for Economy/Trade and Industry Sector with sub-sectors for Privatisation and Public Private Partnerships (PPP), Competition and Internal Market, Private Sector Development and Small and Medium Size Enterprises, and Regional Economic Development. Kosovo institutions and representatives of the donor community have formally agreed the sector structure for donor coordination.<sup>52</sup>

In Kosovo, the World Bank's recent monitoring has revealed progress in reliable PFM systems since the start of its post-conflict reconstruction in 2007: "PFM performance has been strengthened across the three dimensions of the budget cycle (planning, execution, and accountability) and, "as acknowledged by various diagnostic assessments (PEFA, SIGMA, FRIDOM), the treasury system is sophisticated and functions well".<sup>53</sup> Indeed, following the 2009 PEFA self-assessment report, the Kosovo 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.

<sup>50</sup> It is not clear whether the disbursements to the Security and Migration sector are in practice allocated to EULEX and ICO. This is an assumption. If this assumption is correct the disbursements could perhaps be re-allocated to the Justice and Home Affairs sector

<sup>51</sup> MIPD Kosovo\* 2011-13, p. 14

<sup>52</sup> MIPD Kosovo\* 2011-13, p. 19

<sup>53</sup> The World Bank, "Public Financial Management Reforms in Post-Conflict Countries" p. 15, 78. [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/06/15/000356161\\_20120615033527/Rendered/PDF/699640WP0P1206070023B0PFM0Web0Final.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/06/15/000356161_20120615033527/Rendered/PDF/699640WP0P1206070023B0PFM0Web0Final.pdf)



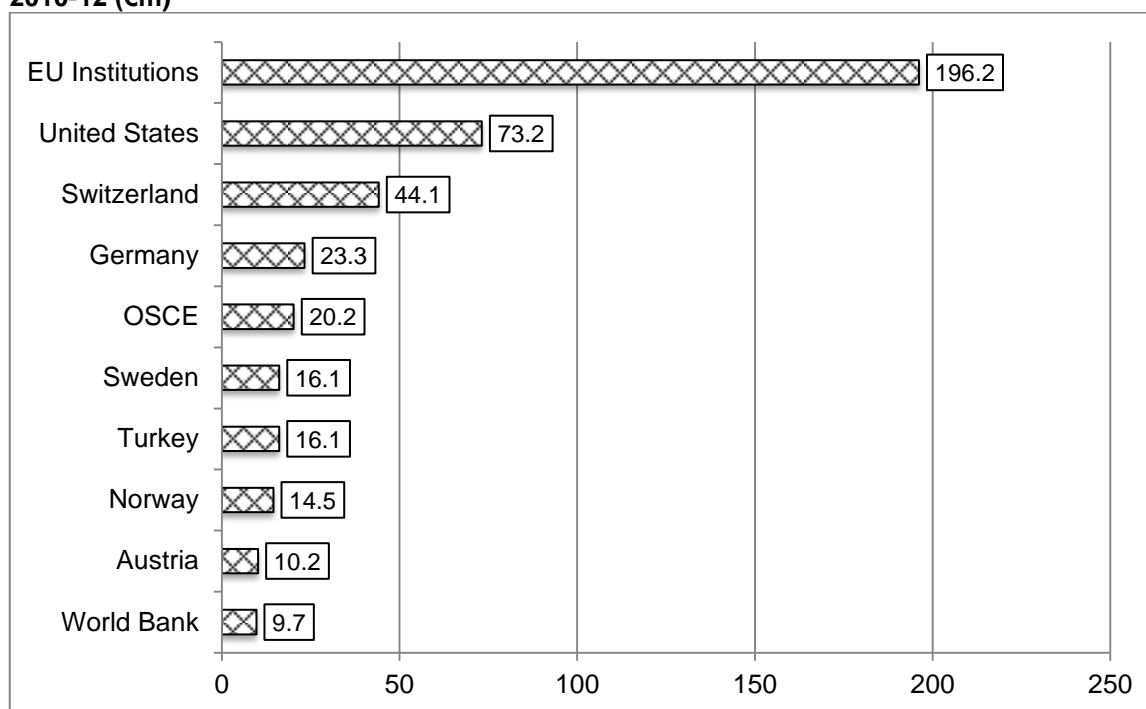
In Kosovo, a new law on Public Procurement was adopted in September 2011 to reform and improve the quality of the public procurement system, and bring it in line with EU standards. Secondary legislation also now needs to be reviewed to ensure it complies with the new law. In addition, remaining challenges include improving the legal framework in the field of concessions and strengthening the capacity of public procurement officers. Cooperation and coordination 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.

In 2010, one-fifth of aid to Kosovo used country PFM systems, an increase from just 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, 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 this has driven progress in alignment. However, payments of this type were suspended at the time of the monitoring exercise, pending Kosovo's continued participation in an IMF Stand-By Arrangement. For 2011, it was agreed that Kosovo would undertake a Staff Monitored Programme and eligibility for the Stand-By Arrangement would be reviewed in 2012. 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, it was expected that the improved coordination among donors and the government, as described in previous parts of this chapter, would increase the confidence in the country's PFM systems. The primary challenge however 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.

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. Increased use of public procurement systems by the major donors shows 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.



**Figure 5-3: Average annual net disbursements of ODA by top ten donors in Kosovo, all sectors, 2010-12 (€m)**



Source: OECD International aid statistics, QWIDS database. Data are converted to € using ECB reference exchange rates.

Apart from the EU, the USA and Switzerland are the major donors to Kosovo. Total ODA disbursements to Kosovo have been fairly stable over time. As explained above, donor involvement in the Security and Migration sector is an important feature of donor activity. Two of the largest projects supported by the USA have been State Department narcotics control programme, with a total value of US\$13.5 million (€10m).

**Table 5-10: Number of active sectors by main donor organisations in Kosovo, 2010-12**

	EU	US	CH	DE	OSCE	NO	SE	AT
<b>Number of active sectors</b>	16	14	13	13	4	11	10	10
<b>Memo: Donor share in all ODA</b>	45%	17%	10%	5%	5%	3%	2%	2%

Source: OECD International aid statistics, Creditor Reporting System (CRS). Sectors are adapted from DAC 5-digit codes to reflect IPA Programming sectors (see Annex 10).

Some significant donor specialisation can be seen in Kosovo. Considering those sectors in which donors have allocated more than one fifth of their budget over the period 2010-12, it can be seen that Austria, the EU Institutions, Switzerland and Sweden have focused their assistance on Security and Migration, possibly reflecting their support to EULEX and the ICO (see Annex 5). Norway and USA have specialised in JHA, OSCE has specialised on Human Rights and Minorities and Multisector activities, Norway has also specialised on PAR, and Austria and Norway have specialised on Education. Rather surprisingly, no donors specialised in Agriculture and Rural Development, Environment, Social Policies, Energy, Transport, PFM or Health, although Germany does have a lesser concentration in the Environment and Energy sectors<sup>54</sup>. This suggests that donors should give some more consideration to balancing and coordinating their areas of

<sup>54</sup> Although Germany has a formal focus on Education and Agriculture and Rural Development, this was not evident from the share of ODA disbursed to these sectors in 2010-2012.

specialisation. In addition, many donors spread out over the fields they cover with small interventions. Almost all the main donors listed in the Table above are involved in some way in more than 10 sectors. This contradicts the EU Code of Conduct, which recommends that donors should limit their involvement to at most two sectors, and delegate their activity to other lead donors in the respective sector.

**Table 5-11: Main donors per sector, share of total disbursements and total number of active donors per sector, Kosovo, 2010-12**

Sector	Main donors (sector shares)	No. Active Donors (a)
Agriculture and rural development	EU (50%) US (12%)	11
Education	US (18%) DE (15%) EU (13%) NO (13%) AT (12%)	16
Energy	US (37%) EU (22%) DE (20%) CH (16%)	7
Environment	EU (36%) DE (20%) US (14%)	10
Health	LU (29%) Global Fund (20%) EU (17%)	
Human rights and minorities	OSCE (48%) EU (28%)	9
JHA	EU (49%) US (32%)	9
Multisector	OSCE (47%) EU (19%) US (13%)	9
Other	EU (34%) UNHCR (20%) CH (14%) US (13%)	11
PAR	EU (29%) US (26%) NO (12%) UK (10%)	10
PFM	US (77%) EU (11%)	6
Private sector development	US (36%) EU (27%) DE (14%) World Bank (11%)	8
Security and migration	EU (64%) CH (21%)	8
Social policies	EU (41%) NO (15%)	15
Transport	EU (91%)	7

Source: OECD International aid statistics, Creditor Reporting System (CRS). Sectors are adapted from DAC 5-digit codes to reflect IPA Programming sectors (see Annex 10). Note: (a) this column shows the number of donors contributing more than 1% of disbursed net ODA to a sector.

In Kosovo there were four sectors in which a lead donor contributed at least 50% of the total disbursements to the sector in 2010-12. These sectors were Agriculture and Rural Development (EU), PFM (USA), Security and Migration (EU), and Transport (EU). Two sectors close to this benchmark were Human Rights and Minorities (OECD), JHA (EU) and Multisector (OSCE), and these could also be said to have a lead donor. In other sectors there is evidence of donor fragmentation; seven sectors had more than two donors contributing more than 10% each to the sector. Four sectors with a high level of donor fragmentation were Education, Energy, Public Administration Reform and Private Sector Development. These sectors could benefit from some rationalisation of the donor presence, with one or more of the larger donors agreeing to exit the sector and delegate funds and responsibilities to a lead donor. In addition there is evidence of a high level of redundancy in almost all sectors. This impression is based on the data presented in the right hand column of Table 5-11, which shows the number of active donors in each sector contributing at least 1% of the total funds to the sector. In the Social Policy sector there are 15 active donors, each contributing a small amount. Agriculture, Education, Environment and PAR all had more than ten active donors in the sector. This suggests that there is plenty of scope for rationalisation of the donor effort with responsible and phased exit from these sectors of a number of smaller donors.

**Table 5-12: Sectoral distribution of ODA by IPA II sectors, Kosovo, 2010-12 (€m)**

Sector	Annual average 2010-2012	Proportion
Democracy and governance	187.7	43.0%
Rule of law and fundamental rights	81.0	18.5%
Education, employment and social policies	42.1	9.6%
Competitiveness and innovation	25.4	5.8%
Other	25.3	5.8%
Territorial cooperation and regional cooperation	21.6	4.9%
Environment	20.1	4.6%
Agriculture and rural development	15.6	3.6%
Energy	15.5	3.5%
Transport	2.7	0.6%
<b>Total</b>	<b>437.0</b>	

Source: Table 5-9

Table 5-12 reproduces the data from Table 5-9 in accordance with the IPA II definition of sectors<sup>55</sup>. Looked at this way, the data reveal that the three main sectors of in receipt of official development assistance in the period 2010-2012 were Democracy and Governance, Rule of Law and Fundamental Rights, and Education, Employment and Social Policies, while Transport was relatively neglected. Analysis based on the Kosovo Donor Database

The results from an analysis of the Kosovo donor coordination database modelled on the World Bank Aid Management System are shown in Table 5-10. Although there are some differences in the detailed sector classification, the results are rather similar to those from the OECD donor database presented above. However, the total amounts of ODA support for the respective years are each far lower than the amounts recorded in the OECD database. The difference is a variation by a factor of 4.9 in 2010, 3.8 in 2011, and 3.5 in 2012. The Kosovo donor database therefore seems to be significantly under-reporting the actual state of affairs, although there is evidence of improvement over time.

**Table 5-13: Summary of ODA support by sector, 2010-ongoing (disbursements) (€m) from Kosovo donor coordination database**

	2010	2011	2012	Annual average
Democracy, Human Rights and Rule of Law	27.0	28.6	29.6	28.4
Employment and Social Policies	26.2	34.7	35.9	32.2
Energy, environment, climate change	14.7	35.5	36.6	28.9
PAR & PFM	14.7	21.2	30.5	22.1
Agriculture and Rural Development	12.1	20.7	14.8	15.9
SME and Private Sector Development	13.7	18.8	6.6	13.0
Security, migration	3.5	0.9	1.8	2.1
Unspecified	0.8	0.5	0.4	0.6
Other	0.2	1.3	0.9	0.8
Transport	5.5	1.4	1.5	2.8
<b>Grand Total</b>	<b>118.3</b>	<b>163.6</b>	<b>158.6</b>	<b>146.9</b>

<sup>55</sup> This list of sectors was provided to the authors by DG Enlargement.

Source: Calculated from Kosovo donor database

The reliability of such a database depends upon regular and systematic updating, and if this is not done the results are unlikely to be useful for the purpose of donor coordination. It may be more effective to use the already existing resource held and managed by the OECD and open to public access. It might be more cost effective to provide training to one or two specialists in administration and statistics to understand how to use the OECD database than to spend scarce resources creating customised donor databases in each beneficiary country. Nevertheless, much work has gone into creating the AMS donor database in Kosovo and there are signs that its coverage is improving.<sup>56</sup>

## 5.4 Montenegro

Montenegro prioritises six sectors in its national development plan (Science and Education; SMEs; Labour Market; Spatial Planning; Transport; Efficient Government)<sup>57</sup>. However only one of these appears in the list of top six sectors by value supported by the donor community (Public Administration Reform for Efficient Government). This suggests that the priorities of the donor community are only partly aligned with those of the government. This may reflect the incomplete donor coordination mechanism in place in Montenegro (see Annexes 7, 8 and 9).

**Table 5-14: Sectoral distribution of ODA, all donors, Montenegro, 2010-12 (€m)**

	2010	2011	2012	Annual Average
Environment	8.2	16.2	35.8	20.1
Private sector development	6.6	25.5	11.4	14.5
Public administration reform	4.6	4.6	8.1	5.8
Multisector	5.4	7.9	3.2	5.5
Energy	4.1	7.5	3.9	5.1
Justice and home affairs	4.0	3.7	4.6	4.1
Education	4.8	3.6	3.8	4.1
Transport	0.6	7.0	3.3	3.6
Agriculture and rural development	2.8	3.7	3.9	3.5
Other	2.8	3.4	3.6	3.3
Security and migration	2.5	2.6	1.5	2.2
Social policies	2.7	2.2	1.4	2.1
Health	1.7	2.2	1.1	1.7
Public finance management	1.0	0.4	0.7	0.7
Human rights and minorities	0.5	0.6	0.3	0.5
<b>Total</b>	<b>52.4</b>	<b>91.2</b>	<b>86.7</b>	<b>76.8</b>

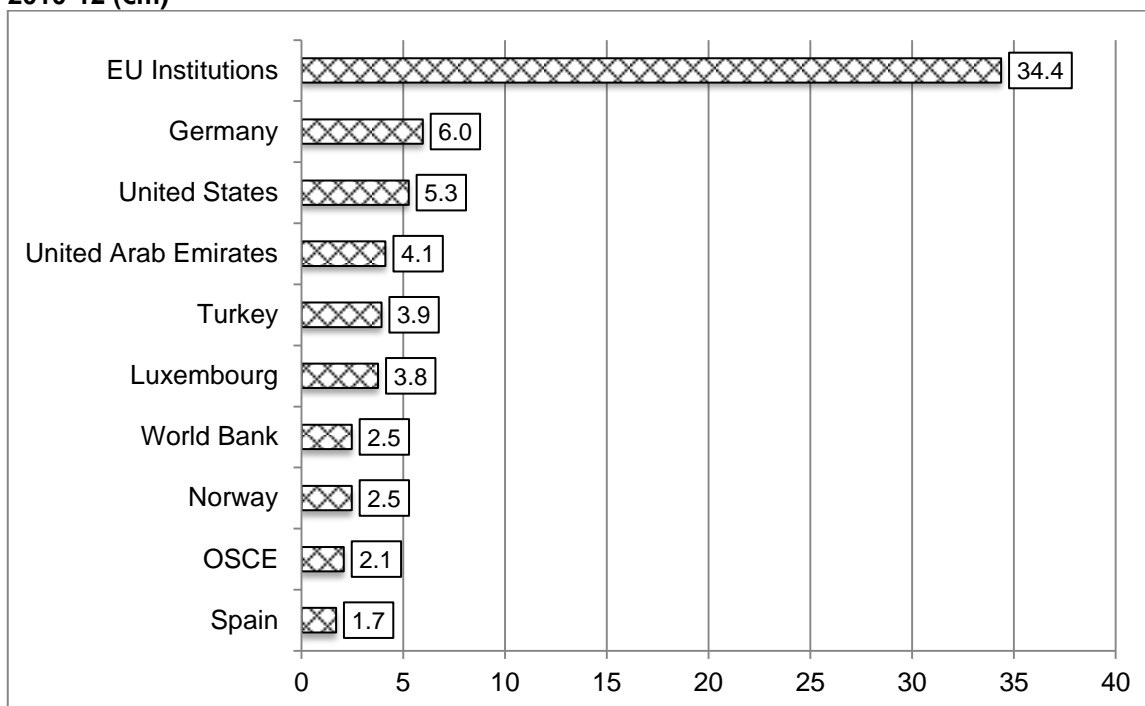
Source: OECD Creditor Reporting System Stat Extracts. Sectors are adapted from DAC 5-digit codes to reflect IPA programming sectors (see Annex 10). Data includes ODA from both bilateral and multilateral donors, net disbursements at current prices. The reported results are based on analysis of 1,537 individual projects.

<sup>56</sup> A complete discussion of the practicalities of the database is provided in Annexes 7 and 8, and an overall SWOT analysis of the databases in the region in Annex 9.

<sup>57</sup> The national development plan is called “Montenegrin Development Directions for 2013-2016”. It should be noted that there are additional referential documents targeting future donor assistance at the sector level.

In Montenegro, ODA disbursements have been largest in the Environment sector, Private sector Development and PAR. Overall, total ODA disbursements from all donors increased over the period from €52.4m in 2010 to €86.7m in 2012. The main trends have been a large increase in the disbursements to the Environment sector from €8.2m in 2010 to €35.8m in 2012 and there were substantial increases in disbursements to Private Sector Development, PAR and, from a much lower level, Transport.

**Figure 5-4: Average annual net disbursements of ODA by top ten donors in Montenegro, all sectors, 2010-12 (€m)**



Source: OECD International aid statistics, QWIDS database. Data are converted to € using ECB reference exchange rates.

Apart from the EU Institutions, the largest donors of ODA flows in Montenegro have been Germany and the United States. Luxembourg has also been a large donor, mainly with the intention of providing employment and living conditions for refugee returners from Luxembourg to Montenegro. Overall ODA doubled between 2010 and 2012. The EU made large increases in disbursements, while German contribution declined. Canada, the Netherlands and Belgium exited from Montenegro while Czech Republic and United Arab Emirates entered as new donors.

**Table 5-15: Number of active sectors by main donor organisations in Montenegro, 2010-12**

	EU	DE	US	LU	IDA	UAE
<b>Number of active sectors per donor</b>	14	8	7	10	3	2
<b>Memo: Donor share in all ODA</b>	46%	13%	7%	5%	4%	4%

Source: Creditor Reporting System. Sectors are adapted from DAC 5-digit codes to reflect IPA Programming sectors (see Annex 10). Data includes ODA from both bilateral and multilateral donors.

In Montenegro, EU, Germany and USA have each had a strong involvement in Private Sector Development. The Environment has also attracted several donors, with the strong involvement by the EU, Germany, the World Bank and the United Arab Emirates. Germany has also been very active in Energy, while the USA has been very active in PAR and JHA, Luxembourg in Agriculture and rural development and Education and “Other” (Luxembourg donated €1 million to Caritas for

its work in Montenegro). The World Bank has been very active in the Energy sector. Considering the focus of donor activity, apart from UAE each donor is active in more than two sectors, in contradiction of the focal sector principle of the Code of Conduct, which specifies that EU member States should be active in no more than two sectors in a country. Germany is active in eight sectors<sup>58</sup>, while Luxembourg is active in ten. Therefore, as in most other countries, there is plenty of scope for rationalisation and exit from sectors in which EU Member States do not have a comparative advantage and which could be best left to a smaller number of lead donors.

**Table 5-16: Main donors per sector, share of total disbursements and total number of active donors per sector, Montenegro, 2010-12**

Sector	Largest Donors per Sector	No. Active Donors (a)
Agriculture and rural development	EU (48%) LU (34%) DK (16%)	6
Education	EU (28%) LU (26%) DE (24%) AT (11%)	18
Energy	EU (36%) DE (33%) IDA (20%) NO (10%)	8
Environment	EU (38%) DE (22%) UAE (13%)	13
Health	GLOBAL FUND (60%)EU (23%)	11
Human rights and minorities	EU (55%) AT (10%)	9
JHA	OSCE (28%) US (27%) EU (16%) NO (14%)	14
Multisector	EU (49%) OSCE (16%) US (11%)	14
Other	UNHCR (35%)EU (21%) LU (18%)	15
PAR	EU (35%) US (18%) NO (14%) DE (10%)	16
PFM	EU (91%)	5
Private sector development	EU (72%) DE (13%) US (11%)	9
Security and migration	EU (32%) US (28%) SE (14%) NL (12%) NO (11%)	9
Social policies	EU (44%) IDA (21%)	12
Transport	EU (99%)	5

Source: Creditor Reporting System. Sectors are adapted from DAC 5-digit codes to reflect IPA Programming sectors (see Annex 10). Data includes ODA from both bilateral and multilateral donors. Note: (a) this column shows the number of donors contributing more than 1% of disbursed net ODA to a sector.

The proportion of disbursements to a sector provided by the largest donor reveals the extent of donor specialization. In Montenegro, there are only five sectors in which the largest donor contributes more than 50% of the total disbursements to the sector. These sectors could be said to have a sufficient concentration and specialization of effort by a lead donor. The other ten sectors have a more dispersed donor presence and there is a case for further consolidation of effort in these sectors (especially Education, Energy, Environment, JHA, PAR and Security and Migration). Considering the whole donor landscape, most sectors have attracted the interest of many donors and every sector has more than five active donors that contribute at least 1% of the total ODA resources to the sector. Eight sectors have more than 10 active donors and hence lack a division of labour. This is further evidence that there is considerable scope for rationalization of the donor effort in order to reduce transactions cost on the beneficiaries and maximize the benefits of specialization. Smaller donors should consider a responsible and phased exit from sectors in

<sup>58</sup> Although new funding for German bilateral financial cooperation is restricted to only one sector, Energy.



which their contribution is relatively insignificant, or delegate their funds to the lead donor in the sector for more effective management.

**Table 5-14: Distribution of ODA by IPA II Sector, Montenegro, 2010-12 (€m)**

Sector	Annual average 2010-2012	Proportion
Environment	20.1	26.2%
Competitiveness and innovation	14.5	18.9%
Democracy and governance	8.7	11.3%
Education, employment and social policies	7.9	10.3%
Territorial cooperation and regional cooperation	5.5	7.2%
Energy	5.1	6.6%
Rule of law and fundamental rights	4.6	6.0%
Transport	3.6	4.7%
Agriculture and rural development	3.5	4.6%
Other	3.3	4.3%
<b>Total</b>	<b>76.8</b>	<b>100.0%</b>

Source: Table 5-18. Note: for sector definitions see Annex 10

Table 5-21 reproduces the data from Table 5-18 in accordance with the IPA II definition of sectors<sup>59</sup>. Looked at this way, the data reveal that the three main sectors in receipt of official development assistance in the period 2010-2012 were Environment, Competitiveness and innovation, and Democracy and Governance, while Agriculture and Rural Development was relatively neglected.

## 5.5 Serbia

Development Strategies enable the Government to determine the conditions in a certain area as well as the measures to be taken for its development. The Rules of Procedure, although they specify certain procedural aspects of proposing a Development Strategy, do not set any quality standards for such documents. Consequently, line ministries draft and propose Strategies without any central priority setting, resulting in a situation where everything is a priority, as each sector pushes for its own interests through various strategic documents. Furthermore, the contents, quality and timeframes of different Development Strategies vary across the system. Finally, coherence of policy directions of various strategies is not ensured from a central point<sup>60</sup>.

The EU Delegation carried out an evaluation in all sectors of all international assistance in 2013 and an overall evaluation of all sectors was funded by SIDA. The studies revealed the need for more coordination and different sustainability issues in each sector. It made proposals for indicators and possibilities how to measure the indicators which has helped with the country programming documents. EU Delegation has adopted the sector approach since 2013 and has developed sector project fiches where all projects are gathered within each sector. However, the financial agreement with Serbia for 2013 has not been signed yet, although decentralized

<sup>59</sup> This list of sectors was provided to the authors by DG Enlargement.

<sup>60</sup> Source: GIZ Project "Support to the EU Integration Process in Serbia", Study "Policy making and EU accession negotiations, Getting results for Serbia", produced by European Policy Centre Serbia, 2013

management has been adopted for Serbia, as with Montenegro, The former Yugoslav Republic of Macedonia and Turkey. However the DIS needs more staff to ensure its effective operation.<sup>61</sup>

**Table 5-18: Sectoral distribution of net ODA disbursements, all donors, Serbia, 2010-12 (€m)**

	2010	2011	2012	Annual Average
<b>Private sector development</b>	87.3	651.2	475.1	404.5
<b>Transport</b>	20.3	147.7	110.1	92.7
<b>Energy</b>	90.3	55.1	51.3	65.6
<b>Multisector</b>	14.1	48.0	72.6	44.9
<b>Justice and home affairs</b>	36.1	40.4	37.6	38.0
<b>Public administration reform</b>	33.4	31.6	35.3	33.5
<b>General budget support</b>	66.2	0.0	0.1	33.2
<b>Environment</b>	25.9	21.5	36.7	28.0
<b>Education</b>	19.0	24.8	17.4	20.4
<b>Other</b>	8.2	30.3	13.7	17.4
<b>Social policies</b>	10.3	22.5	17.5	16.7
<b>Health</b>	10.2	15.4	20.4	15.3
<b>Agriculture and rural development</b>	12.8	12.4	14.6	13.2
<b>Human rights and minorities</b>	7.1	11.4	8.3	8.9
<b>Security and migration</b>	4.0	13.3	9.4	8.9
<b>Public finance management</b>	5.9	4.6	6.2	5.6
<b>Total</b>	<b>451.2</b>	<b>1,130.0</b>	<b>926.2</b>	<b>835.8</b>

Source: OECD Creditor Reporting System Stat Extracts. Sectors are adapted from DAC 5-digit codes to reflect IPA Programming sectors (see Annex 10). Data includes ODA from both bilateral and multilateral donors, net disbursements at current prices. The reported results are based on analysis of 3,000 individual project disbursements.

Total disbursements from donors have been rather stable over time. The largest sectors in receipt of international assistance flows have been PAR & PFM, Transport, Private Sector Development and Energy and Environment.

**Table 5-19: Average annual net disbursements by IPA II sectors, Serbia, 2010-2012, €m**

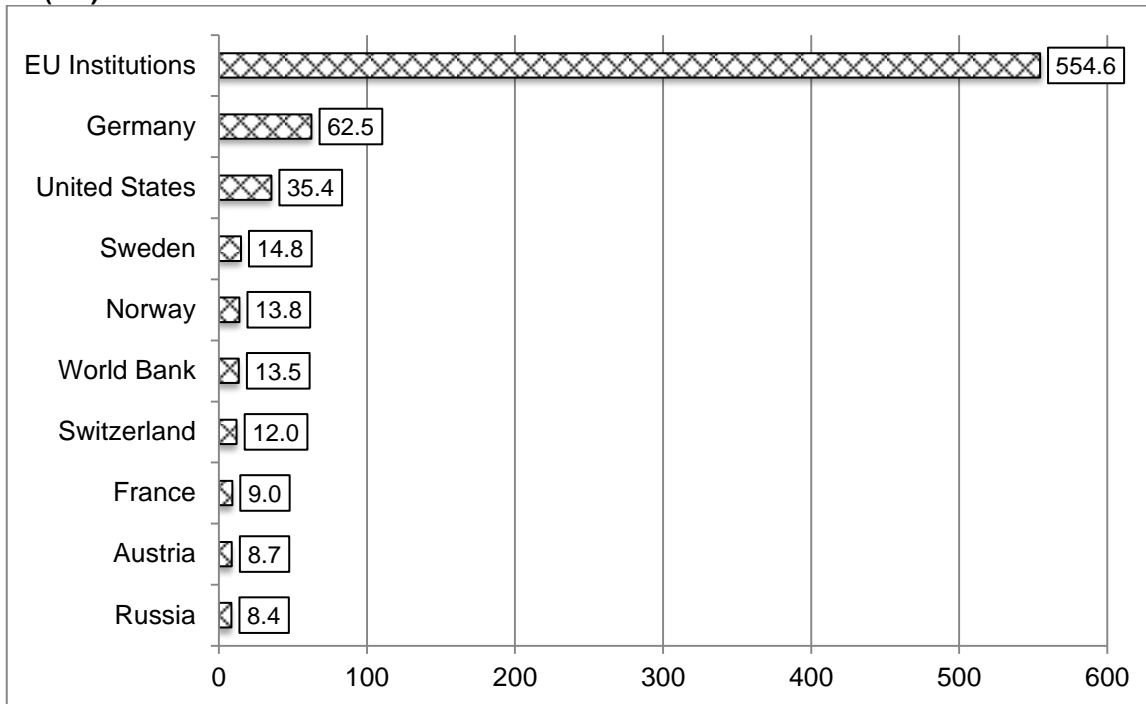
Sector	Average annual disbursement	Share
<b>Competitiveness and innovation</b>	404.5	47.8%
<b>Transport</b>	92.7	10.9%
<b>Energy</b>	65.6	7.7%
<b>Education, employment and social policies</b>	52.5	6.2%
<b>Other</b>	50.6	6.0%
<b>Democracy and governance</b>	47.9	5.7%
<b>Rule of law and fundamental rights</b>	46.9	5.5%
<b>Territorial cooperation and regional cooperation</b>	44.9	5.3%
<b>Environment</b>	28.0	3.3%
<b>Agriculture and rural development</b>	13.2	1.6%

Source: Table 5-22

<sup>61</sup> Interview, EU Delegation, Belgrade, 21/2/2014

The data can also be viewed through the lense of a more restricted definition of sectors that have been defined within IPA II. This is shown in Table 5-23, which reveals that the main sectors of donor activity in the period 2010-2012 were Competitiveness and Innovation, Transport, and Energy, while Agriculture and Rural Development was relatively neglected

**Figure 5-5: Average annual net disbursements of ODA by top ten donors in Serbia, all sectors, 2011-12 (€m)**



Source: OECD International aid statistics, QWIDS database. Data are converted to € using ECB reference exchange rates.

Serbia appears to have received large disbursements of ODA from EU exceeding half a billion euros annually over the three years from 2010-2012. Other large donors have been Germany, USA, Sweden, and Norway. Among bilateral donors, the largest was Germany, which contributed a large equity investment through BMZ to the Serbian Municipal Infrastructure Development Fund.

The IFIs have also been very involved in Serbia, especially the EIB in relation to a €500m loan for development of the FIAT car production factory in Kragujevac, a large part of which was in the form of concessional development assistance.

Unlike other countries in the region, Serbia has received large donations from Azerbaijan (AZ), China (CN) and Russia (RU). Inflows from these countries have been rather irregular and lumpy. Russia provided €155m in 2010 and €130m in 2013. The largest inflow from China was in 2012 with an amount of €117m. Assistance from Azerbaijan has increased to substantial amounts only in 2012 and 2013. German assistance appears to have increased in 2013 and Russian inflows to have ceased after a large amount of financial inflow in 2010. This apparent volatility points more towards inconsistencies and unreliability of the ISDACON database than to real fluctuations in the financial flows.

In May 2014, the heaviest rainfall in more than a century caused rivers in Bosnia, Serbia and Croatia to burst their banks, sweeping away roads, bridges and homes. The estimated damage amounted to almost €2 billion in Bosnia and Herzegovina and €1.5 billion in Serbia. A conference of international donors that took place in July 2014 pledged more than €1.8 billion to help Bosnia

and Serbia recover from devastating floods in May. The conference mobilised pledges of €809m for Bosnia and Herzegovina and €995m for Serbia, plus €41m for cross-border activities. The financial aid will be used for rebuilding houses and public buildings, the rapid restoration of water and energy supplies and urgent assistance for those still without proper shelter. In addition, the assistance will be used for flood management, disaster protection and rebuilding transport and energy infrastructure and will be administered with EU support. Dykes and dams will be rebuilt and upgraded according to international standards. The European Commission will call a regional meeting in the autumn to help development of a regional flood response strategy. Russia has provided €35m in assistance in the form of a direct grant to Serbia, while it has been reported in the Serbian press that the assistance mobilised at the donor conference was largely in the form of loans and only €30m in the form of grants. This is an example of the way in which donor assistance is sometimes used by the media to sway public opinion in favour of particular donor countries.

It is apparent that the donor landscape in Serbia is unlike other countries of the region due to the presence of new donors from Azerbaijan, China and Russia. The presence of Azerbaijan and Russia can easily be attributed to the agreement over the construction of the Southern Stream pipeline in the case of Russia and the encroachment of Gazprom into the Serbian energy market. The presence of Azerbaijan is a little harder to fathom, given that the South Corridor gas pipeline to be constructed by the TAP consortium will pass through Albania rather than through Serbia. Nevertheless the data point to a strong geo-political competition in the region over the routing and ownership of the new gas supply infrastructure. This issue is further discussed below.

**Table 5-20: Number of active sectors by main donor organisations in Serbia, 2010-13 (% of total donor disbursement)**

Sector	EIB	EU	WB	RU	EBRD	DE	CN	AZ	US
Number of active sectors per donor	5	9	6	1	2	6	3	1	5
<i>Memo: Donor share in all ODA reported to ISDACON</i>	25%	24%	11%	9%	8%	7%	4%	2%	2%

Source: ISDACON database: Note, data includes disbursements of both ODA and OOF

The data in Table 5-24 is derived from the ISDACON donor database maintained by the Serbian government European integration office, SEIO. The Table shows that two donors, Russia and Azerbaijan, specialise in a single sector: PAR & PFM and Transport respectively. Russia's intervention in the area of Public Financial Management is a state credit to support the budget deficit of the Serbian government. China contributes in three sectors: PAR & PFM, Transport and Energy and the environment. The EBRD provides loans for infrastructure development in the Transport, Energy and Environment sectors. Unlike other countries it appears from this data that there is a high degree of donor specialisation in Serbia. This suggests that the new donors from the oil states and China are not competitive with EU assistance except in very narrow specialised fields, linked quite likely to the geopolitics of gas distribution and other energy and transport infrastructure investments in the region. Other donors (EU, World Bank, Germany and USA) each cover five or more sectors. This contradicts the "focal point" principle of the European Code of Conduct, which recommends that each donor should cover no more than two sectors. The question arises whether the EU should also specialise in this way, or cover all sectors that are relevant to the process of accession.

## 5.6 The former Yugoslav Republic of Macedonia

The former Yugoslav Republic of Macedonia prioritises five sectors in its national development plan (Business Environment, Competitiveness and Innovation, Human Capital, Agriculture, Environment). Four of these appear in the list of top four sectors by value supported by the donor community (Private sector development for both “Business Environment” and Competitiveness and Innovation”, Education for “Human Capital”, and Environment). This suggests that the priorities of the donor community are fairly well aligned with those of the government.

**Table 5-21: Sectoral distribution of ODA, all donors, The former Yugoslav Republic of Macedonia, 2010-12 (€m)**

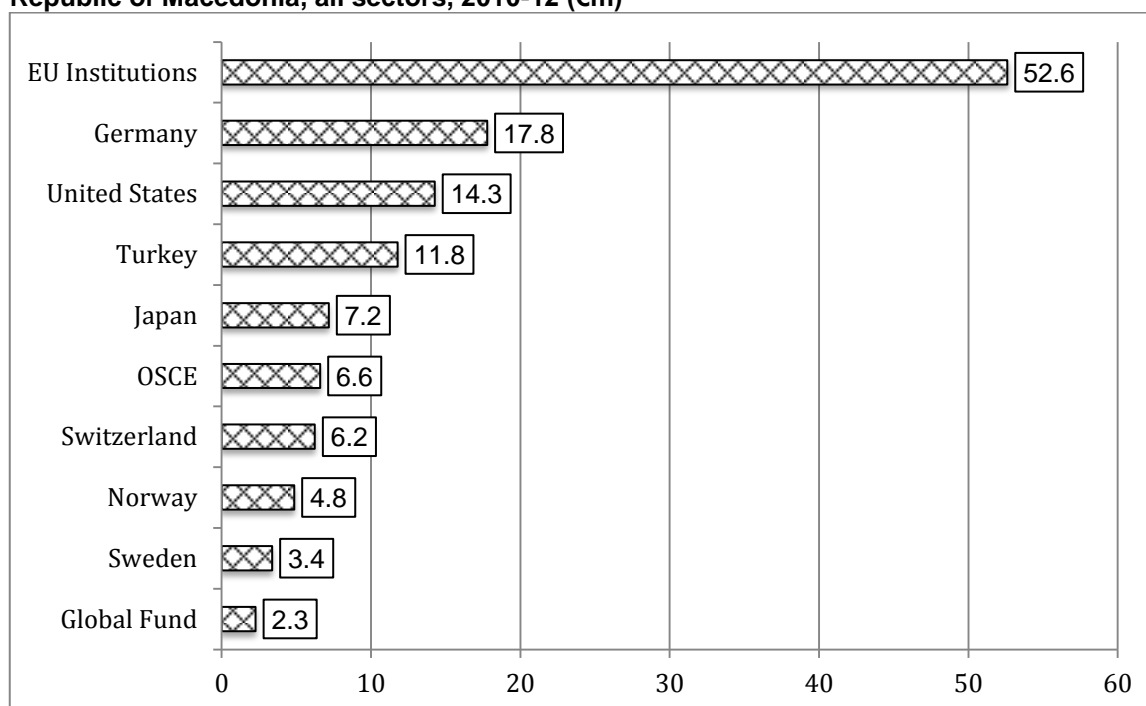
Source: Creditor Reporting System. Sectors are adapted from DAC 5-digit codes to reflect IPA programming sectors

	2010	2011	2012	Annual average
Private sector development	8.2	49.3	32.1	29.8
Multisector	26.7	25.9	32.2	28.2
Environment	31.1	14.7	16.0	20.6
Education	16.0	11.3	12.7	13.3
Public administration reform	12.0	14.2	8.7	11.6
Justice and home affairs	12.4	10.2	9.1	10.6
Agriculture and rural development	7.7	11.3	4.7	7.9
Energy	1.5	2.5	18.7	7.6
Social policies	2.7	7.9	4.1	4.9
Health	3.2	5.5	1.7	3.5
Other	1.1	3.5	3.6	2.7
Security and migration	1.5	4.1	1.4	2.3
Human rights and minorities	1.9	2.7	1.6	2.0
Public finance management	1.2	0.7	1.0	1.0
Transport	0.6	0.7	1.1	0.8
<b>Total</b>	<b>127.6</b>	<b>164.3</b>	<b>148.7</b>	<b>146.9</b>

(see Annex 10). Data includes ODA from both bilateral and multilateral donors. The reported results are based on analysis of 2,329 individual project disbursements

In the former Yugoslav Republic of Macedonia, the three largest sectors for ODA flows have been Private Sector Development, Multisector projects and Government and Civil Society. Transport has had surprisingly small amounts of assistance compared to other countries in the region. The main trends have been a large increase in the flow of ODA to Private Sector Development, which has increased from €8.2m in 2010 to €32.1m in 2012. Energy has also seen a large increase from €1.5m to €18.7m over the same period. ODA flows in the environment sector have fallen by 50 per cent, while substantial reductions occurred in disbursements to Government and Civil Society and Education.

**Figure 5-6: Average annual net disbursements of ODA by top ten donors in The former Yugoslav Republic of Macedonia, all sectors, 2010-12 (€m)**



Source: OECD International aid statistics, QWIDS database. Data are converted to € using ECB reference exchange rates.

The largest donors in the former Yugoslav Republic of Macedonia are the EU institutions, Germany, United States, and Japan. Disbursements from the EU and Germany increased between 2010 and 2012 while those of USA and Japan fell.<sup>62</sup>

**Table 5-22: Number of sectors in which main donors are active, The former Yugoslav Republic of Macedonia, 2010-12**

	EU	DE	US	JP	OSCE	CH	NO	SE
<b>Number of active sectors per donor</b>	12	7	8	5	2	6	9	9
<b>Memo: Donor share in all ODA</b>	46%	12%	10%	8%	4%	4%	3%	2%

Source: OECD international aid statistics, Creditor Reporting System

The distribution of donor effort in the former Yugoslav Republic of Macedonia shows little evidence of specialisation or division of labour. Most of the top donors are active in more than two sectors with the exception of OSCE, which is active in JHA and Multisector activities the Global Fund, which has a focus on the health sector. This dispersion of activity is out of line with the “focal sectors” principle of the EU Code of Conduct for donor specialisation in no more than two sectors of activity. Donors do tend to specialise to some extent in having a sector of main focus defined as a sector to which a donor allocates one fifth or more of its disbursements. For example, the EU Institutions put a large proportion of their activity in Private Sector Development and Multisector

<sup>62</sup> According to OECD/DAC database the net disbursements to The former Yugoslav Republic of Macedonia from the World Bank (IDA) were negative in 2010-2102. In 2010 they amounted to -US\$8.2m, in 2011 -US\$0.9m and in 2012 -US\$11.4m. The disbursements through IBRD are not recorded. According to data available on the World Bank website, net disbursements from IDA and IBRD were €38.0m in 2010, US\$27.0m and in 2011 and US\$6.6m in 2012, converted from US\$ at ECB exchange rates.



activities; Germany is very active in Private Sector Development and Education; USA is very active in Private Sector Development, JHA and Multisector; Japan is very active in the Environment sector (where as much as 86% of its assistance goes); Switzerland is very active in PAR and the Environment sectors; Norway is very active in PAR. Overall, the evidence shows great scope for further specialisation and improved efficiency of donor effort by donors responsibly exiting from those sectors in which they are too widely spread and make only a marginal contribution.

There is a strong donor interest in Private Sector Development in the former Yugoslav Republic of Macedonia with a concentration of effort in that sector. This is coincident with a strong private market economy orientation of the government, which has a relatively low share of public expenditure in GDP and has been actively pursuing a policy of attracting foreign direct investment by setting up a number of tax-free industrial zones throughout the country. These have succeeded in attracting a certain amount of foreign direct investment, which have created a significant number of new jobs. The former Yugoslav Republic of Macedonia is the only country in the Western Balkans where the unemployment rate has actually fallen throughout the economic crisis, albeit from a very high level. Other sectors that have attracted donor effort are Education, Environment and Energy. Sweden has been almost alone in promoting activity in the Social sector (including employment). Neglected sectors have been Security and Migration, Human Rights and Minorities, PFM, Health and Other sectors.

Table 5-16 shows the sector focus of the main donors, identified by the donors who contribute more than 10% of total disbursements to the sector in question. For each sector the main donors are shown and in brackets the share of the total disbursements to the sector accounted for by the donor in question. The Table also shows the total number of donors active in each sector, defined as those who contribute at least 1% of their total disbursements to the sector.

**Table 5-23: Main donors per sector, share of total disbursements and total number of active donors per sector, The former Yugoslav Republic of Macedonia, 2010-12**

Sector	Main donors (share of sector)	Active donors (a)
<b>Agriculture and Rural Dev.</b>	EU (71%) SE (15%)	5
<b>Education</b>	DE (29%) US (19%) EU (13%) AT (13%)	11
<b>Energy</b>	DE (81%)	5
<b>Environment</b>	JP (47%) EU (15%) CH (11%)	8
<b>Health</b>	GF (65%)	9
<b>Human Rights and Minorities</b>	EU (57%) NL (23%)	9
<b>JHA</b>	OSCE (29%) US (27%) EU (17%) DE (14%)	7
<b>Multisector</b>	EU (72%) OSCE (12%)	4
<b>Other</b>	UNHCR (22%) CH (20%) FR (20%) EU (18%)	9
<b>PAR</b>	EU (46%) CH (23%)	8
<b>PFM</b>	EU (87%)	6
<b>Private Sector Development</b>	EU (70%) US (15%) DE (12%)	4
<b>Security and Migration</b>	EU (52%) US (18%) NO (10%)	8
<b>Social policies</b>	EU (58%)	9
<b>Transport</b>	EU (86%)	3

Source: OECD International aid statistics, Creditor Reporting System (CRS). Sectors are adapted from DAC 5-digit codes to reflect IPA Programming sectors (see Annex 10). The results are based on an analysis of 3,976 individual projects. Note: (a) this column shows the number of donors contributing more than 1% of disbursed net ODA to a sector.

The proportion of disbursements to a sector that are provided by the largest donor reveals the extent of donor specialization. There are ten sectors in which the largest donor contributes more than 50% of the total disbursements to the sector. These sectors could be said to have a sufficient concentration and specialization of effort by a lead donor. The other five sectors have a more dispersed donor presence, lacking a division of labour, and there is a case for further consolidation of effort in these sectors (especially Education, JHA and PAR). Considering the whole donor landscape, most sectors have attracted the interest of many donors and ten sectors have more than five active donors who contribute at least 1% of the total ODA resources going to the sector. This is further evidence that there is considerable scope for rationalization of the donor effort in order to reduce transactions cost on the beneficiaries and maximize the benefits of specialization. Smaller donors should consider a responsible and phased exit from sectors in which their contribution is relatively insignificant, or delegate their funds to the lead donor in the sector for more effective management.

**Table 5-24: Distribution of ODA by IPA II sectors, The former Yugoslav Republic of Macedonia, 2010-12 (€m)**

Sector	Annual average 2010-2012	Proportion
Competitiveness and innovation	29.8	20.3%
Territorial cooperation and regional cooperation	28.2	19.2%
Education, employment and social policies	21.7	14.8%
Environment	20.6	14.0%
Democracy and governance	14.9	10.1%
Rule of law and fundamental rights	12.6	8.6%
Agriculture and rural development	7.9	5.4%
Energy	7.6	5.2%
Other	2.7	1.8%
Transport	0.8	0.5%
<b>Grand Total</b>	<b>146.8</b>	<b>100.0%</b>

Source: Table 5-14

Table 5-17 reproduces the data from Table 5-14 in accordance with the IPA II definition of sectors<sup>63</sup>. Looked at this way, the data reveal that the three main sectors of in receipt of official development assistance in the period 2010-2012 were Competitiveness and innovation, Territorial cooperation and regional cooperation, and Education, employment and social policies, while Transport was relatively neglected.

## 5.7 Turkey

The government of Turkey prioritises five sectors in its national development plan (Competitiveness, Employment, Human development and Social solidarity, Regional development, Quality and effectiveness of public services). However only one of these is reflected in the top five sectors funded by the donor community in Turkey (Education, reflecting Human Development) (see table 5-20 below). This suggests that the donors are not at all closely aligned to the set of national strategic priorities set out by the government.

<sup>63</sup> This list of sectors was provided to the authors by DG Enlargement.

**Table 5-15: Sectoral distribution of ODA, all donors, Turkey, 2010-12 (€m)**

	2010	2011	2012	Annual Average
<b>Private sector development</b>	25.0	615.1	1,230.9	623.7
<b>Transport</b>	501.0	556.9	777.3	611.7
<b>Energy</b>	14.7	543.9	220.8	259.8
<b>Environment</b>	183.8	228.8	134.0	182.2
<b>Multisector</b>	135.2	195.3	143.6	158.0
<b>Education</b>	91.4	94.4	108.2	98.0
<b>Agriculture and rural development</b>	2.6	232.4	3.8	79.6
<b>Other</b>	24.6	74.1	35.9	44.9
<b>JHA</b>	20.6	8.1	75.5	34.7
<b>Human rights and minorities</b>	6.7	69.4	7.8	28.0
<b>PAR</b>	71.2	4.1	3.7	26.3
<b>Social policies</b>	9.8	19.2	49.8	26.2
<b>Health</b>	1.8	2.0	3.1	2.3
<b>Security and migration</b>	0.7	1.1	1.4	1.1
<b>Total</b>	<b>1,089.1</b>	<b>2,644.9</b>	<b>2,795.8</b>	<b>2,176.6</b>

Source: OECD Creditor Reporting System Stat Extracts. Sectors are adapted from DAC 5-digit codes to reflect IPA Programming sectors (see Annex 10). Data includes ODA from both bilateral and multilateral donors, net disbursements at current prices. The reported results are based on analysis of 2,048 individual project disbursements.

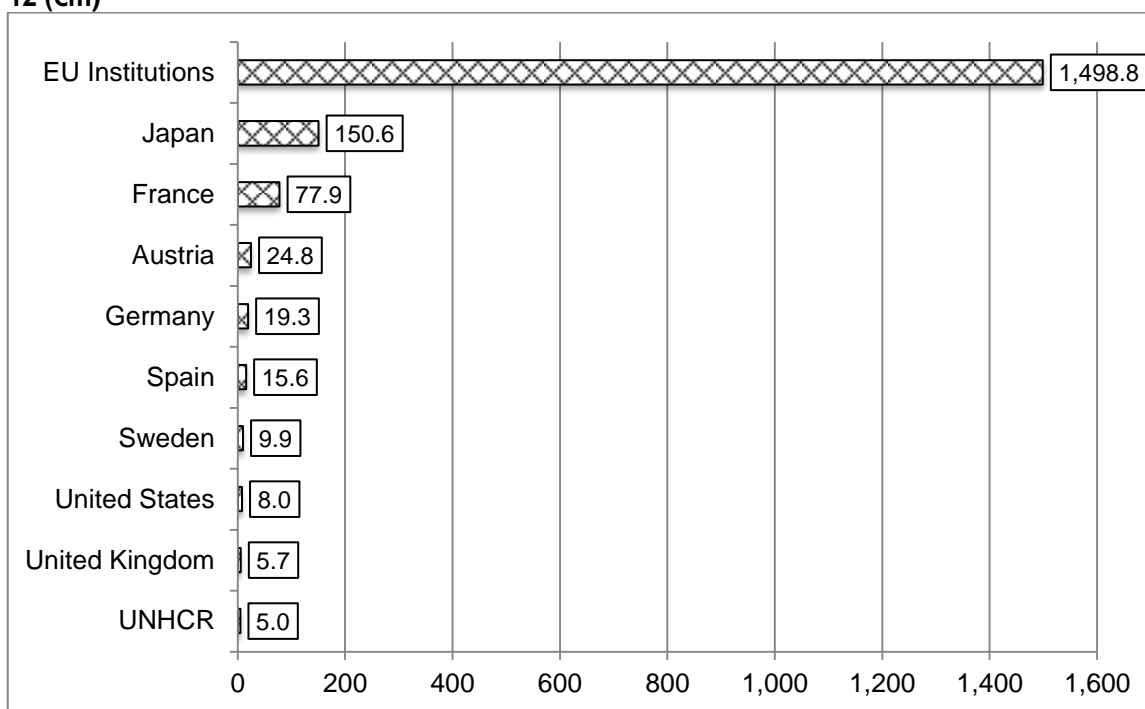
In Turkey, the largest ODA flows are for Private Sector Development, Transport and Energy. Disbursements increased in all three of these sectors, but most strongly for Private Sector Development from €25.0m in 2010 to €1,230.9m in 2012. ODA disbursements also increased strongly to the Energy sector from €14.7m to €220.8m over the same period. However, support for projects in the Environment sector fell substantially from €183.8m to €134.0m.

Relatively few donors are active with substantial amounts of funding. The main source of donor funding is from the IPA pre-accession programme. Other major donors are Japan, France and Germany, although Japan and France have decreased their involvement rapidly over the three years. Although other donors have a presence in Turkey, these four donors have been dominant, providing 95% of the total ODA flows.

However in the past years, IFIs (World Bank, EBRD) and the European development banks (CEB, EIB, KfW) have been active with loan programmes in specific sectors such as Energy, Private Sector Development, Research and Development, Environment and Transport. Socio-economic indicators, the contribution to regional and local development, the strategic character of interventions and the maturity of the projects are some of the criteria used to come up with multi-financing mechanisms.

The largest donors in Turkey are the EU institutions, which significantly increased their disbursements from 2010 to 2011. The European Investment Bank (EIB) is the major IFI in Turkey: EIB lending in the Country in 2012 amounted to EUR 2.1 billion, remaining steady compared to recent years. As the EU bank and the largest multilateral funding institution, over the last five years the EIB provided an unprecedented volume of €11.5 billion in effective support for the country's growth.

**Figure 5-4: Average annual net disbursements of ODA by top ten donors in Turkey, all sectors, 2010-12 (€m)**



Source: OECD International aid statistics, QWIDS database. Data are converted to € using ECB reference exchange rates.

Investments related to environmental protection, support for sustainable transport infrastructure and climate change accounted for about one third of its total lending in 2012. These included:

- The Eurasia Tunnel project, the first PPP operation for a much needed additional passenger car crossing of the Bosphorus;
- The first loan to ILBANK for the funding of municipal investments in the water and solid waste sectors; and
- Support for the country's flood prevention efforts.

The Bank also continued its funding of small and medium-sized renewable energy ventures in cooperation with Turkish partner banks (40% of the total lending). Support for smart growth and the knowledge economy was also high on the agenda, with some 16% of total lending in favour of R&D investments in both the private and public sectors (TUBITAK lending in 2012: 175 Million Euros). Turkey is the largest recipient country of EIB funding outside the EU. In the coming years, special emphasis will be placed on efficient infrastructure, climate change mitigation, environmental investments, innovation and support for SMEs. Also, the Council of Europe, several UN agencies (UNDP, UNICEF, ILO) and other specialised International Organisations are active in Turkey. Some of them are also EU grantees implementing pre-accession assistance in the field of their respective expertise.

**Table 5-16: Number of active sectors by main donor organisations in Turkey, 2010-12**

	EU	JP	FR	DE	AT	ES	US	SE
Number of sectors per donor	11	3	5	8	1	4	8	5

Source: Creditor Reporting System. Sectors are adapted from DAC 5-digit codes to reflect IPA Programming sectors (see Annex 10). Data includes ODA from both bilateral and multilateral donors.

The EU has been mainly involved in Private Sector Development, Transport and Energy. Transport has also attracted the strong interest of Japan and Spain. France has been heavily engaged in the Environment sector, while both Austria and Germany have been strongly engaged in Education. The USA has made a large contribution in the “Other” sector of US\$12 million through local NGOs for the resettlement and material assistance to refugees, which accounts for most of its assistance in this category. Sweden has specialised in JHA and Human Rights and Minorities sectors. There has been relatively little specialisation in Agriculture and Rural Development, PAR, Social Policies, Health, Security and Migration (other than the USA refugee project mentioned above), and none in PFM. All the main donors except Austria are active in more than two sectors, which goes against the “focal point” principle of the Code of Conduct and suggest ample scope for rationalisation of activities and improved cost effectiveness and gains from specialisation.

**Table 5-17: Main donors per sector, share of total disbursements and total number of active donors per sector, Turkey, 2010-12**

Sector	Main Donors (sector shares)	No. Active Donors (a)
Agriculture and rural development	EU (96%)	3
Education	DE (52%) AT (25%) FR (13%)	7
Energy	EU (90%)	2
Environment	FR (44%) JP (28%) EU (21%)	6
General budget support	UAE (100%)	1
Health	UNFPA (38%) DE (32%) US (11%)	8
Human rights and minorities	EU (79%) SE (14%)	4
JHA	EU (77%)	5
Multisector	EU (90%)	3
Other	EU (35%) JP (22%) US (15%)	9
PAR	EU (90%)	3
PFM	FR (55%) EU (16%) JP (15%)	5
Private sector development	EU (94%)	3
Security and migration	US (49%) DE (24%) FR (23%)	4
Social policies	EU (81%)	7
Transport	EU (59%) JP (38%)	3

Source: Creditor Reporting System. Sectors are adapted from DAC 5-digit codes to reflect IPA Programming sectors (see Annex 10). Data includes ODA from both bilateral and multilateral donors. Note: (a) this column shows the number of donors contributing more than 1% of disbursed net ODA to a sector.

Turkey has fewer large bilateral donors than other countries in the group. It therefore has greater donor concentration and focus within sectors. There are 12 sectors in which have a donor contributing 50% or more of total donor disbursements, and which could therefore be said to have a lead donor. The EU is lead donor in nine of these sectors; Germany is lead donor in Education and France in PFM. The sectors in which there is no lead donor are Environment, Health, and Security and Migration although the USA contributes 49% of the funds to that latter sector. An opportunity for rationalisation and appointing a lead donor therefore appears mainly in the Environment sector. Considering the whole donor landscape, and taking the number of donors that are at all active (contributing at least 1% of the total sector amount) there are seven sectors that have five or more active donors. These are Education, Environment, Health, JHA, PFM, Social Policies and Other sectors. Most of the donors active in these sectors are very small, and there should be opportunities for consolidation of the donor effort in these sectors to reduce the donor

fragmentation and encourage delegation of funds and responsibilities to lead donors in the respective sectors in accordance with the principle of appropriate support in the strategic sectors set out in the EU Code of Conduct.

**Table 5-18: Distribution of ODA by IPA II sector, Turkey, 2010-12 (€m)**

Sector	Annual average 2010-2012	Proportion
<b>Competitiveness and innovation</b>	623.7	28.7%
<b>Transport</b>	611.7	28.1%
<b>Energy</b>	259.8	11.9%
<b>Environment</b>	182.2	8.4%
<b>Territorial cooperation and regional cooperation</b>	158.0	7.3%
<b>Education, employment and social policies</b>	126.5	5.8%
<b>Agriculture and rural development</b>	79.6	3.7%
<b>Rule of law and fundamental rights</b>	62.7	2.9%
<b>Other</b>	44.9	2.1%
<b>Democracy and governance</b>	27.4	1.3%
<b>Grand Total</b>	<b>2,176.5</b>	<b>100.0%</b>

Source: Table 5-25

Table 5-28 reproduces the data from Table 5-25 in accordance with the IPA II definition of sectors<sup>64</sup>. Looked at this way, the data reveal that the three main sectors of in receipt of official development assistance in the period 2010-2012 were Competitiveness and innovation, Transport, and Energy, while the sector Democracy and Governance was relatively neglected.

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<sup>64</sup> This list of sectors was provided to the authors by DG Enlargement.



## 6 DONOR INTERVENTIONS AND REGIONAL COOPERATION

This section identifies extent and nature of donor coordination at regional level. It sets out the role of the Regional Cooperation Council and the SEE 2020 Strategy in organising a greater coordination of donor interventions at the regional level. Furthermore, in this section we assess the role and scope of involvement of each Western Balkans country and Turkey in relevant regional programmes and initiatives.

### 6.1 The Regional Cooperation Council

The Regional Cooperation Council (RCC) was launched at a meeting of the Ministers of Foreign Affairs of the South-East European Cooperation Process (SEECP) in 2008, as the successor of the Stability Pact for South Eastern Europe (SEE). Regionally owned and led, the RCC promotes regional cooperation in South East Europe. Its main objectives are to represent the region, assist the SEECP, monitor regional activities, exert leadership in regional cooperation, and provide a regional perspective in donor assistance. The RCC functions as a focal point for regional cooperation in SEE. Its key role is to generate and coordinate regional developmental projects to the benefit of each participant. The RCC Secretariat is based in Sarajevo and has a Liaison Office in Brussels

The work of the RCC focuses on the priority areas of economic and social development, energy and infrastructure, justice and home affairs, security cooperation, building human capital, and parliamentary cooperation as an overarching theme. In 2013, RCC a new Strategy and Work Programme, which provides for much more focus and synergy in RCC work, with the SEE 2020 Strategy at its centre. RCC has close working relationships with relevant stakeholders in these areas, such as governments, international organizations, IFIs, regional organizations, civil society and the private sector. The RCC has developed close relationships with many regional task forces and initiatives active in specific thematic areas of regional cooperation.

The annual budget of the RCC Secretariat is slightly under €3 million, 40% of which is contributed by SEE countries, 30% by the European Commission and the remaining 30% by other RCC participants. A grant agreement of €3.6m supporting the activities of the RCC Secretariat was signed in December 2013 with the European Commission to support the RCC work related to the SEE 2020 Strategy. The RCC focuses its activities in four main areas of action: (i) setting up efficient mechanisms for coordination between governments, regional structures and the RCC and facilitating establishment of intra-governmental coordination mechanisms on SEE 2020; (ii) establishing a monitoring system to track progress on SEE 2020; (iii) supporting the establishment and strengthening of dimension coordinators (i.e. regional initiatives such as CEFTA and NALAS); and (iv) providing direct interventions to implement SEE 2020 in areas where adequate structures or support programmes are missing.

#### 6.1.1 [SEE 2020 Strategy](#)

The goal of the South East Europe 2020 Strategy is to improve living conditions in the region and bring competitiveness and development back in focus, closely following the vision of the EU strategy “Europe 2020”. It sets out a shared vision for the SEE economies to create up to 1 million new jobs by 2020, by increasing the employment rate from 39% to 44%, increasing total regional trade turnover from €94 billion to €210 billion, increasing the region’s GDP per capita from 36% to 44% of the EU average, and adding 300,000 highly qualified people to the workforce.

The SEE 2020 Strategy is based around five key pillars: (i) Integrated growth, (ii) Smart growth, (iii) Sustainable growth, (iv) Inclusive growth and (v) Governance for growth. It provides a framework to assist governments to implement their development strategies, including EU accession related goals, enhancing national efforts through regional cooperation on specific issues that can benefit from a shared approach. A number of specific sectoral dimensions suitable for regional cooperation have been identified under each pillar as set out in the following Table.

**Table 6-1: Pillars and Dimensions of the SEE 2020 Strategy**

Integrated growth	Smart growth	Sustainable growth	Inclusive growth	Governance for growth
A: Free Trade area	D: Education and competences	H: Energy	L: Employment	N: Effective public services
B: Competitive Economic Environment	E: R&D and innovation	I: Transport	M: Health	O: Anti-corruption
C: Integration into global economy	F: Digital society	J: Environment		P: Justice
	G: Culture and creative sectors	K: Competitiveness		

Source: *South East Europe 2020 Strategy – Jobs and prosperity in a European Perspective*

National governments are at the centre of the Strategy and are responsible for developing objectives and implementing measures, supported by regional structures and programmes. National administrations are required to identify those aspects of their national development strategies and programmes that could benefit from implementation via the SEE 2020 Strategy. Progress with SEE 2020 will be monitored through annual Progress Reports. It is envisaged that the Strategy should support many of the objectives and actions foreseen under the forthcoming Country Strategy Papers and the Multi-Country Strategy Paper for IPA II, and it is expected that this will be recognised when IPA II assistance is being programmed<sup>65</sup>. The Strategy calls for the development of national action plans for SEE 2020 that identify the gaps between individual country needs and the current actions being undertaken or planned in the medium term. These action plans should indicate measures needed to reach the relevant targets, making explicit commitments regarding growth and competitiveness. The first action plans are to be produced by the end of June 2014, and the second at the end of 2016. In some countries these are quite advanced. In Albania, for example, the Ministry of Economy has created a national action plan for each Dimension that is integrated into the national strategy<sup>66</sup>. At the regional level, the Dimension Coordinators are expected to include the SEE 2020 measures in their own activity plans and work programmes. The Dimension Coordinators are also expected to participate in the programming efforts related to the policy areas within their functional responsibilities.

Pillars	Dimensions	Dimension coordinators
<b>Integrated Growth</b>	A: Free Trade area	CEFTA, SEEIC
	B: Competitive Economic Environment	CEFTA
	C: Integration into global economy	CEFTA, SEEIC

<sup>65</sup> *South East Europe 2020 Strategy – Jobs and Prosperity in a European Perspective*, Sarajevo: Regional Cooperation Council, 2013

<sup>66</sup> Information provided at an interview at the EU Delegation, Tirana, 19/2/2014

<b>Smart growth</b>	D: Education and competences	ERI-SEE, SEECCEL, RCC
	E: R&D and innovation	WISE
	F: Digital society	eSEE
	G: Culture and creative sectors	RCC TFCS, RCC
<b>Sustainable growth</b>	H: Energy	ECS, RCC
	I: Transport	SEETO, OECD, JSPA, ISIS II, Danube and Sava River Commissions
	J: Environment	REC, SEEFCA, GWP-M
	K: Competitiveness	SEEIC, SEECCEL, WBIF/EDIF, World Bank, OECD, RCC
<b>Inclusive growth</b>	L: Employment	RCC
	M: Health	SEEHN
<b>Governance for Growth</b>	N: Effective public services	RCC, ReSPA, NALAS
	O: Anti-corruption	RCC, RAI, ReSPA
	P: Justice	Regional professional cooperation, Regional inter-institutional cooperation

The four main sets of actors participating in the governance structure and the SEE 2020 policy coordination effort are: (i) the national administrations, represented by the SEE 2020 Coordinators and the respective ministries and agencies; (ii) regional structures serving as coordinators of respective policy dimensions (Dimension Coordinators); (iii) the Regional Cooperation Council; and (iv) the Governing Board of SEE 2020, which brings together the highest political representatives in the region. Although SEE 2020 entails regional responses to policy challenges, most of the activities put forward by the Strategy envisage direct action or policy response by the appropriate national institutions and agencies. The implementation will be steered by the national action plans, approved by the respective governments. The function of Dimension Coordinators, as performed by the respective regional structures, is to help coordinate the implementation of SEE 2020 in a particular sector or policy dimension and to provide a regional platform for peer reviews and monitoring of progress.

**Table 6-2: Structure of SEE 2020 Pillars, Dimensions and Regional Coordinating Institutions**

Integrated growth	Smart growth	Sustainable growth	Inclusive growth	Governance for growth
<b>A: Free Trade Area</b>	D: Education and competences	H: Energy	L: Employment	N: Effective public services
<b>B: Competitive Economic Environment</b>	E: R&D and innovation	I: Transport	M: Health	O: Anti-corruption
<b>C: Integration into global economy</b>	F: Digital society	J: Environment		P: Justice
	G: Culture and creative sectors	K: Competitiveness		

Source: South East Europe 2020 Strategy – Jobs and prosperity in a European Perspective

The regional structures are of key importance to the SEE 2020 Strategy as they are acting as Dimension Coordinators. From 2010 to 2013 these regional structures have received a total

funding of €56 million. The regional structures, however, have very different levels of resources with which they may fulfil their tasks as can be seen from the following Table.

**Table 6-3: Donor resources to selected regional structures participating in SEE 2020**

	2010 (€)	2011 (€)	2012 (€)	2013 (€)	2014 (€)	Grand Total (€)
<b>REC</b>	11,358,172	11,586,119	11,386,957	8,407,922		42,739,170
<b>ReSPA</b>	846,896		1,242,594	1,743,473		3,832,963
<b>NALAS</b>	599,879	491,486	655,255	945,490	661,460	3,353,570
<b>SEECEL</b>	400,000	600,000	600,000	600,000		2,200,000
<b>TFCS</b>		275,000	275,000	275,000	275,000	1,100,000
<b>RAI</b>	239,750	270,041	317,847	119,912		947,550
<b>SEETO</b>		50,000	50,000	600,000		700,000
<b>ERI SEE</b>	76,121	139,561	161,975	132,000		509,657
<b>eSEE</b>	100,000	100,000	100,000	100,000		400,000
<b>SEEHN</b>					300,000	300,000
<b>Social Agenda</b>		40,000	90,000		70,000	200,000
<b>Grand Total</b>	<b>13,620,818</b>	<b>13,552,207</b>	<b>14,879,628</b>	<b>12,923,797</b>	<b>1,306,460</b>	<b>56,282,910</b>

Source: Pohl Consultants Survey of regional initiatives, February 2014

The donor resources available to the various regional structures participating in SEE 2020 are highly unequal. The best-funded structure is the REC with total resources of over €42 million between 2020 and 2013. These are followed by ERI SEE, ReSPA, NALAS, SEECEL and the RCC TFCS which each have benefitted from resources of over one million euros in total. In contrast, ERI SEE, eSEE, SEEHN, and the Social Agenda initiative have had resources of just half a million euros or less each over the same period. Three of the latter are primary Dimension Coordinators for the SEE 2020 Strategy, which will most likely struggle to fulfil their role given the low scale of resources on which they can rely.

**Table 6-4: Donor and RCC Participants' allocations to the regional structures (€ thousands)**

	2010	2011	2012	2013	2014	Grand Total
<b>EU</b>	7,556.1	2,691.8	6,398.5	6,271.5	327.2	23,245.1
<b>SDC</b>	236.8	302.0	297.9	323.5	243.9	1,404.1
<b>UN Agencies</b>	268.2	196.6	294.9	190.7	0	950.5
<b>Open Regional Fund</b>	24.9		110.0	452.5	315.4	902.8
<b>GIZ</b>	334.4	180.0	206.3	111.6	50.0	882.3
<b>SIDA</b>		200.0	200.0	200.0		600.0
<b>Croatia</b>	96.3	98.4	98.4	98.4		391.4
<b>Swiss DEZA</b>					300.0	300.0
<b>USA</b>	47.9	54.1	54.1			156.1
<b>FES</b>		40.0	60.0		40.0	140.0
<b>KulturKontakt</b>	35.3	26.2	30.0	30.0		121.5
<b>World Bank</b>			8.2	105.8		114.0
<b>Moldova</b>	24.0	29.4	29.4	29.4		112.2
<b>The former Yugoslav Republic of Macedonia</b>	31.2	3.6	71.8			106.6

<b>Serbia</b>	48.0	24.0	24.0	24.0	96.0
<b>Albania</b>	24.0	24.0	24.0	24.0	96.0
<b>Montenegro</b>	24.0	24.0	24.0	24.0	95.9
<b>BiH</b>	24.0	31.2	31.2	7.2	93.6
<b>Romania</b>	24.0	24.0	24.0		72.0
<b>Bulgaria</b>	23.9	24.0	24.0		71.9
<b>RCC</b>			30.0	30.0	60.0
<b>EVD</b>		30.0	30.0		60.0
<b>OSI LG Initiative</b>	24.9				24.9
<b>Other Donor</b>	4,174.6	9,337.4	6,190.9	3,822.0	23,525.0
<b>Other Orgs</b>	646.1	187.5	618.1	1,209.3	2,661.0
<b>Grand Total</b>	13,620.8	13,552.2	14,879.6	12,923.8	56,282.9

Source: Pohl Consultants Survey of regional initiatives, February 2014

Table 6-4 above shows the annual amounts that have been allocated by various donors and RCC participating states to a selection of regional structures that have been sponsored by the RCC. The total annual funding has reached around €13 million. The largest donor has been the EU/EC/IPA. Several bilateral donors have also made a significant contribution totalling more than €500,000 over the four year period: SDC (Switzerland), UN Agencies, GIZ (Germany), SIDA (Sweden) and the Open Regional Fund.

## 6.2 Regional structures participating in SEE 2020

Within this study project, the regional structures were sent a short survey to collect up-to-date information about their activities and funding, to which 12 organisations replied. All, apart from the Social Agenda Network, are SEE 2020 Dimension Coordinators. Some of the Dimensions have only a single coordinator and others have multiple coordinators. Dimension E on R&D and Innovation (Dimension coordinator WISE), Dimension F on the Digital Society (eSEE), Dimension L on Employment (RCC) and Dimension M on Health (SEEHN) each have only a single coordinator. Moreover, these coordinators are the weakest of all in terms of budgets and employees (see Table 6-4), having just four or fewer full time employees and annual budgets of just €250,000 or less. The WISE group, responsible for coordinating R&D and innovation has neither a budget nor any full time employees. Most of the regional initiatives have received financial support from donors but few received support from IPA, although most do expect to receive support from IPA II (see Figure 6-1). The SEE 2020 Strategy envisages strengthening the weaker dimension coordinators, but this will need to be achieved urgently if the Strategy dimensions involved are to be effectively coordinated.

**Table 6-5: Resources available to SEE 2020 Dimension Coordinators**

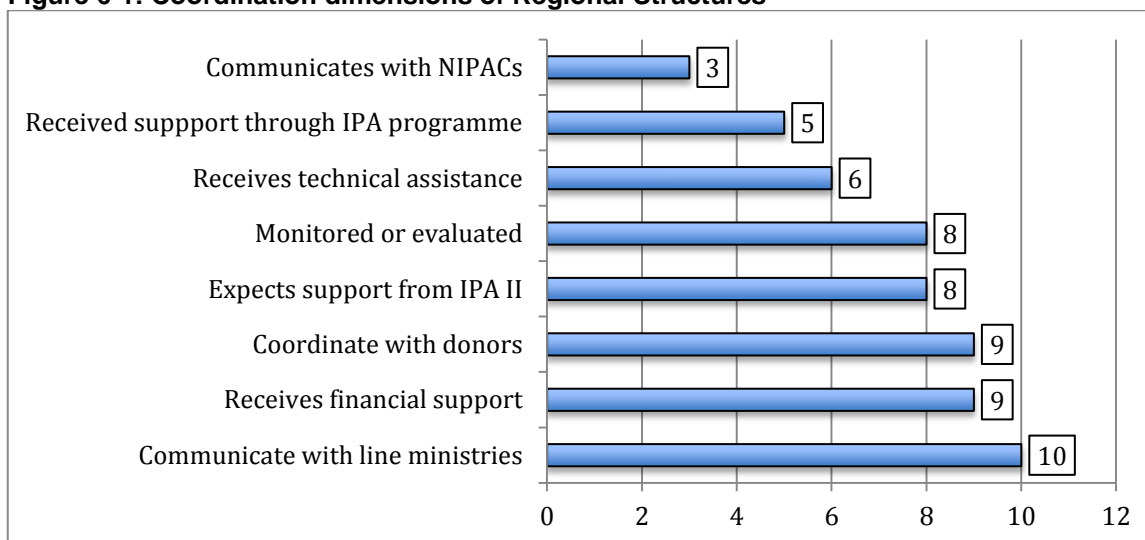
	Full time staff 2013	Part time staff 2013	Budget 2013
<b>REC</b>	71	108	€ 11,900,000
<b>ReSPA</b>	13	0	€ 3,069,263
<b>NALAS</b>	8	13	€ 1,306,580
<b>SEECCEL</b>	5	0	€ 566,000
<b>SEETO</b>	7	0	€ 380,000
<b>RCC TFCS</b>	3	0	€ 275,000

SEEHN	4	0	€ 257,000
ERI SEE	2.8	0	€ 167,541
RAI	4	0	€ 119,912
eSEE	1	2	€ 100,000
Social Agenda	0	0	€ 0
WISE	0	0	€ 0

Source: Pohl Consulting & Associates survey.

Most of the 12 regional initiatives that responded to the survey communicate with line ministries, and coordinate with donors, while relatively few communicate with the NIPACs (see Figure 6-1). This suggests that there is an opportunity to deepen the integration of these regional initiatives into the donor coordination structures at country level by encouraging greater communication and coordination of activities with the NIPACs. This would seem especially appropriate for those initiatives that expect to receive IPA funding as indeed most but not all of them do. Since the SEE 2020 Strategy will be delivered at country level, and will be integrated and aligned with National Development Plans and Country Assistance Strategies, it would seem essential that a greatly improved coordination with the NIPACs should be instituted.

**Figure 6-1: Coordination dimensions of Regional Structures**



Source: Pohl Consulting & Associates survey. Regional Initiatives responding were ERI SEE, eSEE, NALAS, RAI, RCC TFCS, REC, ReSPA, SEECEL, SEEHN, SEETO, Social Agenda, & WISE

### 6.3 The Western Balkans Investment Framework

Following the closure of the EC/World Bank Joint Office for SEE, in March 2007 the European Commission (DG ELARG) established the IFIs Advisory Group, to support and improve overall cooperation between the IFIs and the EC in the Enlargement countries. The IFI Advisory Group was absorbed into the Western Balkans Investment Framework (WBIF) established in 2009. The unique feature of the WBIF is that it brings all the actors, including 19 bilateral donors, three partner IFIs (CEB, EIB, EBRD), KfW and the World Bank and the beneficiaries around the table to agree regional priorities. A main purpose of the WBIF is to ensure that there is a coordinated approach to the IFIs investments in the region by providing a platform for regional cooperation to avoid duplication of efforts. While there are some areas of overlap in the mandates of the respective institutions, there is also a high degree of complementarity. Since the WBIF operates on



the principle of beneficiary ownership, the NIPACs identify projects suited to WBIF financing and submit projects after agreeing a financing approach with their preferred partner.

The WBIF supports socio-economic development and EU accession across the Western Balkans through the provision of finance and technical assistance for strategic investments, particularly in infrastructure in the energy, transport, and social sectors. It is a joint initiative of the EU, IFIs, bilateral donors and the governments of the region. It focuses on the key sectors of Energy, Environment, Transport, Social Issues and Private Sector Development. It has two main objectives: (i) to pool grants, loans and expertise in order to prepare funding for a common pipeline of priority investment projects and (ii) to strengthen the coherence and synergies in donor support in order to improve the impact and visibility of priority investments in beneficiary countries<sup>67</sup>. Although it focuses exclusively on the Western Balkans, in the perspective of this study, it could be a useful model for other regions and countries including Turkey.

Calls for investment proposals are organised twice a year. Projects are submitted to the Project Financiers' Group (PFG) by the NIPAC of the respective country on the basis of each country's priorities<sup>68</sup>. The PFG screens and assesses applications to verify eligibility, bankability<sup>69</sup>, sustainability, technical viability, and consistency with transition impact and EU pre-accession policies, and passes selected proposals to the WBIF Steering Committee<sup>70</sup>. Screening according to EU policy precedes assessment by the financial institutions for financial and economic viability, the adequacy of the budget and the capacity of the client to implement the project. This is a set working methodology, which is detailed in the relevant regulation. The Steering Committee, which includes representatives from each of the Beneficiaries, the IFIs and EU Member States, provides strategic guidance and advice on submitted projects and formally approves selected projects; projects with regional impact take precedence. Approved projects are managed by the Infrastructure Project Facility (IPF) teams or by the IFIs themselves.

The WBIF manages a large grant programme to support the investment projects carried out by the WBIF member banks. The Joint Grant Facility pools resources from IPA, the IFIs, and grant contributions from bilateral donors. From 2008-2012, the European Commission committed €196 million to the WBIF. The three partner IFIs (EBRD, EIB and CEB) each committed €10 million, and the 19 donor countries pledged €84.95 million<sup>71</sup>. These latter contributions are managed in a dedicated Trust Fund called the European Western Balkans Joint Fund (EWBJF) jointly managed by the EBRD and EIB. The grants are used in two ways: first and foremost for technical assistance (TA) in preparing a project and make it bankable, and second as a direct grant investment in particular cases. However, it often takes about three years between the opening of a TA project for a feasibility study and the actual signing of an investment project with one of the IFIs. By

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<sup>67</sup> See [http://ec.europa.eu/enlargement/instruments/donor-coordination/index\\_en.htm](http://ec.europa.eu/enlargement/instruments/donor-coordination/index_en.htm)

<sup>68</sup> The identification of projects for submission is also sometimes done by partner IFIs in coordination with NIPACs and Donor Coordination Offices within beneficiary countries.

<sup>69</sup> Screening for "bankability" means that projects should be shown to yield a sufficient rate of return to be eligible for bank funding

<sup>70</sup> The EBRD representatives in the PFG screen projects for their transition impact, while the EC representative screen projects for compatibility with EU accession aims.

<sup>71</sup> See <http://www.wbif.eu/About+WBIF>

November 2013 the amount of loans actually signed had reached just €2.7 billion against a total estimated value of infrastructure projects in the pipeline amounting to €12.9 billion<sup>72</sup>.

The grant support provided is mainly used for technical assistance to prepare projects for investment - to enhance administrative and technical capacities in beneficiary countries, to undertake relevant studies and to prepare the documentation needed to secure the required funding and increasingly to support the construction phase. Some projects have received investment grants to assure project implementation. More recently innovative financing instruments comprising equity financing, guarantees and specialised TA have been approved for specific sectors such as SME development<sup>73</sup>. The Infrastructure Project Facilities (IPF), financed by the EU Institutions, support the preparation<sup>74</sup> of WBIF investment projects using specialist consultancy teams. To enable an adequate supply of experts that can deliver the defined project scope of support, the European Commission has awarded three contracts to consulting consortia: IPF1 manages TA provided through a framework contracts with WYG International Consortium; IPF2 manages TA through the Cowi-IPF Consortium; and IPF3 manages TA through the Mott MacDonald Consortium<sup>75</sup>.

The WBIF applies the principal of financial blending – combining grants and loans. The WBIF claim is that “relatively small grants are provided that subsequently attract much larger amounts of loan finance (a process known in jargon as “leverage”)...This process can be an effective way of using scarce development resources: the grant is the enabler that brings in investments that delivers projects”<sup>76</sup>. However, it is not known whether the loans that are provided are actually additional to the investment resources that the IFIs would have provided in the absence of blending, as no study of WBIF additionally has yet been carried out.

The WBIF originally had a target of €2 billion in infrastructure loans to the region, but has already achieved a loan portfolio of €6 billion. These include six transmission line projects in Montenegro, Serbia and Bosnia. Other projects include water treatment plants, energy projects, and transport projects. The Montenegrin transmission line has connected an underwater line from Italy to transmission lines in Serbia and Bosnia and Herzegovina.

The WBIF is seen by many to be a good example of effective regional cooperation in practice. It has coordinated a large programme of much needed infrastructure investment in the Western Balkans. However, some concerns have been raised over a sense of disconnect between the WBIF and the in-country EU Delegations (EUDs). Currently DG ELARG manages the WBIF, and although it has a close relationship with the in-country EUDs, who in turn have a role to play in approving projects going forward to the Steering Committee, there is little sense of ownership by the EUDs. This will change following the creation of a single pipeline of projects under IPA II, which

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<sup>72</sup> This estimate is based on the submissions by the NIPACs. However, since the WBIF has predominantly financed early stage project preparation, some of these estimates might have changed considerably or not materialised at all. In addition, project cancellations might not have been taken into account. Hence the reported values should be treated with caution.

<sup>73</sup> See <http://www.wbif.eu/Details+of+WBIF+Projects>

<sup>74</sup> Preparation of all the reports, documents and studies that are needed to technically, economically and financially appraise a project including feasibility studies, economic and financial analysis, environmental and social impact assessments, and design drawings.

<sup>75</sup> See [http://www.wbif-ipf.eu/index.php?page\\_id=321](http://www.wbif-ipf.eu/index.php?page_id=321)

<sup>76</sup> See [http://www.wbif-ipf.eu/index.php?page\\_id=309](http://www.wbif-ipf.eu/index.php?page_id=309)

will provide a more transparent basis for ranking projects according to their greatest economic and social benefits. This should overcome the perverse incentives that have led to a situation of investment glut in some cases and should also reduce the information asymmetries that have enabled actors to “game” the system, occasionally resulting in investments with little real social benefit. This seems to have been especially problematic in Albania, which now faces sharp cutbacks to investment programmes. Some investments in the Environment and Transport sectors require maintenance that has not been budgeted for, a problem that has affected all Enlargement countries to some degree. Interest has been expressed in creating a WBIF-like structure for Turkey. One lesson seems to be that at submission stage a letter of endorsement from the Ministry of Finance or equivalent would be beneficial to indicate a clear commitment to the continued maintenance of an infrastructure investment, while a wide range of local interests including NGOs should be involved in the post-submission screening of investments,

An additional difficulty in delivering infrastructure investment projects has been the lack of fiscal space within beneficiaries to take on and service new loans. Given, this, the possibility to establish public-private partnerships (PPP) to leverage private sector finance might be an alternative option<sup>77</sup>. This could provide a framework to mobilise local savings through municipalities and local sources of private capital. Small pilot projects could also be used in a number of innovative sectors, for example in small urban transport systems, or for enhancing the skills of mismatched and redundant employees to new technologies and new jobs.

### 6.3.1 [Infrastructure Projects Facility \(IPF\)](#)

In November 2007, the European Commission, the EIB, the EBRD and the Council of Europe Development Bank agreed to develop an Infrastructure Projects Facility (IPF) for the Western Balkans. The IPF is an integral part of the WBIF as it provides technical assistance to support project development and implementation and supports technical cooperation and finance for investment needs in close cooperation with its partner IFIs in the region. The overall objective of the IPF is to connect infrastructure projects with investment funding. IPF contributes to the socio-economic development of the Western Balkans through improved infrastructures in transport, environment, energy and the social field. IPF supports preparation and implementation of investment projects financed by grants and loans by the beneficiaries, IFIs, IPA and other sponsors and donors. National, regional and local entities, including municipalities are eligible for assistance from the IPF. Criteria used in selecting investment projects include the funding of perspective (loans, grants); the social, environmental and regional impact; the economic and financial assessment; ensuring a balanced use of resources among sectors; the geographical spread of resources with a focus on potential candidates; and the involvement of regional networks (e.g. SEETO, ECS, ReREP).

Four IPFs have been established, each managed by a different institution. The European Commission manages IPF 1, IPF 2 and IPF 3 through DG Enlargement; the EIB manages IPF 4. When IPA accepts a proposal for TA, the IPF appoints a team of consultants to carry out the work<sup>78</sup>. The typical team size is around 10 experts. A typical project may receive a €20m loan, a €10m IPA grant and funding of €5m from the government. About one quarter of projects are

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<sup>77</sup> However, it should be recognised that there is a very limited room to apply the PPP model in financing social sector projects in small markets such as the Western Balkan ones.

<sup>78</sup> The typical team size is around ten experts.

funded by donors through the European Western Balkans Joint Fund (EWBJF), The IPFs 1, 2 and 3 have carried out around 90 TA projects, while a further 40-50 projects have been managed directly by the IFIs with the involvement of individual consultancy companies. These projects mainly involve project preparation. There is a high success rate, as a bank is normally already lined up behind the project. As a way of funding projects it is very effective.

The beneficiaries put forward their priority projects every six months through the NIPACs who submit their projects to WBIF after having coordinated with the line ministries and having prepared a list of priority projects. They also coordinate with potential financiers ahead of submission since the project fiche must quote a lead financial institution even before the IPF contract is mobilised. This is a mandatory requirement to show beneficiary commitment to future loan financing (also subject to the successful outcome of the TA to prepare the project). When a grant is approved the IPF is accountable to the NIPAC, though in practice it works with the line ministries, and with TA staff working within the ministry. There is usually very good cooperation between the IPF team and the ministries.

While most projects financed through WBIF have been successful, it should not be a surprise that occasionally some projects are not successful. One example can be taken from Kosovo where the WBIF funded an energy efficiency project in seven municipalities with a loan from a donor. However, when the donor checked on progress with construction, it was discovered that three municipalities had also received a grant from another donor to carry out the same work. Despite this negative example, it seems that on the whole the coordination between donors and financiers works well. The benefits are clear to see. For example, coordination between donors in financing a wastewater treatment plant could potentially reduce project costs and improve affordability for consumers through lower water bills.

Social sector projects such as hospitals, schools and prisons are the most important investments in those countries in which infrastructure investment has been neglected for many years<sup>79</sup>. A problematic issue is that there is little coordination between the WBIF and multilateral organisations such as OSCE and UN<sup>80</sup>. Improved coordination with these organisations could potentially help to identify more projects in the social sector.

### 6.3.2 [EDIF](#)

The Western Balkans Enterprise Development & Innovation Facility (WB EDIF) is a joint initiative of the EU, the IFIs, the bilateral donors and the governments of the Western Balkans, coordinated by the European Investment Fund (EIF). The WB EDIF Platform Advisory Group (PAG) is responsible for the governance of the WB EDIF. Its members are drawn from the relevant IFIs, bilateral donors and beneficiaries, with capacities as both voting members and observers. The main aim of WB EDIF is to improve access to finance for SMEs in the Western Balkans. WB EDIF focuses on:

- Boosting the participation of private sector actors
- Addressing the needs of the Western Balkans SME market

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<sup>79</sup> With the exception of the CEB, which is strongly committed to enhance the social development of the beneficiaries' populations in the region, while the World Bank also finances social sector reform projects.

<sup>80</sup> WBIF coordination with UNHCR is an exception.

- Building up a local venture capital market
- Widening the scope for SME finance,
- Increasing available funding and financial instruments

Due to deleveraging by the foreign banking sector that is taking place in the Western Balkans the supply of credit and loans to SMEs has shrunk in recent years. EDIF aims to fill this gap by providing enhanced access to finance for SMEs in the region and in creating a more favourable funding environment for SMEs including eventually a sustainable equity market. It aims to promote policy reforms that will support SME financing.

It is expected that the international assistance provided by donors to EDIF will leverage additional funding. The European Commission, IFIs, beneficiary governments and bilateral donors have contributed €145 million of initial capital that is expected to attract additional funds to reach a total of around €300 million of direct funding available for SMEs in the region. The Facility consists of four different pillars:

- (i) **Enterprise Innovation Fund (ENIF)**: This pillar supports innovative SMEs in the Western Balkans from start up to the development stage of the businesses by providing equity finance.
- (ii) **Enterprise Expansion Fund (ENEF)**: This pillar supports established SMEs with a high potential to grow in the Western Balkans to support their further expansion.
- (iii) **Western Balkans EDIF Guarantee Facility**: Under this pillar, guarantees are provided to financial intermediaries to incentivise them to build up new SME loan portfolios and thereby improving SMEs' access to bank lending.
- (iv) **Technical Assistance Facility**: Under this pillar, governments of beneficiary economies can obtain support in implementing policy reforms to create a favourable regulatory environment to benefit innovative and high-growth SMEs in the region.

The European Investment Fund (EIF) coordinates the WB EDIF Guarantee Facility, the EBRD leads ENEF, and EIF directly implements and leads ENIF. A TA/Support Service supports all technical assistance for the EDIF platform including, for example, the EBRD's Small Business Services programmes (Business Advisory Services and Enterprise Growth Management). Since the activities on the TA/Support Services pillar are diverse and cover a number of actors. The EDIF PAG members are responsible for setting the priorities and approving the activities in this area. The EIB will design a process for assessing and filtering proposals for decision making at PAG level (to be up and running by early 2015) but the institutions quoted will manage the activities themselves.



## 7 UNDERSTANDING THE GEOPOLITICS OF DONOR INTERVENTIONS

In this section we set out an analysis of the geopolitical influences on donor interventions in the Western Balkans and Turkey. New donors are becoming involved in the donor landscape, including actors such as China, Korea, Russia and the United Arab Emirates to name a few. Some of the new donors are simultaneously receivers and providers of international assistance, for example Turkey, and other emerging donors are in a similar position including the so-called “BRIC” countries, Brazil and India (Chin 2012). As Woods (2008) has emphasised, many of these donors are not entirely “new”. In particular, China and Russia have provided aid around the world in various forms for decades. China, for example, has provided assistance to Albania in the 1970s and built the now derelict steel works in Elbasan, which was at the time the largest in the Balkans. Rather, the scale of their involvement in the Western Balkans is new at least in recent years. In times of fiscal stringency in the EU, when aid budgets are being restricted, the emerging donors are becoming increasingly important in the region and filling large fiscal gaps that have emerged during the economic crisis period in some countries. For example, the recent €1 billion loan from the UAE to Serbia at a low concessional interest rate of 2% with generous repayment terms has enabled the Serbian government to cover its short term deficit and arguably enabled Serbia to postpone much needed reforms.

These emerging donors often do not seek to promote the aims of EU enlargement, nor do they always abide by the principles of the Paris Declaration including the principle of aid transparency. It is not always easy to identify the scale and scope of their interventions (Bräutigam, 2011). Crucially, they do not impose a similar set of requirements or conditionalities on the beneficiaries, and often provide assistance with “no strings attached”, or at least not conditions that are clearly stated. Their interventions are often driven by motivations related to notional interests and to geopolitical considerations. In the case for China for example, the aim seems to be to establish a foothold in European markets (Chin, 2012), whereas Russian involvement is driven by the need to establish secure market for her oil and gas production. Korea’s intervention seems to be strongly driven by national commercial interest (Kang et al., 2011; Lee, 2012; Kim and Oh, 2012). As Woods argues “common to most of these donors is a quest for energy security, enlarged trading opportunities and new economic partnerships, coupled with rapidly growing strength and size in the global economy” (Woods, 2008: 1205).

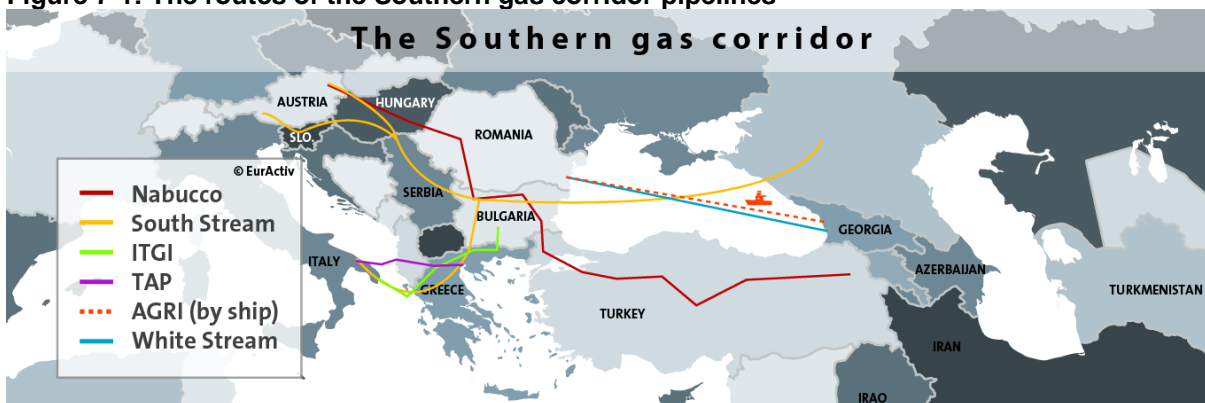
Despite concerns about the impact of the emerging donors on the continuing assistance programme of the established donor community and their potential adverse impact on the enlargement process, the emerging donors do not overtly try to overturn the existing rules of development assistance. Instead, what Woods (2008) calls a “silent revolution” is taking place. The emerging donors are quietly offering alternatives to aid-receiving countries, and introducing new competitive pressures into the existing donor landscape. In this way they affecting the bargaining position of EU and other established donors and providing a potential alternative to the fulfilment of onerous conditions imposed within the enlargement process. They therefore challenge the existing donors to offer a more flexible and nuanced approach to assistance to the region, and one that is more in line with the principles of local ownership than is actually implemented in practice.

In this section we examine two case studies of the geopolitics of interventions by emerging and existing donors in the region. We take a sector approach and take as case studies two key sectors in which the geopolitical influences appear to be especially relevant and influential – energy and transport.

## 7.1 Geopolitics of energy supply

Energy is an important sector for regional cooperation and a major sector for donor intervention. The Western Balkan countries have significant capacities in production of hydropower (especially in Albania and Bosnia and Herzegovina). In Kosovo, lignite reserves are a significant underexploited resource. International donors and financiers have contributed to the development of these resources. But the largest international investment in the region's power supplies is likely to be in the field of natural gas, bringing new supplies from Russia and Azerbaijan. Several routes have been proposed or are in construction that will bring gas from Russia and Azerbaijan to Europe through the South East Europe region along the so-called "southern gas corridor".

Figure 7-1: The routes of the Southern gas corridor pipelines



Source: EurActive website

The USA and the European Commission promoted the now defunct Nabucco pipeline project with the aim to reduce dependence of Europe on Russian gas. It would have brought gas from Azerbaijan across Turkey, Bulgaria, Romania and Hungary to the Baumgarten gas hub in Austria. In September 2010 the Nabucco project won \$5 billion in loans from the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development. However, the project collapsed after losing out to the rival TAP consortium as the favoured partner of the operators of the Shah Deniz gas field in Azerbaijan in December 2013.

While the US-backed Nabucco project failed, the Russian company Gazprom signed contracts for the South Stream pipeline to bring gas to South East Europe and beyond through a pipeline under the Black Sea. The South Stream is Gazprom's largest global infrastructure project aimed at constructing a gas pipeline with a capacity of 63 billion cubic meters to Southern and Central Europe to diversify the natural gas export routes and eliminate transit risks. The gas pipeline is planned to begin supplying gas in 2015 and reach its full capacity in 2018. Austria's OMV, Hungary's MOL, and Bulgargaz have signed up to Gazprom's pipeline, and work is expected to begin on the construction of the pipeline through Serbia. The construction of South Stream's offshore section is expected to start in autumn 2014. A 1,455-kilometer onshore section will cross Bulgaria, Serbia, Hungary, and Slovenia and will end in Italy. Gas branches from the main pipeline route will be built to Croatia and to Bosnia and Herzegovina,

In Serbia, in 2008 an intergovernmental agreement was signed with Russia for the construction of the South Stream and the Banatski Dvor UGS facility projects. In parallel, the Russian gas company Gazprom took a controlling stake in state-owned Naftna Industrija Srbije (NIS). Construction of South Stream is expected create many new jobs in Serbia and to bring €2 billion of FDI inflows. On May 15, 2009 Gazprom and Srbijagas signed a Basic Agreement of Cooperation



and established the South Stream Serbia AG joint project company. In February 2013 the Serbian parliament awarded a special status to the gas pipeline, and a long-term contract for gas supplies to Serbia was signed in March 2013. French EDF and Italian ENI are also involved in the South Stream project.

Figure 7-2: The route of the South Stream gas pipeline



Source: South Stream website

It is estimated that the overall cost of the South Stream project will be \$73 billion. Its planned capacity is 63 billion cubic meters per year. However, following the recent events in Crimea, Gunther Oettinger, EU Commissioner for Energy, announced in March 2014 that negotiations on the South Stream construction would be postponed, and Gazprom has suspended planned contracts for several land segments of the pipeline. However, most of the EU countries that are on the path of the South Stream have more recently expressed their support for it and intention to proceed with the construction.

An alternative to South Stream pipeline has emerged in recent years that would bring gas from the giant Shah Deniz II field in the Caspian Sea through the port of Baku in Azerbaijan to Europe, thus diversifying from dependence on Russian gas. The contract for building this alternative gas pipeline was recently awarded to the Trans-Adriatic Pipeline (TAP). An 870 km long pipeline will connect with the Trans Anatolian Pipeline (TANAP) near the Turkish-Greek border at Kipoi, after which it will cross over Greece and Albania and under the Adriatic Sea, before coming ashore in Southern Italy. The pipeline's routing will take gas to Albania, Bosnia and Herzegovina, and Montenegro among others. TAP shareholders are BP (UK), SOCAR (Azerbaijan), Fluxys (Belgium), Total (France), Statoil (Norway), E.ON Ruhrgas (Germany), and Axpo (Switzerland). The pipeline is described as the shortest and most-cost-effective gas supply to Italy and European markets. Budgeted at about €1.5 billion (\$1.8 billion), the TAP project is designed to offer the shortest and cheapest way to ship Azeri gas to Europe. The beginning of construction on the Southern Corridor was announced at a conference on the Western Balkans held at the EBRD in London in February 2014. TAP has signed a Memorandum of Understanding with Montenegro to extend the pipeline to that country, and it is also expected to supply gas to Bosnia and Herzegovina.

The emerging gas supply network to the Western Balkans and Turkey can be seen as a welcome development for several of the countries of the region as it will boost their energy supplies. At the same time it also presents an intense geo-political competition between the countries involved in the supply of gas. All of this provides a strong incentive for the continued involvement of these countries in providing official financial assistance to the region in order to solicit local political support for their gas supply projects. Russia and Azerbaijan have already made some donor interventions in the region but at a low scale, and have mainly concentrated on commercial contracts.

## 7.2 Geopolitics of the transport sector

The Western Balkans and Turkey are strategically positioned as intersection of three continents (Europe, Asia and Africa). Transport infrastructure development is key to connecting these continents. Six out of ten European transport corridors have branches crossing South East Europe. The IFIs, EU and Germany are among donors funding large transport projects in the region.

China is also very interested in improvements of transport infrastructure in the region. China is investing in the region's multimodal infrastructure projects, and creating network of ports, logistics centres, and railways to distribute Chinese products to the region and further to Western Europe. To increase these commercial exchanges with South Eastern Europe, China has made considerable investments in Greece. Since the onset of the country's debt crisis, Beijing has played a proactive role by supporting the purchase of Greek bonds, announcing plans to double its annual trade with Greece to US\$8 billion by 2015, and setting-up a special Greek-Chinese shipping development fund of US\$5 billion.

More strategically, at the height of the financial crisis, in November 2008, Chinese President Hu Jintao signed a €3.4 billion agreement to allow the state-owned China Ocean Shipping Company (COSCO) to upgrade and run part of the country's chief port in Piraeus. The deal entered into force on 1 October 2009 and allowed COSCO to enhance the port's capacity by building a third pier. The pending construction of a logistics hub in nearby Attica should help attain the goal of tripling operations up to 3.7 million containers by 2015. Ahead of these projects, Beijing has already decided to gradually stop using the ports of Naples and Istanbul to redirect maritime traffic toward Greece.

Furthermore, COSCO is bidding to operate the port of Thessaloniki, linked by rail to the rest of the Balkan Peninsula into Central Europe. The Chinese government is also vying to buy shares of the struggling state-owned Hellenic Railways Organization (OSE), scheduled to go up for privatization in the years to come as part of the massive Greek deficit-reduction plan. Such a move would allow the rapid delivery of Chinese products transiting through Greece.

This planned Chinese takeover of maritime and rail assets intends to transform Greece into a Southern rival for Northern Europe's Rotterdam. Indeed, the country's strategic position makes it easier for container ships transporting Chinese goods to travel from East Asia to Europe via the Suez Canal. It also provides an ideal base to reach emerging markets in the Mediterranean Basin and the Black Sea region. In other words, Beijing sees Greece as a modern gateway linking Chinese factories with consumers across Europe, the Middle East, and North Africa.

Planned for the end of 2013, the completion of Pan-European Corridor X will reconnect Western Europe to Turkey by knitting together the former Yugoslav republics along the old Brotherhood and Unity Highway. However, the slow development of the 10th pan-European rail corridor will hamper

commercial traffic from relying on the backbone of the Balkans. Thus, Chinese entrepreneurs and the China Development Bank (CDB) recently expressed great interest in funding and building the €4.5 billion railway passing through Serbia and the Belgrade-South Adriatic highway. To convince Serbian authorities, China could deploy advantageous funding similar to the conditions offered for the construction of the €170 million Zemun-Borča Bridge. Belgrade's so-called "Serbian-Chinese Friendship Bridge", set to link both banks of the Danube in 2014, will indeed be built by the China Road and Bridge Corporation (CRBC), financed at 85 percent by a low-interest loan from the Export-Import Bank of China"<sup>81</sup>.

**Figure 7-3: Pan – European Corridors in South East Europe**



Source: Croatia Ministry of Sea, Transport and Infrastructure at South East European Transport Axis Cooperation Ministerial Conference, 2010

<sup>81</sup> CSIS, Centre for Strategic & International Studies, Central Europe Watch, "China's new Balkan strategy" by Loïc Poulain, 2011

## 8 CONCLUSIONS AND RECOMMENDATIONS FOR IMPROVING DONOR INTERVENTIONS

This section sets out our recommendations to improve the implementation of donor interventions.

### 8.1 Improving the funding of donor assistance

A good example of cooperation between donor organisations and financiers to leverage additional investment funds for the region can be found in the cooperation between the International (and European) Financial Institutions (IFIs) and the European Commission. Such cooperation supports coherence between their funding operations and maximises synergies between IFI funding and EU budget based instruments. In addition to the exchange of information and strategic coordination, the IFIs and the EC aim to coordinate through the EU Platform for Blending in External Cooperation and Development. In practice, cooperation between the IFIs and the EU IPA is mainly institutionalised through the Western Balkans Investment Framework (WBIF). The WBIF is often cited as a successful example of donor coordination in relation to the provision and allocation of loans for infrastructure investment and in supporting a coordinated approach to investment planning in the region.

However, such cooperation has not prevented occasional difficulties in completing investment projects on time. The reason for this is that unexpected budget restrictions due to the need for fiscal consolidation may require cuts in public expenditure that were not envisaged at the time an infrastructure project was commissioned. In addition, due to the political cycle, governments may over-commit to investments in the run up to an election. There also appear to be difficulties in programming the future maintenance costs of some infrastructure projects. Therefore, the WBIF should take care to ensure that governments have the ability to complete their investments in the infrastructure projects that are selected.

In considering the coordination between the EIB<sup>82</sup> and the EU Delegations in the Western Balkans and Turkey, we did not find much evidence of coordination between the IFI funding operations at the country level in the operational sense that sector objectives of the IPA programme are closely aligned with the sectoral objectives and funding decisions of the IFIs. For example, EIB investments in the region tend to focus on the provision of credit lines and infrastructure investments in the sectors of Private Sector Development, Transport and Energy, and less on other IPA priority sectors such as Environment, Agriculture and Rural Development, Regional Development or the Social Sector. On the other hand, EIB loans have a higher leverage factor than loans from the other IFIs active in the region. Therefore, the EIB should be welcomed as a strong development and accession partner, while at the same time encouraged to diversify its support in the region to sectors that are priorities for the accession process including in particular Employment, Social Policies, Agriculture and Rural Development and Public Administration Reform.

The presence of multiple donors in the beneficiary countries also raises some difficulties. As an example, the promise of loans or infrastructure funding from donors with divergent perspectives to

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<sup>82</sup> The suggestion that EIB should widen its focus across a broader number of sectors may appear to contradict the EU Code of Conduct requirement for donors to focus on a few sectors of specialisation. However, as EIB is a financier rather than a donor, this restriction need not apply to its activities. Financial support is a cross-sector activity and cannot be expected to have specialised relevance to only a few sectors.



the EU, such as China or Russia, may undermine the willingness of beneficiaries to engage with the EU reform programme. If two alternative offers of loans for an infrastructure programme are forthcoming, one of which comes with conditionality to observe high standards of economic and ethical behaviour associated with EU norms and practices, while the other comes without such conditions attached, the beneficiary will be faced with an option to accept the conditional loan and follow the EU reform strategy, or accept the alternative loan and avoid the need to pursue reforms and observe EU norms<sup>83</sup>. It is therefore especially important that efforts should be made to bring these new donors within the scope of a comprehensive and coherent package that supports EU-compliant reforms within the enlargement strategy.

## 8.2 Improving the framework of support to sector approaches

The sector approach involves the identification of priorities within a sector, and the creation of projects that address these priorities. It is not in principle more complex than the project approach, while significant benefits can accrue from the sector approach. While programming and projects are still needed, these will be managed within the institutional context of Sector Working Groups and lead donors. The sector approach is especially important where the donor landscape is fragmented. A well-designed and managed sector support process is often able to overcome vested local interests that resist the needed reforms. It may also contribute to a more effective use of scarce donor funds by coordinating measures at sector level and by aligning the goals of donors and beneficiaries in order to overcome information asymmetries and promote the effective compliance of beneficiaries with donor aims. Risks can be more easily managed through the sector approach, due to greater control over the sector budget as a whole.

Nevertheless, there are significant barriers to be overcome in establishing an effective sector approach. First of all, it should be closely linked to the establishment of effective Sector Working Groups, as these are the key instruments for elaborating effective sector strategies. In this study, we came across criticism that many Sector Working Groups established in the region are too formal and have too many members. Consequently they function mainly as information exchanges and contribute little to effective sector coordination. The sector approach may work best in an environment in which there is a history of collaboration, but can be difficult to install in other contexts. Improved coordination of donors around Sector Working Groups seems to be an essential element in introducing an effective sector approach under IPA II.

A further issue is whether to rely in existing Sector Working Groups that have been established for the purpose of donor coordination or to set up new structures. So far, what exists is often joint information sharing rather than a real coordination mechanism. Simply setting up a system of Sector Working Groups, although necessary, is not sufficient to make the sector approach work effectively. Donor coordination at a sector level is also less likely to be effective where there is little coordination between line ministries. Thus donors should assist the coordination process within the government systems as well as promoting effective inter-donor coordination systems.

The sector approach needs strong political will to make it a success. Essential elements that are needed for success are data systems, information systems and monitoring, a strong government plan through which all actors can collaborate, a clear strategy and an associated funding plan and

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<sup>83</sup> Such as adherence to the principles of fundamental rights, or take actions that would consolidate the democratic process in the country

results framework. It might be important to implement the sector approach step by step in order to increase the opportunities for institutional learning. This is in line with the gradualism towards introducing the sector approach expressed in the IPA II Regulation.

Sector budget support can also be useful to ensure ownership and alignment. Budget support provided to a government needs complex benchmarks. Sector budget support refers to donor support allocated on a sector basis under the condition that defined reforms are implemented, specific benchmarks established, and performance monitored on a regular basis.

### **8.3 Recommendations on an improved division of labour among donors**

The Paris Declaration and the EU Code of Conduct on Complementarity and the Division of Labour in Development Policy urge donors to specialise in a few key sectors (according to the Code of Conduct on no more than two sectors) in order to gain economies of scale and reduce the burden of transaction costs facing the beneficiary government. Our analysis of data on three years of donor assistance in the Western Balkans and Turkey has shown that this ideal has rarely, if ever, been achieved. In most cases donors are often active in more than two sectors. There is therefore a large potential to rationalise donor effort and streamline assistance, thus saving resources and minimising transaction costs while at the same time improving the efficiency and effectiveness of the donor assistance that is available, despite the climate of resource restrictiveness. It should be quite possible to “do more with less” in this field.

Given that many of the ‘culprits’ are EU member states it should not be too impractical to organise a movement in the right direction. Where non-member states are involved, there may also be room for manoeuvre as it seems that many of the non-member state donors and new and emerging donors have special interests in a limited number of key areas linked to their geo-political interests and policies. These sectors are typically Energy, Transport and Education (in the form of scholarships linked to promoting national educational interests). In these limited areas it may be possible for the EU to come to an arrangement with the new donors to exchange information about their respective interventions in order to avoid potential duplication of activities (e.g. in the Transport sector) where it is in the interests of all donors to coordinate investments since physical transport infrastructure is regional in nature and in its essence interlinked. In the field of gas transportation through pipelines the issue is more complicated. The competition between the major suppliers of gas and energy products is likely to be intense, and it is unlikely that agreement can be reached on rationalisation of the infrastructure, since strong global interests are at play. On the other hand, this is not necessarily a negative factor for the beneficiaries, as competition in energy supply will ensure lower energy costs and hence support economic development and growth.

In the education field there is a plentiful demand for scholarships and a need for an upgrading of the skills of the workforce. Again healthy competition among donors may well benefit the beneficiaries. A potential risk, however, is that such scholarships may encourage “brain drain”, and so there is a strong case for a regional agreement to coordinate the scholarships on offer and avoiding draining the region of skilled labour in key sectors. In relation to labour force skills and skill mismatch in the region, it should also be recognised that donor organisations are themselves partly at fault in attracting highly skilled people into their fold though payment of relatively high salaries. There should be some linkage between the salaries offered to local staff in donor organisations and the provision of such skilled staff to the local administration, either through corresponding subsidies to postgraduate training of administrative personnel, or through funding

the secondment or twinning of experts from the EU countries to assist in the capacity building in local administrations together with a training component for local staff.

## 8.4 How and where to strengthen donor coordination

Our data analysis has shown that donor fragmentation is a particular problem in Albania, Bosnia and Herzegovina, and Montenegro and that the need for a robust system of donor coordination is correspondingly high in those countries. Additionally, the data reveal that the alignment of donor sector priorities with national sector priorities varies across the region. There is rather strong alignment in Albania, and the former Yugoslav Republic of Macedonia, partial alignment in Bosnia and Herzegovina and Montenegro, and little or no alignment in Turkey. From this latter evidence we conclude that there is also a need for further strengthening of donor coordination in Bosnia and Herzegovina, Montenegro and Turkey (in Serbia there is no explicit national strategy and in Kosovo the priorities are so broad as to be rather meaningless).

The analysis of donor coordination mechanisms has confirmed the presence of formally adopted donor coordination systems and aid coordination information platforms (databases) in Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo and Serbia. In Montenegro a formal donor coordination mechanism is being developed. Turkey does not possess any donor coordination system at all. This pattern fits with our finding, based on the lack of alignment of revealed donor sector priorities and national sector priorities, that Montenegro and Turkey are both countries with a need for stronger additional donor coordination. It also suggests that the donor coordination mechanisms in place in Albania and the former Yugoslav Republic of Macedonia, where alignment is strong, are having a significant impact.

The governments of the region, assisted by the offices of the Regional Cooperation Council in Sarajevo, have recently developed the SEE 2020 Strategy to guide the regional dimension of socio-economic development, integration and governance in the Western Balkans. This may do much to improve the coherence of national development strategies and provide a framework within which broader donor coordination at regional level can be structured and developed. This framework can also be used as a means to focus international assistance and especially multi-country assistance. Donors, including new and emerging donors, should take this opportunity to coordinate their efforts to promote socio-economic development at a regional level.

In the Western Balkans, there are noticeable differences in both the architecture of the aid coordination systems and the design of databases. Web-based information platforms should enable donors to take the work of others into account when developing their assistance plans and allow recipients to both hold donors accountable and plan their own development programmes with greater foresight. However, for this to happen, our analysis has shown that there is much scope for both methodological and functional improvements.

While some of the databases provide almost real-time information, others are less regularly updated. The hardware capacities and servers hosting some of the web based platforms need upgrading. Some databases are by design passive inventories of projects that only record, but do not track, aid flows occurring in the country. By design, the Donor Mapping Database in Bosnia and Herzegovina misses part of the entire picture, as it comprises information and data only on the assistance provided by those donors who are members of the Donor Coordination Forum. In addition, the primary responsibility for entering and updating project information falls with the donor



agencies themselves. Finally, the non-uniform design of these web based information platforms make the data derived from the databases not easily comparable.

Altogether, although these databases provide stakeholders and the general public with access to a mass of data, the way in which these data are provided fails to deliver the degree of accuracy and sector/geographical coherence and consistency needed to enable governments and donors to effectively coordinate aid-funded activities and does not allow civil society stakeholders or the general public to draw clear conclusions about how much aid is being provided, what it is being spent on, or what it aims to achieve, and hence fails to make a real contribution to transparency and accountability.

In theory, the various donor coordination mechanisms and databases are valuable tools that can provide useful inputs and inform the pre-accession assistance for 2014-2020, in particular through the 'sector approach'. They can play a role in increasing the beneficiary countries' ownership of the accession process and a gradual alignment of donor interventions. In terms of alignment, donor coordination mechanisms can also in theory be instrumental for communicating the national priorities and mediating needs for support to donors and for conveying progress made in areas such as planning, financial management, and procurement. However, in practice this rarely happens: donor coordination mechanisms and databases cannot make up for shortcomings in political engagement, leadership, and consensus within governments as the prime driving force in strengthening such ownership (e.g. lack of national and sector strategies, and the often missing links between national priorities, sector strategies and budgets), and they cannot substitute for a lack of confidence concerning in-country systems and their insufficient use for the delivery and management of assistance. Where donor coordination mechanisms and aid coordination information platforms are in place they should be able to support the identification of overcrowded sectors and "orphan" sectors. Depending on decisions on their use, there is a need for supporting their operations (e.g. with IPA II resources) both in terms of awareness of their actual and potential roles and in terms of resources (staff and infrastructure) and capacity building, including skills enhancement.

However, our analysis of the databases in Bosnia and Herzegovina, Kosovo and Serbia has revealed large gaps in the coverage and consistency of the information they contain. It cannot be assumed that these information systems are fundamentally reliable. An alternative approach to that of investing in further duplication of database systems might be to make more use of the OECD/DAC database. Training a few key experts in the public administration to manage this system and process the data for official and public consumption could save funds. In addition, in place of separate national databases, a single regional database could be established with support from the IPA II multi-country assistance. Instead of duplicating databases in each country a single database for the whole region could be developed. The concentration of resources so achieved could create a more effective single database for all the countries of the region and so increase the reliability and consistency of the information provided, while simultaneously saving on resources of database management and information management overall.

In Turkey, donor coordination, especially coordination with the EU and IFIs, remains a key issue for successful implementation of IPA II assistance, and there is a case for a creating more formal structure of donor coordination. A formal donor coordination office should collect all information related to current projects financed by different IFIs and donors in Turkey. Donor coordination should aim (i) to pool grants, loans and expertise to finance a common pipeline of priority investment projects and (ii) to strengthen coherence and synergies in donor support (particularly

between CEB, EBRD, EIB and IPA II) to improve the positive impact of these priority investments. A coordination platform similar to the WBIF could be established to coordinate the infrastructure investment flows into Turkey and ensure that problems such as those experienced elsewhere with over-investment pressures could be avoided.

The emergence of new donors on the donor landscape including major powers such as China, Russia, the Arab states and Turkey, challenges received notions of donor coordination. These actors often operate outside the established formal or informal donor coordination mechanisms, and provide assistance in the form of grants, and loans with no strings attached. They therefore potentially undermine the conditionalities that the traditional donors attach to their interventions, and this can be especially concerning in the case of the conditions attached to the process of EU enlargement. The established donors and beneficiaries should therefore seek to bring the new and emerging donors within the framework of donor coordination, and should also respond to the new competitive challenge by relaxing the more stringent conditionalities attached to their interventions and adopting a more flexible approach to their assistance to the region.

## **8.5 Overall Conclusions: potential for stronger synergies**

The study has shown large potential for stronger synergies in the donor interventions in the Western Balkans and Turkey. Firstly, the IPA II sector approach offers significant opportunities for rationalisation of the donor landscape, and improved donor coordination in order to economise on resources, gain benefits from economies of scale and scope, and from the focusing of activities in particular bottleneck sectors. Sector budget support, with the necessary safeguards, indicators and monitoring can provide a useful way to encourage beneficiary buy-in and avoid donor fragmentation. However, it should be recognised that the implementation of a sector approach will not be easy and may take some time to yield the expected benefits. The reasons are on the sides of both donors and beneficiaries. On the donor side, it may in some instances be difficult to overcome the different interests and operating procedures of different donors and to facilitate and support donor cooperation in specific sectors. Donors have a natural inclination to compete, as can be seen most conspicuously in the energy sector, but in other sectors too. In some circumstances this may be an advantage for the beneficiary, in other areas it may lead to inefficiencies and duplication of investments and interventions. On the beneficiary side, lack of buy-in and compliance by the beneficiary may reduce the effectiveness of the Sector Working Groups, which should be coordinated by the beneficiary, while a lack of coordination or information sharing between line ministries may cause similar problems. Overall, these issues may take time to sort out and it is therefore recommended to adopt a cautious approach to maximise the chances of overall success.

Secondly, the effectiveness of assistance is likely to be maximised when donors specialise in a few key sectors to gain economies of scale and reduce the burden of transaction costs facing the beneficiary government. At the same time, a limited number of donors should be active in any one sector, without neglecting sectors and creating “orphans” of weaker sectors such as Agriculture and Rural Development, Social Policy, or Human Rights and Minorities. Despite its obvious advantages, this approach is seldom observed in practice. Our analysis of the data from three years of donor assistance in the Western Balkans and Turkey has shown that this ideal has rarely if ever been achieved. In most cases donors are active in many more than two sectors. There is a significant potential to rationalise the donor effort and to streamline assistance, saving resources, minimising transaction costs while at the same time improving the efficiency and effectiveness of

the assistance that is available, despite the climate of resource restrictiveness. It should be quite possible to “do more with less” in this field.

Thirdly, although formal donor coordination systems are in place in most Western Balkan countries, these do not always seem to be very effective and the costs of the systems should be taken into account. There is much duplication of effort in the creation of individual national-level donor coordination databases and platforms, which in practice are not regularly updated and do not fully support the practice of effective donor coordination. There may be an opportunity to rationalise these systems by combining them at regional level and establishing a regional coordination mechanism. This could take the form of either a regional donor project database and/or a network of national donor coordination databases with regional cooperation in database management techniques and in experience with effective national donor coordination mechanisms. In addition, experts should be trained at national level in the use of the OECD DAC database, which provides essentially the same service with a greater degree of consistency. Its main drawback is in the lengthy time delay in publishing the data, and so this would still need to be supplemented by the proposed regional donor coordination mechanisms to ensure a more timely processing of up to date information and analysis.

Fourthly, the use of blending mechanisms, primarily through coordination in funding infrastructure investment, has proved quite effective, as the example of the WBIF has shown. However this has not prevented a neglect of maintenance costs that has been observed in some projects, and the general neglect of investments in the social sector. The channelling of applications for infrastructure funding through local EU Delegations and IFI offices may go some way to overcome these problems, as it will bring decision-making closer to the needs of the beneficiaries, and potentially overcome inevitable information asymmetries. However, there may be additional steps that could be undertaken to ensure the social impact of the investments that are undertaken are maximised. For example, representatives of the social partners could sit on local investment committees that would screen applications for political bias and root out those investments that are politically motivated or are pursued through local power networks rather than reflecting genuine social or economic development needs.

Finally, concerning the coordination of infrastructure investments, the WBIF should continue to act as the key platform amongst all stakeholders, building on its existing channels of expertise and know-how and further embedding the principle of beneficiary ownership on which it has been based from inception. The link between the WBIF and the creation of effective donor coordination platforms and mechanisms to determine national priorities should be further considered by the relevant actors. We furthermore recommend that Turkey should also establish a donor coordination mechanism and database, and associated investment framework, that could also be integrated into the proposed regional donor coordination system.

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# Annex 1: European Commission & IPA II

The European Union is by far the largest donor in the Western Balkans and Turkey. This Annex presents financial flows through the IPA programme for 2010-2013, and the planned amounts that are committed for the new IPA II programme from 2014-2020. It also outlines the aims and modalities of assistance with the IPA programme with a focus on the new IPA II programme for the period 2014-2020.

## 1 INTERNATIONAL ASSISTANCE THROUGH THE IPA PROGRAMME

Over the period from 2010-13 IPA commitments steadily increased on an annual basis (see Table 2.1-1). The greatest share of the programme was delivered through the country programmes, but a significant multi-beneficiary effort was made to support initiatives and actions at a regional level.

**Table 1: IPA commitments to Western Balkans and Turkey, 2010-2013 (€m)**

	2010	2011	2012	2013
Total country programmes	1,397	1,553	1,634	1,634
Multi-beneficiary institution building	142	188	207	171
Cross-border cooperation	5	5	6	6
Support expenditure	47	52	53	53
<b>Grand total</b>	<b>1,591</b>	<b>1,798</b>	<b>1,899</b>	<b>1,865</b>

Source: European Commission (2012) *Instrument for pre-accession assistance (IPA): Revised Multi-annual Financial Framework for 2013*

IPA commitment for the following period have been somewhat reduced, presumably due to the fact that Croatia joined the EU in 2013, but also possibly due to the cuts to the overall European Commission budget. Although there is provision for a steady annual increase in nominal terms although the total amount will still not reach the previous peak (see Table 2.1-2). This points to the need to make EU assistance even more cost-effective than it has been in the past and to make the best possible use of the available resources through improved donor coordination and leveraging funds from public financial institutions and from the private sector.

**Table 2: IPA commitments to Western Balkans and Turkey, 2014-2020 (€m)**

2014	2015	2016	2017	2018	2019	2020
1,573.8	1,605.2	1,637.4	1,670.1	1,703.5	1,737.6	1,771.1

Source: "The Instrument for Pre-accession Assistance" IPA II: 2014-2020", DG Enlargement, UNnit D1 – IPA Strategy and Quality, Presentation at IPA conference

The aims of the EU's new IPA II assistance programme are to "continue to focus on delivering on the Enlargement Policy ... supporting candidate countries and potential candidates in their preparations for EU membership.... The new instrument needs to operate more flexibly and to leverage more funds from other donors or the private sector by using innovative financing instruments, while pursuing simplification and reduction of the administrative burden linked to managing the financial assistance" (EC 2011a: 3). Unlike the previous IPA programme, IPA II does not distinguish between candidate and potential candidate countries.

IPA II introduces some new innovations with a focus on long-term policies and strategies in a limited number of priority sectors. “Assistance should mainly focus on a limited number of policy areas that will help beneficiary countries strengthen democratic institutions and the rule of law, reform the judiciary and public administration, respect fundamental rights and promote gender equality and non-discrimination. It should also enhance their economic and social development, underpinning a smart, sustainable and inclusive growth agenda in line with the Europe 2020 strategy and to align progressively with the Copenhagen criteria. The coherence between the financial assistance and the overall progress made in the implementation of the pre-accession strategy should be strengthened” (EC 2011a: 15).

Assistance under IPA II is intended to pursue specific objectives according to the needs of each beneficiary country and their individual enlargement agenda. According to the new IPA Regulation<sup>1</sup>, the priorities for action towards meeting objectives in the relevant policy areas should be defined in indicative strategy papers established by the Commission in partnership with the beneficiaries, and based on their specific needs and the enlargement agenda, taking relevant national strategies into account. The strategy papers should identify the policy areas to be supported through the assistance provided. The strategy papers should embody a flexible approach so that emerging needs can be taken into account and also to give incentives to improve performance. They should also be consistent with national budgets of the beneficiaries, and should take into account the support provided by other donors.

Assistance under the IPA II programme is to be managed with a strong focus on results and with incentives for those who demonstrate their commitment to reform through efficient implementation of pre-accession assistance and progress towards meeting the membership criteria. A certain proportion of the funds are to be set aside to reward good performance and penalize countries that do not perform well in relation to the aims of the programme.

Assistance under IPA II should also continue to make use of the structures and instruments that have proved their worth in the pre-accession process. The transition from direct management of pre-accession funds by the Commission to indirect management by the beneficiaries should be progressive and in line with the respective capacities of the beneficiaries.

While the attention to the needs of the countries is in accordance with the Paris Declaration on international aid, the individual country needs are likely to be supported only in so far as they are in line with the Accession process. The objectives of the IPA programme include (i) support for political reforms and (ii) support for economic, social and territorial development with a view to smart, sustainable and inclusive growth (the Europe 2020 objectives).

Assistance under IPA II is targeted towards a specific set of “policy areas”. These are (a) reforms in preparation for Union membership related to institution- and capacity building (b) socio-economic and regional development, (c) employment, social policies, education, promotion of gender equality and human resource development, (d) agriculture and rural development and (e) regional and territorial cooperation. Assistance provided under IPA II is to support these policy areas through policy reforms, approximation of laws, capacity building and investment. Where appropriate, support should be provided also for good governance, the rule of law and the fight against corruption and organised crime.

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<sup>1</sup> Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II), OJ L77/11, 15.03.2014

Assistance under IPA II is to be sized according to needs, commitment to reforms and progress in implementing those reforms. It should assist beneficiaries to design and implement sector reforms. The emphasis on comprehensive sector policies and strategies is clearly stated.<sup>2</sup> The assistance is to be provided on the basis of country or multi-country indicative strategy papers that define the priorities for action towards meeting objectives in the relevant policy areas.

The IPA II regulation sets out a set of thematic priorities.

The Regulation sets out the need for transparency in the publishing of data relating to the financial flows involved in providing the assistance, in line with international commitments on transparency and accountability.

The Regulation also sets out the need for donor coordination. It requires the Commission, the Member States and the EIB to ensure coordination of their respective assistance programmes to increase effectiveness and efficiency in the delivery of assistance and to prevent double funding, in line with the established principles for strengthening operational coordination in the field of external assistance, and for the harmonisation of policies and procedures, in particular the international principles on aid effectiveness. This coordination should ensure “better coordination and complementarity with multilateral and regional organisations and entities, such as international financial institutions, United Nations agencies, funds and programmes, and non-Union donors”<sup>3</sup>. Furthermore, in preparing, implementing and monitoring assistance the Commission is required to act in partnership with the beneficiaries, including national and local authorities and civil society organisations. The Commission should also encourage coordination among relevant stakeholders.

The funding shall be made available through two multiannual allocations covering the first four years and the remaining three years respectively.

## **2 MODALITIES OF ASSISTANCE AND FINANCIAL INNOVATION**

The deployment of assistance will rely on innovative financial instruments designed to leverage more private funds and exploiting synergies with such instruments developed for internal EU policies. Increased strategic cooperation with other donors and international financial institutions and development finance institutions is envisaged in the context of a clearer division of labour. Direct budget support is predicated on a country meeting the necessary standards of public financial management (PFM), and so the IPA programme has made special efforts in recent years to support the modernisation of public financial management systems<sup>4</sup>.

A significant element of IPA support has been provided in the form of infrastructure investments (so-called works and supplies). This has provided the ‘hardware’ for the development of the beneficiary countries within the context of their accession aspirations. However, the immense needs for IPA works and supplies are not always appropriately counterbalanced with objective prioritisation and selection, which need improvements in the near future.

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<sup>2</sup> This is set out in Article 3(2) of the IPA II Regulation.

<sup>3</sup> IPA II Regulation, Article 5(5).

<sup>4</sup> Ibid.

### 3 THE PLANNING PROCESS

For the period 2014 to 2020, Country Strategy Papers (CSPs) are being developed as multi-annual documents describing how each beneficiary country will use financial assistance to address the political priorities of the EU enlargement strategy. CSPs are described as being “blueprints of the actions to be taken in order to advance the country on the path to accession and so they identify key areas where substantial improvements are necessary to prepare the country for membership”<sup>5</sup>. They define country-specific priorities under the different policy areas, in line with the respective Progress Reports and the needs and capacities of each country. They are articulated around sectors, reflecting the progressive introduction of the sector approach, normally grouped per policy area, according to the situation in each country.

The preparation of the CSPs is designed to tailor assistance to the needs and characteristics of each country. The NIPACs are key partners in drafting the CSPs in each beneficiary country and are responsible for donor coordination. The EU Delegations support the NIPACs in this process in regard to donor coordination and consultations with civil society. Such partnerships are most relevant where NIPAC also has the role of Donor Coordinator.

This new approach takes stock of lessons learnt during implementation of the previous IPA assistance, as presented in the Annual Reports on Financial Assistance for Enlargement. The 2013 report examined evidence of a number of assistance projects that “did not achieve the expected results because of an insufficient sense of ownership on the part of the beneficiaries. The lesson learned was that EU assistance must not only reflect European Partnership priorities but, in the broader sense of the Paris Declaration, must also be interlocked with *[the country’s]* own development and action plans”<sup>6</sup>. Future EU assistance should therefore “promote ownership by ensuring that projects are in line with *[the country’s]* own reform strategies and by enhanced participation of beneficiaries in the programming process”<sup>7</sup>.

This renewed approach for the IPA instrument which is intended to make financial assistance for pre-accession more strategic and result-oriented, based on longer term planning and programming in line with the enlargement strategy and priorities and more flexible and tailored to address beneficiary countries’ needs and capacities. This approach is confirmed by the CSPs for the pre-accession countries.

### 4 THE SECTOR APPROACH

In a major innovation, the Commission has begun to gradually implement a sector approach in the programming in order to achieve better results, impact and added value through the EU assistance to the Enlargement countries. The shift towards a sector approach is particularly relevant at a time when budget constraints faced by Member States and International Financial Institutions call for an even more efficient and sustainable pre-accession assistance: a strategy-based approach to programming built upon the countries’ needs and strengths is expected to contribute to a more effective and results oriented pre-

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<sup>5</sup> “Sector Approach in Pre-Accession Assistance” Guidance Document, Ref. Ares(2013)65573 - 18/01/2013, p.26.

<sup>6</sup> “2012 Annual Report on Financial Assistance for Enlargement (IPA, PHARE, CARDS, Turkey Pre-Accession Instrument, Transition Facility); Report from the Commission to the European Parliament, the Council, and the European Economic and Social Committee”, p. 124.

<sup>7</sup> Ibid. Emphasis added.

accession process. It is also intended to ensure greater ownership of national authorities over the programmes, since the sector approach is based on national strategies. It is hoped that this approach will maximise the potential for complementarity, increase the leverage between different modes of support and rationalise support through an appropriate division of labour (EC 2013a: 123).

The emphasis on the gradual nature of the introduction of the sector approach seems appropriate. The sector approach is a complex operation that requires coordination at multiple levels of both donors and beneficiaries. Although in principle it may be no more complex than the project approach, it requires good data systems, information systems and monitoring procedures, a strong government plan that all actors can get behind, a clear strategy and associated financing plan, and needs to be supporting a common results framework agreed by all donors and beneficiaries. In the absence of these conditions, systems may be established that are unlikely to succeed. It might therefore be sensible to introduce the sector approach on a gradual basis to identify the practicality of the approach and any specific problems that might arise in its implementation.

The IPA Regulation envisages that assistance should continue to support efforts to advance regional cooperation<sup>8</sup>. This has a special relevance in the context of the recent adoption of the SEE 2020 strategy under the auspices of the Regional Cooperation Council which aligns with the Europe 2020 Strategy, adapting it to regional needs by the addition of two additional pillars namely governance for growth and integrated growth. Regional programmes have the potential to enhance the effectiveness of interventions with observable spillovers such as in the fields of transport, energy, environment, climate change, the fight against organised crime and migration issues (EC, 2011a: 12). Other areas of regional cooperation are identified in the SEE 2020 Strategy.

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<sup>8</sup> Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II)

# Annex 2: Bilateral Donors

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<b>1</b>	<b>EU Member States</b>	<b>2</b>
1.1	Austria	2
1.2	Czech Republic	4
1.3	Denmark	5
1.4	France	6
1.5	The Federal Republic of Germany	7
1.6	Finland	11
1.7	Greece	12
1.8	Hungary	13
1.9	Italy	14
1.10	Grand Duchy of Luxembourg	16
1.11	Netherlands	17
1.12	Slovenia	18
1.13	Spain	19
1.14	Sweden	20
1.15	United Kingdom	21
<b>2</b>	<b>Other donors</b>	<b>23</b>
2.1	China	23
2.2	Japan	24
2.3	Norway	25
2.4	Russia	27
2.5	Switzerland	27
2.6	Turkey	30
2.7	United Arab Emirates	32
2.8	USA	33



# 1 EU MEMBER STATES

## 1.1 Austria

Austria has strong historical, social and cultural links with countries in the Western Balkans, owing to the proximity of the Austro Hungarian Empire, which administered Bosnia and Herzegovina under the Treaty of Berlin from 1878, and annexed the country in 1908. During the 1990s, Austria became an asylum destination for many thousands of refugees fleeing conflicts in Bosnia, Croatia, Serbia and Kosovo. Furthermore, Austria has geo-political, commercial and trading interests in the region. For example, the share of Austria's total exports to central and Eastern Europe rose from 12.5% in 1991-95 to 18% in 2001-05 (OECD, 2007).

Austria's development cooperation is based on the Federal Act on Development Cooperation of 2002 (amended in 2003) and on the current "Three Year Programme on Austrian Development Policy 2013 – 2015". The Federal Ministry for Europe, Integration and External Affairs (FMEIA) is responsible for development policy, while Austria's Development Agency (ADA) and the Austrian Development Bank (OeEB) are in charge of aid implementation. The Austrian Development Agency supports Austrian private sector investment and trade in target countries through the ADA Information and Communication office. Between 2007 and 2011, total Austrian ODA fell from 0.5% of GNI to 0.27% of GNI, while its total bilateral funding to all assisted countries fell from €967m to €352m and correspondingly its contribution to multilateral aid increased in total from €354m to €447m<sup>1</sup>. In 2014, the budget line for the SEE region of ADC was set at €4m<sup>2</sup>. The work of the ADA is supported by the OeEB, which has 19 projects currently active in the region. The OeEB finances investments of private companies through loans at near-market conditions and concessional finance in support of the developmental effectiveness of projects in related programs. For example, the OeEB has provided a €10m risk participation loan to support a KfW credit line to secure the drinking water supply in Pristina.

The introduction of a four-year budget framework (2009-2013) has made overall aid flows more predictable. The Federal Financial Framework Act 2013–2016 sets the financial parameters for medium-term ODA levels. The Danube Region/Western Balkan countries is a priority region for Austria and all six Western Balkan countries plus Moldova are eligible to receive funding for specific country components in ADC's regional projects. In 2011, Austria contributed €232m to development cooperation in the EU budget and to the European Development Fund (EDF)<sup>3</sup>. The FMEIA contributed to projects implemented by UNDP in Albania, UNICEF in Kosovo and UNIDF in Serbia. Contributions were also made by Austria to the EBRD –Austrian Technical Assistance Co-operation Fund and the EBRD Municipal Projects in the Western Balkans.

Austrian Development Cooperation (ADC) now regards Albania and Kosovo as its priority beneficiaries in the Western Balkans, and is bilaterally phasing out elsewhere. In June 2010 the coordination offices run by the Austrian Development Agency were closed in Montenegro and Macedonia and the office in Bosnia and Herzegovina was closed in 2011. To

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<sup>1</sup> ADC (2013: 30).

<sup>2</sup> Correspondence from Austrian government official.

<sup>3</sup> ADC (2013: 13)

compensate for the bilateral closures, ADC's regional development has been strengthened with the new Strategy for the Danube Region/Western Balkans 2014 – 2020. In 2011 net disbursements to Macedonia turned negative €120,000<sup>4</sup>. In 2011, three Enlargement countries were among the 10 largest recipients of Austrian ODA including Turkey (€22.8m), Bosnia and Herzegovina (€19.4m), and Kosovo (€9.2m). Assistance to Turkey contained a high proportion of support for students' costs and teachers sent. Austria also granted €1.7m in debt relief to Bosnia and Herzegovina. Country Strategies have been produced for Albania (2011-2013), Bosnia and Herzegovina (2011-2013) and Kosovo (2013-2020). In 2014 the budget of the ADC for the SE region was increased to €4m.

ADC follows the EU Code of Conduct for Complementarity and Division of Labour and concentrates in its priority countries of operation on no more than three sectors, focusing on sectors in which Austria has long-standing experience and extensive expertise<sup>5</sup>. Austria plays the role of Lead Donor in Albania in the Water Sector Group, while in Kosovo Austria chairs the Higher Education Group<sup>6</sup>. ADC also focuses on economic development (especially SMEs and rural areas). ADC also has a comparative advantage in the field of vocational education. For example, it has supported the foundation of a school of architecture in Belgrade to train skilled workers for the construction industry. Partners such as the Burgenland Vocational Training Institute and the Übelbach School of Architecture also supported this initiative<sup>7</sup>. ADC also has a comparative advantage in gender issues, with a five-year gender equality project in Albania. Cooperation in gender budgeting was organized with UNWOMEN throughout South East Europe<sup>8</sup>. The Austrian government co-finances the work of Austrian and local NGOs in target countries.

**Table 1-1: Austria ODA total net disbursements (€m) and per capita (€)**

	Total ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	6.0	5.8	6.9	1.92	1.84	2.19
<b>Bosnia-Herzegovina</b>	23.7	19.4	21.6	6.16	5.05	5.64
<b>Kosovo</b>	12.6	9.2	8.8	7.11	5.11	4.86
<b>Montenegro</b>	1.6	0.8	0.7	2.61	1.34	1.21
<b>Serbia</b>	9.9	7.4	8.8	1.37	1.03	1.22
<b>The former Yugoslav Republic of Macedonia</b>	2.1	1.6	2.2	0.99	0.77	1.05
<b>Turkey</b>	21.0	22.7	30.8	0.29	0.31	0.42
<b>Grand Total</b>	<b>77.0</b>	<b>67.0</b>	<b>79.9</b>	..	..	..

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

In 2012, Austria directed the largest share of its Official Development Assistance to Turkey (39%) and Bosnia and Herzegovina (27%). In terms of per capita assistance, Austrian ODA flows were focused largely on Bosnia and Herzegovina (€5.64 per capita) and Kosovo (€4.86 per capita), although per capita flows are falling in relation to the latter. The large involvement in Bosnia and Herzegovina reflects Austria's historical ties with the country.

**Figure 1: Austria Official Development Assistance and Private Investment**

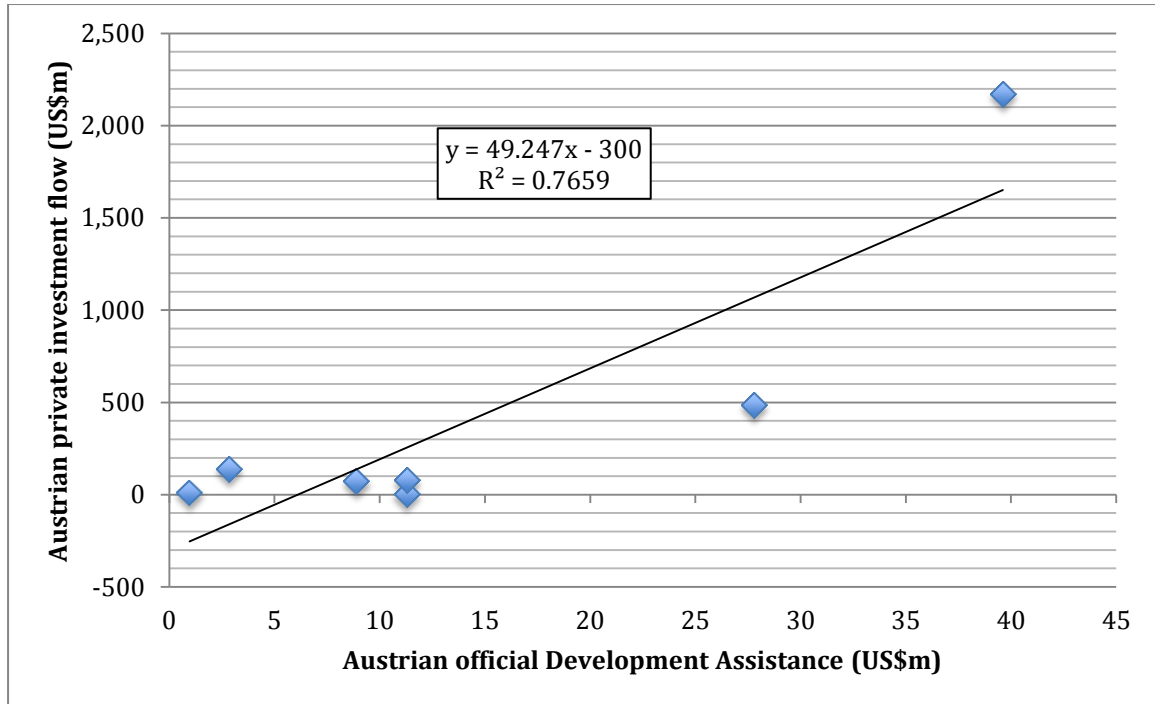
<sup>4</sup> ADC (2013: 40)

<sup>5</sup> ADC (2013: 18)

<sup>6</sup> Ibid.

<sup>7</sup> ADC (2013: 21)

<sup>8</sup> ADC (2013: 24)



Source: OECD StatExtracts online database, current prices. The analysis covers seven countries in the Western Balkans and Turkey

As can be seen from Figure 2, ODA flows from Austria follow quite closely the private sector flows, suggesting that an important aspect of Austrian ODA is support for the creating an institutional environment in which Austrian businesses as well as all other businesses can perform their activity to best effect. This is to be expected since Austria has close economic ties with its neighbors in the Western Balkans, and has an inherent interest in improving the socio-economic situation, and in reducing poverty and vulnerabilities of these countries.

Austria issues guidelines on sector concentration and participates in country-level frameworks and platforms in 25%-50% of its priority countries.

## 1.2 Czech Republic

The Czech Development Agency is an implementing body of the Czech Development Cooperation primarily focused on design and execution of bilateral development projects. The Czech development Agency (CzDA) was established by a decision of the Czech Ministry of Foreign Affairs in January 2008. It has taken up activities of the Czech Development Center. CzDA cooperates with the MFA on the establishment of an institutional framework of the Czech development cooperation and actively participates in the creation of development cooperation programs between the Czech Republic and priority countries. The main tasks of CzDA are to identify, formulate, implement and monitor projects in priority partner countries, to award grants to NGOs and to conduct professional training for Czech ODA staff.

**Table 1-2: Czech ODA total net disbursements (€m) and per capita (€)**

	Total ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	0.4	0.3	0.3	0.13	0.11	0.10
<b>Bosnia-Herzegovina</b>	2.3	2.6	2.5	0.61	0.67	0.65
<b>Kosovo</b>	2.7	0.8	1.8	1.49	0.42	0.97

<b>Montenegro</b>	0.1	0.1	0.1	0.23	0.08	0.12
<b>Serbia</b>	2.7	2.3	1.9	0.37	0.32	0.26
<b>The former Yugoslav Republic of Macedonia</b>	0.1	0.2	0.1	0.07	0.07	0.07
<b>Turkey</b>	0.7	0.5	0.1	0.01	0.01	0.00
<b>Grand Total</b>	<b>9.0</b>	<b>6.6</b>	<b>6.7</b>	..	..	..

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

The largest programme of Czech assistance is in Bosnia and Herzegovina, where some €2.5 million was disbursed in 2012. Czech Development Assistance in Bosnia and Herzegovina focuses mainly on economic and industrial development, social development, rural development, agriculture and on the water supply and sanitation sector. The CzDA has cooperated with USAID and SIDA on various projects, for example on the project “Increase of milk production in North-East Bosnia”, aimed at supporting production and export of milk and milk products.

In Kosovo, the core activity has been primarily the integration of socially disadvantaged groups to society. This includes the integration of children from disadvantaged groups to the educational system of Kosovo and the integration of disabled. In Serbia, several projects are being implemented in sectors where CzDA can build on previous successful experience – Health, water supply and sanitation, energy sector and in the business and other services sectors.

The Czech development cooperation is concentrated in 5 priority sectors and is moving towards identifying three priority sectors in each country of operations. It participates in country-level results frameworks and platforms in over half of its priority countries.

### 1.3 Denmark

Denmark’s development cooperation aims to fight poverty with human rights and economic growth.<sup>9</sup> The aim of Denmark’s development cooperation is to reduce poverty through the promotion of human rights and economic growth.

In January 2013, Denmark issued a Strategy for the Danish Neighbourhood Programme for the period 2013-2017, covering the Enlargement countries and the European neighborhood region. The budget for the programme is €133m over the five years, of which 30% will be allocated to the Western Balkans (i.e. €40m) The major objectives of the Strategy are human rights and democracy, including good governance, conflict resolution and peace-building, gender equality, minority rights and strengthening civil society and independent media<sup>10</sup>. A further objective is sustainable and inclusive economic development, including private sector development aiming at promoting sustainable growth, skills development, job creation, energy efficiency and green technology. The Neighbourhood Programme serves to reinforce Denmark’s bilateral relations with individual countries in the region, including strengthening personal, professional and economic ties between private actors, and to promote regional cooperation and integration.

Danish bilateral efforts are in line with the EU enlargement process. Danish assistance aims at complementing the EU assistance through targeted and flexible interventions in selected

<sup>9</sup> See: <http://um.dk/en/danida-en/>

<sup>10</sup> Strategy for the Danish Neighbourhood Programme 2013-2017, p.7

priority areas. It is envisaged that the Programme will launch two to four long-term interventions per year of typically three to five years duration in each of three priority countries. Denmark's Export and Credit Agency (EKF) and the Investment Fund for Developing Countries (IFU) both offer advice and risk capital to Danish companies wanting to develop business relations in the region.

**Table 1-3: Denmark ODA total net disbursements (€m) and per capita (€)**

	Total net ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	1.1	1.0	1.2	0.4	0.3	0.4
<b>Bosnia-Herzegovina</b>	1.0	0.0	0.2	0.3	0.0	0.1
	0.0	0.0	0.0	0.0	0.0	0.0
<b>Kosovo</b>	3.6	3.7	3.9	2.0	2.1	2.1
<b>Montenegro</b>	0.5	0.6	0.6	0.9	0.9	0.9
<b>Serbia</b>	0.3	1.6	-25.0	0.0	0.2	-3.5
<b>The former Yugoslav Republic of Macedonia</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>Turkey</b>	0.8	0.6	0.6	0.0	0.0	0.0
<b>Grand Total</b>	<b>7.3</b>	<b>7.5</b>	<b>-18.5</b>			

*Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates*

Danish assistance in the Western Balkans focuses on Albania, Bosnia and Herzegovina and Kosovo. These countries are regarded as among the poorest in the Balkans and face a number of challenges in securing sustainable economic growth and the political reforms needed to realize their EU membership aspirations. The specific allocation of funds to each country and each long-term programme is to be outlined annually in the Danish Finance Act, and information about overall programming will be published on the website of the Ministry of Foreign Affairs. The main types of interventions will be multi-annual sector-specific programmes as well as ad hoc interventions through smaller projects. Secondments and twinning arrangements will also be supported.

In line with the Busan Partnership for Effective Development Cooperation (2011) the main principles of assistance to the Western Balkan priority countries will include ownership (i.e. alignment with national priorities), results-based management, inclusive development partnerships and transparency and accountability. Danish aid management guidelines are very focused on using joint multi-annual programming, and mutual accountability arrangements are used in over 80% of Denmark's priority countries. Denmark limits her programming of official development assistance to three sectors and participates in country-level frameworks and platforms in 50%-80% of its priority countries. In 2012, Denmark published its schedule to implement the common standard for transparency for development cooperation resources.

## 1.4 France

The Agence Française de Développement (French Development Agency or AFD) is a major development finance institution, approving nearly €7 billion of funding globally in 2012. The Agency finances and assists projects in more than 90 countries, aiming to improve living conditions, support economic growth, protect the planet, and help countries in fragile situations. It supports development projects for central and local governments, non-governmental organisations and public and private enterprises. AFD's subsidiary

PROPARCO, is dedicated to the private sector, supports job creation, business competitiveness and entrepreneurship. French official development assistance is mainly oriented to Sub-Saharan Africa, the Middle East and North Africa, Latin America and the Caribbean, Asia, and French Overseas Territories. Very small amounts of assistance are given to the Western Balkans, while Turkey has been a major recipient of French assistance.

**Table 1-4: France ODA total net disbursements (€m) and per capita (€)**

	Total ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	3.2	3.0	3.3	1.02	0.96	1.04
<b>Bosnia-Herzegovina</b>	2.6	2.1	2.1	0.69	0.55	0.54
<b>Kosovo</b>	1.3	0.8	0.5	0.73	0.45	0.30
<b>Montenegro</b>	0.5	0.4	0.5	0.77	0.63	0.74
<b>Serbia</b>	10.5	8.1	8.4	1.44	1.11	1.17
<b>The former Yugoslav Republic of Macedonia</b>	2.2	2.3	2.1	1.04	1.08	1.00
<b>Turkey</b>	66.7	175.7	-16.6	0.93	2.41	-0.23
<b>Grand Total</b>	<b>87.0</b>	<b>192.4</b>	<b>0.2</b>	<b>..</b>	<b>..</b>	<b>..</b>

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

Turkey received substantial flows of ODA from France in 2010 and 2011, however these flows turned negative in 2012. A major investment has been made in the Municipality of Izmir Transportation Plan. AFD participated in a multi-donor €159m loan together with the EBRD, the IFC to cover investment in maritime transportation through the purchase of 17 ferries, renovating old wharves and building new docks and a maintenance site. A €45 million loan from AFD will replace the current fleet of ferries with higher performance and more fuel-efficient ones<sup>11</sup>.

In relation to donor coordination, France adopts a rule by which only 3 sectors per country should be targeted. France participates in country-level results frameworks and platforms in 25%-50% of her priority countries. In January 2013, France published her plan to implement the common standard for transparency for development cooperation resources.

## 1.5 The Federal Republic of Germany

On behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH provides assistance to the region through bilateral projects. GIZ is the implementing agency for German international development assistance, provided in the form of grants and technical assistance. KfW is the organisation responsible for implementing German financial assistance provided in the form of concessional loans.

The overarching goals of German measures are EU alignment, good governance, conflict prevention, anti-corruption measures and job creation. In practice Germany sees her assistance as complementary to the EU, while having a longer time horizon for the implementation of projects in contrast to the two-year time horizon of most IPA projects (a practice which should change under the sector approach under IPA II which promises a longer time horizon for EU interventions). German assistance in the Western Balkan countries

<sup>11</sup> AFD Brochure, 2013, p. 13



focuses on three main sectors (Municipal infrastructure, Energy and Private Sector Development via the finance sector; all with the main objective for sustainable economic development including professional education)<sup>12</sup>.

In 2007, BMZ introduced the Open Regional Funds (ORF) implemented by GIZ. Under the scheme, countries submit project proposals and GIZ helps to put them into practice. All projects must support the implementation of the relevant Stabilisation and Association Agreements with the EU or promote compliance with the *acquis communautaire*. The process is fast and flexible, with minimal bureaucracy. The only prerequisite is that each project must involve cooperation between several countries and should support their efforts to move closer to the EU.

**Table 1-5: Germany ODA total net disbursements (€m) and per capita (€)**

	Total ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	26.7	27.8	20.1	8.46	8.83	6.37
<b>Bosnia-Herzegovina</b>	22.6	23.7	33.4	5.88	6.16	8.71
<b>Kosovo</b>	23.1	24.6	22.1	12.99	13.71	12.22
<b>Montenegro</b>	10.4	2.9	4.7	16.70	4.72	7.52
<b>Serbia</b>	95.2	51.3	40.9	13.06	7.07	5.67
<b>The former Yugoslav Republic of Macedonia</b>	10.6	16.7	26.3	5.05	7.94	12.49
<b>Turkey</b>	-7.7	42.1	22.5	-0.11	0.57	0.30
<b>Grand Total</b>	<b>180.8</b>	<b>189.2</b>	<b>170.1</b>	..	..	..

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

German assistance to the region of the Western Balkans and Turkey has remained large and stable over the years. In 2012, the largest absolute amount of German ODA was allocated to Serbia (24%). In terms of per capita flows, Kosovo and the former Yugoslav Republic of Macedonia have received the largest amounts (€12.22 and €12.49 respectively in 2012).

**Table 1-6: Germany share of grants in total ODA**

	2010	2011	2012
<b>Albania</b>	56.2%	49.9%	66.5%
<b>Bosnia-Herzegovina</b>	90.9%	79.3%	83.2%
	100.0%	54.8%	30.4%
<b>Kosovo</b>	100.0%	99.8%	99.6%
<b>Montenegro</b>	52.5%	64.8%	38.7%
<b>Serbia</b>	41.3%	34.0%	46.6%
<b>The former Yugoslav Republic of Macedonia</b>	100.0%	54.8%	30.4%
<b>Turkey</b>	74.2%	48.8%	64.9%

Source: OECD QWIDS online database.

<sup>12</sup> The number of sectors a country focuses on is to some extent a matter of definition as the broader the sector definition; the fewer focal sectors are likely to be involved. In the main report, we use a sectoral classification that indicates German involvement in 6 sectors in Serbia, for example, due to the slightly narrower definition of sectors identified in the Study (see Annex 10).

The share of German assistance provided in the form of grants through GIZ or concessional loans and other instruments through KfW has varied substantially by country and over time. In 2010 all assistance provided to the former Yugoslav Republic of Macedonia and Kosovo was in the form of grants, but by 2012 the share provided to the former in the form of grants had changed to 30%, implying that there was a large increase in loans provided by KfW augmenting total ODA flow to the former Yugoslav Republic of Macedonia, as can be seen from Table 1-5 which shows a large increase in total ODA flows to the former Yugoslav Republic of Macedonia in 2012. The grant share also varied across countries being below 50% in the former Yugoslav Republic of Macedonia, Montenegro and Serbia in 2012, and above 50% in the other countries.

The KfW deserves a special mention, as it is one of the largest bilateral development banks active in the region, with offices in each of the beneficiary countries. KfW was established in 1948 as a public corporation with its seat in Frankfurt am Main. It is a promotional finance institution for the domestic economy and official finance agent for cooperation with developing and transition countries<sup>13</sup>. The Federal Republic of Germany holds 80% of its foundation capital and the remaining 20% belongs to the German federal states. With a balance sheet of almost €465 billion, KfW is among the biggest banks in Europe. KfW employs consultants to prepare its projects<sup>14</sup>, and in this sense it engages permanently with the blending concept, and has a lot of experience with it. KfW insists on the use of consultants for quality and control purposes.

Since 1988, Germany has assisted **Albania** to develop the water- and energy-supply and sanitation sectors. Germany is also supporting the development of a social and ecological market economy. Rural and agricultural enterprises receive assistance in the form of loans, subsidies, further training and consulting services. The construction of vocational schools is also being supported. German funding provided since 1988 amounts to more than € 1 billion, making Germany one of Albania's biggest and most important bilateral donors. A major crosscutting issue is environmental and climate protection. From 2014 onwards, more funding is to be made available for waste management. All projects are designed to move Albania closer to the EU. In 2013, KfW made new commitments in the water and sanitation projects to the amount of €943,000.

In **Bosnia and Herzegovina**, Germany provides support in two priority areas: (i) democracy, civil society and public administration, and (ii) renewable energy and energy efficiency. Germany pledged €56 million for Bosnia and Herzegovina in 2013, of which up to €51.5 million were earmarked for financial cooperation and €4.5 million for technical cooperation. The major share of the funds, €50 million, was to be provided as a development loan at favourable terms, to be used to expand energy generation using hydropower. In 2013, KfW made new commitments in the Energy Generation and Supply sector amounting to €75 million.

Germany is the second largest bilateral donor in **Kosovo**, after the United States. Since 1999, Germany has provided more than € 420 million for emergency relief measures, humanitarian aid and Technical and Financial Cooperation projects. At the intergovernmental negotiations on development cooperation in September 2013, new commitments totalling €

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<sup>13</sup> In contrast to development loans, which are concessional in nature and therefore classified as ODA, promotional loans do not have a concessional element. KfW loans in the Western Balkans and Turkey are concessional and hence count towards the overall sum of German ODA in the region.

<sup>14</sup> According to KfW procurement rules: "Equal opportunities: any bidder – regardless of the company's origins or location – can participate in FC-financed tenders".

29.5 million were made for 2013, including € 21.5 million in Financial Cooperation and € 8.0 million in Technical Cooperation. Development cooperation focuses on the following sectors: public administration, democratisation and civil society, basic education and vocational training, infrastructure development, in particular water management and power supply, and sustainable economic development. In 2013, KfW made new commitments in the Energy Generation and Supply amounting to €27 million.

Germany has been the largest bilateral donor in **Montenegro**. Development cooperation has focused on (i) public infrastructure, particularly in the energy sector, water supply and sanitation, (ii) the tourist sector, (iii) promoting business and creating jobs, especially in SMEs. With the commencement of EU accession negotiations, Montenegro has ceased to be a partner of bilateral development cooperation. In 2013, KfW made new commitments in the Water and Sanitation amounting to €37 million.

Germany's development cooperation with **Serbia** began in 2000. Since then, the Federal Government has provided more than € 1.6 billion, making Germany the largest bilateral donor. Support has been directed to the modernisation of the public utility infrastructure, strengthening the local economy through programmes to promote SMEs, modernisation of vocational training and improvement of the investment climate through legal reforms. Germany's objectives include: (i) supporting Serbia's efforts to move closer to the EU (ii) promoting a market economy and the rule of law and encouraging democratic and ecologically sustainable development in Serbia (iii) strengthening regional cross-border cooperation. In October 2012, Germany pledged support of €81 million for 2012, of which €72 million were earmarked for financial cooperation and €9 million for technical cooperation. The agreed priority areas were (i) Infrastructure in the energy and water sectors, (ii) Sustainable economic development and promoting employment and (iii) Democracy, civil society and public administration (administrative and legal reform). Germany's engagement is supplemented by youth exchange and promotion measures. Germany also draws on regional funds to provide Serbia with additional resources for cross-border measures. Money from these funds is used to finance projects in the western Balkans aimed, for example, at promoting foreign trade and improving energy efficiency. Investments through the KfW have reached a level of €840 million in total, including €430 million for the energy sector, €170 million for the improvement of the water supply and €240 million for the strengthening of the financial sector, particularly to promote medium and small-sized Serbian enterprises, municipal infrastructure and energy efficiency investments. In 2013, KfW made new commitments in the Water and Sanitation sector amounting to €4 million.

Germany development cooperation in **the former Yugoslav Republic of Macedonia** is being gradually phased out since the former Yugoslav Republic of Macedonia was granted candidate status for EU membership in 2005. Since 1992, Germany has made available or made commitments of € 290 million to the former Yugoslav Republic of Macedonia in the form of grants or low-interest loans as part of Financial and Technical Cooperation. Cooperation focuses on environmentally friendly infrastructure projects (in particular hydroelectric power and wind energy, water supply and sanitation as well as waste management and nature conservation), strengthening social infrastructure through municipal projects and supporting the development of a market economy, particularly by promoting the banking sector and small and medium-sized enterprises (SME), modernising agriculture and aligning legislation with EU standards. In 2013, KfW made new commitments in the Energy Generation and Supply amounting to €15 million.

Bilateral development cooperation with **Turkey**, which began in 1959, is being phased out. Over the decades, the cooperation had evolved into a successful model. An aggregate amount of more than €4.5 billion has been pledged in the form of concessionary loans and subsidies under Financial and Technical Cooperation and has been used to conduct more than 400 projects, a few of which are still on-going. Although classical development cooperation is being phased out, the Federal Ministry for Economic Cooperation and Development (BMZ) is continuing cooperation with Turkey in selected areas involving innovative and forward-looking technologies. For example, the BMZ has signalled its willingness to provide financial support for the planned construction of Turkey's very first solar thermal power plant. In 2013, KfW made new commitments in the Banking and Financial Services sector amounting to €187.6 million.

Germany is actively involved in donor coordination mechanisms. In Albania, for example, Germany is the lead donor in Energy Sector Working Group together with the World Bank, and is also lead donor in SWGs in the Water, Rural Development, Vocational Education and Economic Development sectors.

In relation to donor coordination, Germany is preparing guidelines on joint multi-annual programming, and mutual accountability arrangements are used in 50%-80% of her priority countries. Cooperation in each priority country is restricted to three sectors, drawn from a defined list of 11 sectors in all. Germany participates in country-level results frameworks and platforms in 50%-8% of her priority countries and in 2012 published a schedule to implement the common standards for transparency for development cooperation resources.

## 1.6 Finland

Development policy is an integral part of Finland's foreign and security policy. Development policy contributes to the global effort to eradicate poverty through economically, socially and ecologically sustainable development in compliance with the UN Millennium Development Goals set in 2000.<sup>15</sup> Finland has published a Development Cooperation Framework for the Western Balkans covering the period 2007-2013. The foci of the framework are (i) stability and security, (ii) aid for trade (iii) environment and (iv) social sustainability. The country-specific focus of Finnish cooperation in the Western Balkans is Kosovo. Implementation of the framework is steered by the principles of coherence, complementarity and cooperation methods. The framework has had a budget of €38 million. With a view to complementarity and effectiveness, Finland participates in close collaboration and coordination with other donors and governments in the IPA countries. Finland concentrates resources by reducing the number of projects and increasing their size. Finland also makes more efficient use of resources by improving the division of labour and involving diplomatic missions in the monitoring of cooperation. Finland has committed herself to the implementation of the Paris Declaration and the Accra Agenda for Action in order to enhance the success and effectiveness of aid. Finland emphasizes the partner countries' ownership of their own development and of the development cooperation that supports it as the basis for the effectiveness of aid. Ownership in this sense presupposes that the donors align with the development policy priorities of the partner countries.<sup>16</sup>

Under the theme of "aid for trade" Finland also contributes to the World Bank's Sustainable Employment Development Policy Programme (SEDPP). Finland's principal partner in the region is the EBRD. Finland has financed the EBRD's Western Balkans Fund, used to

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<sup>15</sup> See: <http://formin.finland.fi/Public/default.aspx?contentlan=2&culture=en-US&nodeid=15316>

<sup>16</sup> Finland Development Cooperation Framework for the Western Balkans, 2007-2013.

finance technical assistance for the bank's investment projects in municipal infrastructure, transport projects and others. It is hoped that the development of the transition economy and of the private sector will also increase the commercial attractiveness of the region in Finland and create prerequisites for the aid for trade cooperation. Finnish private sector actors are encouraged to pay attention to international competitive biddings in the region<sup>17</sup>.

**Table 1-7: Finland ODA total net disbursements (€m) and per capita (€)**

	Total ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	0.5	0.4	0.3	0.15	0.13	0.09
<b>Bosnia-Herzegovina</b>	1.7	1.6	0.6	0.45	0.40	0.15
	0.2	0.1	0.1	0.08	0.06	0.04
<b>Kosovo</b>	2.5	1.7	2.8	1.39	0.95	1.56
<b>Montenegro</b>	0.0	0.0	0.0	0.05	0.04	0.00
<b>Serbia</b>	5.5	6.0	4.9	0.76	0.83	0.68
<b>The former Yugoslav Republic of Macedonia</b>	0.2	0.1	0.1	0.08	0.06	0.04
<b>Turkey</b>	0.3	0.7	0.2	0.00	0.01	0.00
<b>Grand Total</b>	<b>10.7</b>	<b>10.6</b>	<b>8.8</b>	..	..	..

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

The largest share of Finnish ODA has been directed towards Kosovo (32% in 2012) and Serbia (56% in 2012). Finland's focuses on its assistance to Kosovo have been stability and security, social sustainability, environment, trade and development. The social sustainability includes good governance, democracy, civil society, equality, human rights and minority rights. As a part of good governance, Finland supports decentralization. In education sector the attention is on development of inclusive education. Assistance in the environment sector has been targeted on rural development, nature conservation and development of forestry sector. From 2014, Finland focuses increasingly on trade and development. Finland supports the development of private sector, export and ability to attract investments. The main objective of the assistance is to foster growth and employment.

## 1.7 Greece

Greece's development cooperation is coordinated by the Ministry of Foreign Affairs. The Deputy Minister, Department of International Development Cooperation is responsible for the overall Development Cooperation strategy and policies. However, the overall budget is approved by the parliament, and the Ministry of Finance is responsible for the budgetary allocation. A five-year Development Cooperation and Assistance Programme guides Greek development assistance. The financial crisis has caused a fundamental reassessment of Greek development activities and a revision of the current five-year programme.

Greek aid supports the export of Greek products and Greek investment in the region. For example, Greece is ranked third among foreign investors in Serbia. Greece also has significant investments in Kosovo, especially in the sectors of food, beverages, construction materials, petroleum products and waste management. Greek banks have a substantial presence in the region and during the economic crisis have retained profitability there. Moreover, many migrant workers from Albania are employed in Greece. Greece has drawn

<sup>17</sup> Ibid.

up the Hellenic Plan for the Economic Reconstruction of the Balkans - HiPERB for 2002-2006-2011, with overall budget of which is €550 million, which aims at implementing large-scale infrastructure projects, strengthening private initiative and boosting economic cooperation between the countries. No conditionality is applied. Aid is implemented directly by Greek government through her Embassies. Specific actions have been taken to improve transparency of aid flows through the new 5-year National Development Cooperation Plan. Greece joined the “Transparent Aid tool” in 2011.

A further motivation for Greek aid to Albania is the existence of a substantial national minority of Greek origin in Albania whose presence goes back as far as the 7th century BC. Most live in the broader region of Gjirokastër, Sarande, Delvine, and Himarë, but many members of the Greek community are scattered around Albania. The Greek government systematically cooperates with representatives of the Greek community and the Albanian authorities; providing its substantial contribution on issues directly associated with improving the conditions for the national Greek minority in Albania.

**Table 1-8: Greece ODA total net disbursements (€m) and per capita (€)**

	Total ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	39.2	37.3	30.5	12.43	11.84	9.66
<b>Bosnia-Herzegovina</b>	0.3	0.5	0.3	0.08	0.12	0.09
<b>Kosovo</b>	0.0	0.0	0.2	0.02	0.01	0.13
<b>Montenegro</b>	0.2	0.1	0.2	0.40	0.19	0.29
<b>Serbia</b>	9.2	9.6	0.8	1.27	1.31	0.11
<b>The former Yugoslav Republic of Macedonia</b>	0.7	0.4	0.4	0.32	0.19	0.16
<b>Turkey</b>	4.6	2.4	2.0	0.07	0.03	0.02
<b>Grand Total</b>	<b>54.3</b>	<b>50.3</b>	<b>34.5</b>			

*Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates*

Due to the difficult economic situation, Greece’s ODA has been decreasing for several years, and fell to EUR 238 million in 2011, representing 0.11% of its GNI. Greece provides subsidies to private investments in the framework of implementation of the HiPERB. Nevertheless, FDI flow from the region and Turkey was negative in period 2010-2012.

The main focus of ODA flows from Greece have been to Albania and Serbia, though in recent years the disbursements to Serbia have fallen away completely. In terms of per capita flows, the focus on Greece stands out even more clearly, with per capita disbursements to Albania equivalent to €9.66 per capita in 2012. By contrast the flows to other countries in the region are trivial. This pattern reflects the strong ties between Greece and Albania due to the large number of Albanian migrants working in the Greek labour market.

Greece is among the DAC members with a high share of tied aid. Greece’s untying status dropped from 74% in 2005 to a low of 38% in 2008. Since then, Greece managed to increase the level of its untied aid to 62% in 2010.

## 1.8 Hungary

The Ministry of Foreign Affairs of the Republic of Hungary is responsible for planning and coordinating the Hungarian international development cooperation via the International



Development Cooperation Department. HUN-IDA, a not-for-profit company contracted by the Ministry of Foreign Affairs, is the implementing agency of the Hungarian development cooperation activities. Despite the current economic situation, international development cooperation remained an important element of Hungary's foreign policy. In accordance with the MDGs, Hungary's main goals are to contribute to global efforts to eradicate poverty and help partner countries establish democratic institutions based on human rights. Bosnia and Herzegovina, Montenegro, and Serbia have been among the principal recipients of Hungarian bilateral assistance. Projects were implemented in areas where Hungary has a comparative advantage such as institutional capacity building, transition experience, education, public health, water management and sanitation, and environmental protection.

**Table 1-9: Hungary ODA total net disbursements (€m) and per capita (€)**

	Total ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	0.1	0.0	0.0	0.02	0.01	0.01
<b>Bosnia-Herzegovina</b>	0.2	0.6	0.0	0.05	0.16	0.02
<b>Kosovo</b>	0.3	0.2	0.2	0.20	0.10	0.09
<b>Montenegro</b>	0.5	0.5	0.0	0.78	0.82	0.02
<b>Serbia</b>	2.5	5.3	3.1	0.35	0.73	0.42
<b>The former Yugoslav Republic of Macedonia</b>	0.0	0.0	0.0	0.01	0.01	0.01
<b>Turkey</b>	0.2	0.3	0.3	0.00	0.01	0.01
<b>Grand Total</b>	<b>3.8</b>	<b>7.0</b>	<b>3.7</b>	..	..	..

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

In 2012, Hungarian ODA in the region was mainly directed towards Serbia, where aid flows amounting to €0.42 per capita.

Mutual accountability arrangements account for less than 10% of Hungary's priority countries, and Hungary participates in country-level results frameworks and platforms in less than 10% of its priority countries.

## 1.9 Italy

Italian Development Co-operation (IDC) operates within Law 49 of 1987, which establishes development co-operation as an integral part of foreign policy. However, this law does not take account of recent international commitments and principles and, therefore, is considered outdated.<sup>18</sup> Italy is also involved through the activity of SIMEST, a development financed institution established in 1990 to promote Italian foreign joint ventures outside the EU. SIMEST can support Italian investments abroad through acquiring equity shares of up to 49% and provides interest rate support to assist Italian companies' access to concessions. SIMEST also provides professional consultancy and technical support services to support Italian business activities abroad. SIMEST is active in Albania, Bosnia and Herzegovina, The former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey.

Italy has strong political and economic interest in the region. Italian companies invest heavily in the Western Balkans and Italy has traditional economic links with the Adriatic coastal area. Italian banks have a strong presence in the Western Balkans. Italy has an interest in

<sup>18</sup> OECD Peer Review of Italy, 2014

maintaining economic stability and growth especially in Albania to stem the flow of migration. Italian flow of FDI in 2010-2012 was significant, mostly directed to Albania and Turkey. Italian development cooperation focuses on the sectors of infrastructure, energy, the environment, health, education, public administration, and support for the private sector. Most Italian bilateral assistance goes to social infrastructure and services and to the productive sector. While nearly all Italian ODA consists of grants, Italy also provides soft loans with a high level of concessionality.

Italy does not have individual country cooperation strategies. Italy has announced that she will reduce the number of priority partner countries to 20.

**Table 1-10: Italy ODA total net disbursements (€m) and per capita (€)**

	Total ODA			ODA per capita		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	41.3	29.0	24.9	13.12	9.21	7.88
<b>Bosnia-Herzegovina</b>	3.7	3.7	2.9	0.97	0.97	0.75
<b>Kosovo</b>	1.5	2.2	0.4	0.84	1.22	0.19
<b>Montenegro</b>	0.3	0.2	2.0	0.46	0.34	3.25
<b>Serbia</b>	1.8	13.4	-1.9	0.24	1.85	-0.26
<b>The former Yugoslav Republic of Macedonia</b>	1.6	0.0	-0.3	0.76	0.00	-0.13
<b>Turkey</b>	-3.7	-2.7	-2.4	-0.05	-0.04	-0.03
<b>Grand Total</b>	<b>46.5</b>	<b>45.8</b>	<b>25.6</b>	..	..	..

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

Italian ODA is focused on Albania, and to a lesser extent on Montenegro, where aid flows increased in 2012. The predominance of aid to Albania is reflected in the far higher level of per capita ODA to that country, although it has been falling in recent years, from €13.12 per capita in 2010 to €7.88 per capita in 2012.

Italian assistance in Albania has passed through different phases. The first phase was focused on humanitarian assistance; the second phase was focused on reconstruction of the main infrastructure including roads and power supplies; the third phase dealt with the collapse of the pyramid banking schemes; the fourth phase supported overall policy and strategic planning. Italy began to design its current interventions within the framework of the National Strategy for Development and Integration (NSDI) 2007-2014, and is now supporting the NSDI for 2014-2020. The goal is to assist Albania's integration into the EU, as Italy is a main promoter of Albania's candidacy to the EU. Italy is active in many sectors, but is now concentrating on a limited number of sectors. IDC's current Country Programme focuses in 3 priority sectors, i.e. Agriculture and Rural Development, Private Sector Development and Support to Social Sector. As for the development of the Albanian Private Sector, IDC is actively supporting the Albanian SMEs, by facilitating their access to the credit system. With reference to the agriculture sector, Italian initiatives aim at fostering Albania's adoption of the EU acquis, strengthening income generation of the Albanian rural population, and improving national food security. As for the social sector, IDC promotes the expansion of social services, integration into the labour market, the development of human resources through the initiative funded by the Debt for Development Programme. Moreover, Italy has adopted an exit strategy for assistance in infrastructure projects (energy, transport, sanitation sector), which foresees the conclusion of the active initiatives, and the design of new projects to be

funded with the undisbursed resources already committed for these sectors. Italian infrastructure assistance is now also channelled through the WBIF.

IDC has an active role in all the main Albanian processes of donor coordination, which are well structured and government-led. With reference to the EU Fast Track Initiative on the Division of Labour<sup>19</sup>, Italy is the lead donor in the Private Sector Development in Albania, and supports the MEDTE in the organization of the related Sector Working Group. Some of the SWGs have been dormant for the last 12 months – 18 months, due to the general elections held in the country in June 2013. Under the new government, some SWGs have been reactivated, such as the SWGs on anti-corruption and on decentralisation.

The Italian Development Cooperation also considers that the sector approach is very important in Albania since the donor landscape remains very fragmented. It considers that the main actors such as the EUD and the World Bank could have played a stronger role in supporting the sector approach.

Italy has introduced a Debt for Development Swap Programme in Albania in which the debt to Italy is cancelled in return for repayments into a counterpart fund (basket). The Programme was created to support social development policies in Albania, in order to distribute the benefits brought about by economic growth to vulnerable or marginal social groups and regions. The converted funds are used to finance initiative in the education and vocational training, health, social inclusion, employment generation and sustainable community development in rural and disadvantaged areas. Projects can be proposed by the Albanian central government or local authorities and are selected through periodic public tenders. Italian regions and local bodies, Albanian and Italian NGOs and international organizations may participate in the projects as partners.

Italy would like to coordinate more closely with IPA country programming, and wishes to establish closer cooperation with the EU through blending mechanisms. Blending is considered to be a good use of donor funds, as infrastructure programmes require substantial investment. It is important that infrastructure programmes are framed in a regional perspective, which requires much effort in terms of design and implementation. Joint programming is becoming more relevant in discussions with the EU Delegations. Italy recommends that the EC should take a leading role in supporting the sectoral approach. However, in terms of the quality of the interventions and to establish consensus it is very important that the EU MS are also involved.

Italian assistance is mostly tied and unconditional. Italy adheres to the Creditor Reporting System and IATI. Italy restricts the number of sectors in which she intervenes in partner countries. Mutual accountability arrangements account for less than 25%-50% of Italy's priority countries, and Italy participates in country-level results frameworks and platforms in over 80% of her priority countries.

## 1.10 Grand Duchy of Luxembourg

Luxembourg's development cooperation aims to eradicate poverty in developing countries, in line with the 2015 Millennium Development Goals<sup>20</sup>. Thus the main sector of intervention is the social field: health care and education, including vocational training as well as integrated

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<sup>19</sup> For more details on the FTI DoL: [http://www.italcoopalbania.org/pdf/MoU\\_FTIDoL\\_final\\_17\\_May\\_2010.pdf](http://www.italcoopalbania.org/pdf/MoU_FTIDoL_final_17_May_2010.pdf)

<sup>20</sup> See: <http://cooperation.mae.lu/en/Luxembourg-s-Development-Cooperation>

local development. Moreover, relevant initiatives in the field of microfinance are supported at a conceptual as well as an operational level. From a geographical point of view, Luxembourg's development cooperation pursues an intervention policy, which purposefully targets a restricted number of partner countries in order to increase the effectiveness and impact of aid. Luxembourg has nine priority countries, none of which are in the Western Balkans or Turkey. The Project implementing Agency from Luxembourgish side is Lux Development.

**Table 1-11: Luxembourg ODA total net disbursements (€m) and per capita (€)**

	Total net ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	0.1	0.0	0.1	0.02	0.01	0.04
<b>Bosnia-Herzegovina</b>	0.0	0.0	0.0	0.01	0.00	0.00
	0.0	0.0	0.0	0.00	0.00	0.00
<b>Kosovo</b>	6.9	4.9	11.3	3.89	2.77	6.27
<b>Montenegro</b>	5.1	2.0	4.2	8.26	3.28	6.82
<b>Serbia</b>	0.5	0.9	2.1	0.07	0.12	0.30
<b>The former Yugoslav Republic of Macedonia</b>	0.0	0.0	0.0	0.00	0.00	0.00
<b>Turkey</b>	0.0	0.2	0.1	0.00	0.00	0.00
<b>Grand Total</b>	<b>12.6</b>	<b>8.1</b>	<b>17.9</b>			

*Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates*

In the Western Balkans, Luxembourg targets its assistance to Kosovo and Montenegro. Based on Bilateral Agreement between the Government of Montenegro and the Government of the Grand-Duchy of Luxembourg on the Development Cooperation, Project: "MNE/011 – Strengthening Vocational Training in North-East Montenegro" is being implemented. Through this Agreement Government of Grand Duchy of Luxembourg recognised the efforts that Montenegrin Government is making within the education reform and need for support in the field of vocational education, with focus on North-East Montenegro and sector of agriculture and tourism. An initial four-year project was implemented in the period 2009-2013 with €4m allocated by Luxembourg Government and €280,000 by Montenegro. Support was provided within development of national and regional strategies for vocational education, development of occupational profiles, qualifications and curricula, enhancement of infrastructure capacities and promotion of entrepreneurship. A further €1m has been allocated to support additional work.

While Luxembourg has been a leader in untying aid (99% of aid is untied), the 2011 survey on monitoring the Paris Declaration shows that it makes little use of partner country systems, and still uses mainly the project approach.<sup>21</sup>

## 1.11 Netherlands

Dutch development cooperation is a responsibility of the Ministry of Foreign Affairs. The Dutch government aims to promote sustainable economic growth in developing countries, to promote global stability and security and to foster human rights.<sup>22</sup> The Netherlands focuses

<sup>21</sup> OECD DAC Peer Review of Luxembourg ODA, 2013, p. 16.

<sup>22</sup> See: <http://www.government.nl/issues/development-cooperation/the-development-policy-of-the-netherlands>

her assistance on the fields in which she has a comparative advantage, such as security and the rule of law, water management, food security, and sexual and reproductive health. Since 2010, partner countries on which The Netherlands focuses her development cooperation activities have been reduced from 33 to 15, none of which are in the Western Balkans or Turkey. The Dutch government is aligning development more strongly with foreign trade and established a new cabinet-level post of a Minister for Foreign Trade and Development Cooperation.<sup>23</sup> More than 35% of the Netherlands' development budget is delegated to multilateral institutions and the EU.

**Table 1-12: Netherlands ODA total net disbursements (€m) and per capita (€)**

	Total net ODA			Per Capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	3.1	0.3	0.0	1.0	0.1	0.0
<b>Bosnia-Herzegovina</b>	11.2	7.7	6.1	2.9	2.0	1.6
<b>Kosovo</b>	2.7	1.1	3.5	1.5	0.6	2.0
<b>Montenegro</b>	0.8	1.2	0.0	1.4	1.9	0.0
<b>The former Yugoslav Republic of Macedonia</b>	1.8	1.1	0.0	0.8	0.5	0.0
<b>Turkey</b>	0.2	-0.1	0.2	0.0	0.0	0.0
<b>Grand Total</b>	<b>19.9</b>	<b>11.3</b>	<b>9.9</b>	..	..	..

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

The Netherlands provides most of her development assistance in the region of the Western Balkans and Turkey on Bosnia and Herzegovina (61% in 2012) and Kosovo (35%). These are also the countries with the largest per capita disbursements of €1.60 per capita in Bosnia and Herzegovina in 2012 and €2.00 per capita in Kosovo.

## 1.12 Slovenia

The International Development Co-operation of the Republic of Slovenia Act was adopted in June 2006. The Act among other things sets out that the Ministry of Foreign Affairs is the national coordinator of international development cooperation.<sup>24</sup> Slovenia attaches particular importance to the Western Balkan countries and has concluded agreements on development cooperation with Bosnia and Herzegovina, Serbia, Montenegro, The former Yugoslav Republic of Macedonia, Albania, and Kosovo. The cooperation with Montenegro and the former Yugoslav Republic of Macedonia is conducted on a programme basis, while cooperation with the other countries in the region is conducted on a project-by-project basis. In July 2008, the National Assembly of the Republic of Slovenia adopted the Resolution on International Development Cooperation of the Republic of Slovenia until 2015. The Resolution sets out the geographical and sector-specific priorities for Slovenia's international development cooperation until 2015, along with mechanisms for its implementation. A Directorate for International Development Cooperation and Humanitarian Assistance was established in July 2011, responsible for policy planning and implementation. In the future, Slovenia aims to channel more of its bilateral development assistance through NGOs.

**Table 1-13: Slovenia ODA total net disbursements (€m) and per capita (€)**

<sup>23</sup> See: <http://donortracker.org/donor-profiles/netherlands>

<sup>24</sup> See: <http://www.slovenia.si/slovenia/state/slovenia-in-the-world/slovenias-international-development-co-operation-and-humanitarian-aid/>

	Total net ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	<b>0.2</b>	<b>0.2</b>	<b>0.5</b>	<b>0.05</b>	<b>0.05</b>	<b>0.16</b>
<b>Bosnia-Herzegovina</b>	<b>1.1</b>	<b>1.1</b>	<b>0.6</b>	<b>0.29</b>	<b>0.28</b>	<b>0.17</b>
<b>Kosovo</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>	<b>0.39</b>	<b>0.43</b>	<b>0.51</b>
<b>Montenegro</b>	<b>1.3</b>	<b>1.7</b>	<b>1.8</b>	<b>2.08</b>	<b>2.79</b>	<b>2.82</b>
<b>Serbia</b>	<b>0.7</b>	<b>1.0</b>	<b>0.7</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>The former Yugoslav Republic of Macedonia</b>	1.0	1.3	2.3	0.45	0.60	1.09
<b>Turkey</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Grand Total</b>	<b>5.0</b>	<b>6.1</b>	<b>6.9</b>	<b>..</b>	<b>..</b>	<b>..</b>

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

Slovenia provides most of her development assistance in the region of the Western Balkans and Turkey to the former Yugoslav Republic of Macedonia (33% in 2012) and Montenegro (26%). These are also the countries with the largest per capita disbursements of €1.09 per capita in the former Yugoslav Republic of Macedonia in 2012 and €2.82 per capita in Montenegro.

### 1.13 Spain

The Master Plan for Spanish Cooperation 2013-2016 sets out that Spanish development policy aims to contribute to human development, poverty eradication and human rights. In the future, Spain seeks to align development cooperation more strongly with her foreign policy and economic interests, e.g. by strengthening collaboration with the private sector and focusing bilateral ODA on a reduced number of priority countries, none of which are in the Western Balkans or Turkey.<sup>25</sup>

**Table 1-14: Spain ODA total net disbursements (€m) and per capita (€)**

	Total net ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	3.6	-0.4	-1.2	1.2	-0.1	-0.4
<b>Bosnia-Herzegovina</b>	15.2	26.1	-3.0	4.0	6.8	-0.8
	0.3	0.0	0.0	0.1	0.0	0.0
<b>Kosovo</b>	0.1	0.5	0.4	0.0	0.3	0.2
<b>Montenegro</b>	3.4	0.0	0.0	5.5	0.0	0.0
<b>The former Yugoslav Republic of Macedonia</b>	0.3	0.0	0.0	0.1	0.0	0.0
<b>Turkey</b>	42.2	3.5	1.2	0.6	0.1	0.0
<b>Grand Total</b>	<b>64.8</b>	<b>29.8</b>	<b>-2.7</b>	<b>..</b>	<b>..</b>	<b>..</b>

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

Spain has been making a strategic withdrawal of her bilateral assistance from the region of the Western Balkans and Turkey in line with the focus of the Master Plan for 2013-2016 that refocuses her assistance on Latin America, North Africa and the Middle East.

<sup>25</sup> See: <http://donortracker.org/donor-profiles/spain>



Correspondingly, total ODA has fallen from €64.8m in 2010 to just €3.5m in 2011 and a negative net flow in 2012.

## 1.14 Sweden

The objective of Swedish development cooperation is to help creating conditions that will enable poor people to improve their lives. Development cooperation focuses on combating poverty.<sup>26</sup> Sweden expects that greater openness and transparency in her development cooperation will pave the way to more successful results. Sweden is currently strengthening the governance of its development cooperation in order to clarify results in relation to established goals. These efforts are in line with the Paris Declaration on aid effectiveness, adopted by OECD countries and a large number of developing countries. Sweden's bilateral development cooperation focuses on 33 countries, and on involvement in a few sectors in each country with the aim of rendering her development cooperation as effective as possible. Three thematic issues are given priority in the development cooperation: a) democracy and human rights b) gender equality and the role of women in development c) climate and environment.

Much of the Swedish development cooperation is channelled through multilateral development organisations such as the UN, development banks (e.g. the World Bank) and global funds. Being board members or through other forms of dialogue, Sweden influences how these organisations implements their activities and design their policies.

Under a reform of Swedish development cooperation through a country focus approach Sweden aims to reduce the number of countries to which it delivers assistance, in line with the Paris Declaration on donor coordination and aid effectiveness. The country focus approach has affirmed a deeper cooperation that aims at facilitating EU integration and thereby strengthening poverty reduction and reform efforts in our immediate region. The new country focus includes 6 of the 7 countries in this study within its ambit on the basis of 'cooperation for reform': Albania, Bosnia and Herzegovina, Kosovo, The former Yugoslav Republic of Macedonia, Serbia, and Turkey.<sup>27</sup>

Sweden is a proponent of EU enlargement, as it would like to see more middle-income countries in the EU. In considering its future support for the region, Sweden plans to move towards an incentive model, similar to that envisaged for the IPA II programme. Sweden is also promoting the blending mechanism and is carrying out technical assistance for project preparation for the IFIs directly from its own resources. Sida considers that it has a comparative advantage in support for gender equality issues, which a central concept in its interventions in the region. It has promoted the idea of introducing gender mainstreaming into the IPA II programme.

The Swedish Government has adopted a Result strategy for Sweden's reform cooperation with Eastern Europe, the Western Balkans and Turkey 2014 - 2020 (replacing the former bilateral strategies for development cooperation with Albania, Bosnia and Herzegovina, Kosovo, Serbia and Turkey.

**Table 1-15: Sweden ODA total net disbursements (€m) and per capita (€)**

	Total ODA			ODA per capita		
	2010	2011	2012	2010	2011	2012

<sup>26</sup> See: <http://www.government.se/sb/d/3102/a/86621>

<sup>27</sup> See: <http://www.government.se/content/1/c6/08/66/21/496f32e6.pdf>

<b>Albania</b>	8.2	9.5	9.5	2.61	3.02	2.99
<b>Bosnia-Herzegovina</b>	21.1	21.6	23.0	5.50	5.61	5.99
<b>Kosovo</b>	14.2	16.5	17.8	7.97	9.21	9.82
<b>Montenegro</b>	1.0	0.3	0.5	1.58	0.40	0.74
<b>Serbia</b>	13.3	16.5	14.7	1.82	2.28	2.03
<b>The former Yugoslav Republic of Macedonia</b>	5.0	2.6	2.6	2.36	1.22	1.24
<b>Turkey</b>	9.8	10.2	9.6	0.14	0.14	0.13
<b>Total</b>	<b>72.5</b>	<b>77.1</b>	<b>77.5</b>			

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

Sweden provides most of her development assistance in the region of the Western Balkans and Turkey to Bosnia and Herzegovina (30% in 2012), Kosovo (23%), and Serbia (19%). These are also the countries with the largest per capita disbursements of €5.99 per capita in Bosnia and Herzegovina in 2012, €9.82 in Kosovo, and €2.03 per capita in Serbia. Albania is also a main beneficiary in terms of per capita ODA inflows from Sweden at €2.99 per capita.

## 1.15 United Kingdom

UK assistance to the Western Balkans is oriented towards conflict prevention and reduction of the migration flows that often accompany conflict. In the words of the Foreign and Commonwealth Office (FCO): “Stability in the Western Balkans matters; the region is on Europe’s doorstep and instability or conflict would affect the UK, including through migration and organised crime. The UK is therefore working to reduce the risk of conflict in the region, promote stability and reconciliation, and support reforms, as the region moves towards future EU and NATO membership.”<sup>28</sup>

The UK supports conflict prevention efforts in the region, with around €12.6m provided jointly from the FCO, the Ministry of Defence and Department for International Development (DFID). The work is focused on Bosnia and Herzegovina and on Kosovo and includes UK troops joining, in December 2012, the regional reserve for the peacekeeping mission in Bosnia and Herzegovina, support for the Srebrenica prosecutions team, UK judges hearing war crime cases in Kosovo and projects to support ethnic minorities returning to rebuilt homes following the Kosovo war.

The UK supports future EU membership for the Western Balkans and Turkey. The UK supports the necessary reforms with €3.8 million for the region funding projects in the fields of judicial reform and media freedom. The UK also has an active twinning programme for UK civil servants to support reforms in the region. These reforms reduce security threats to the UK and promote a strong environment for British business interests.

The UK continues to support safeguards against instability in Bosnia and Herzegovina, particularly the Office of the High Representative, the international institution responsible for overseeing implementation of civilian aspects of the Peace Agreement ending the war in Bosnia and Herzegovina.

**Table 1-16: UK ODA total net disbursements (€m) and per capita (€)**

	Total net ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012

<sup>28</sup> <https://www.gov.uk/government/policies/promoting-stability-throughout-the-western-balkans--2>

<b>Albania</b>	0.7	0.5	0.8	0.21	0.16	0.25
<b>Bosnia-Herzegovina</b>	7.3	3.4	2.8	1.90	0.90	0.72
<b>Kosovo</b>	7.2	8.8	12.7	4.03	4.89	7.03
<b>Montenegro</b>	0.2	0.2	0.6	0.26	0.38	0.97
<b>Serbia</b>	4.1	1.7	4.0	0.56	0.24	0.56
<b>The former Yugoslav Republic of Macedonia</b>	0.9	0.7	1.7	0.41	0.34	0.81
<b>Turkey</b>	2.8	4.0	10.6	0.04	0.06	0.14
<b>Grand Total</b>	<b>23.0</b>	<b>19.3</b>	<b>33.3</b>	..	..	..

*Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates*

The United Kingdom provides most of her development assistance in the region of the Western Balkans and Turkey to Kosovo (38% in 2012), and Turkey (32%). Kosovo receives by far the largest per capita disbursements of €7.03 per capita.

The UK Department for International Development (DFID) is piloting a spread of payment by results (PBR) programmes, across a range of sectors and types of delivery channel. The conceptual core of the PBR approach has wide potential for application across DFID's operations. PBR's core elements are making payments based on verified outcomes (risk transfer and alignment of incentives around results) and recipient discretion. DFID is also considering how Development Impact Bonds (DIBs) might be used in international development financing. DIBs are a newly emerging form of payment by results, based on the Social Impact Bond model being piloted in the UK.

Mutual accountability arrangements are used in over 80% of the UK priority countries. The UK participates in country-level results frameworks and platforms in more than 80% of its priority countries. The UK government has developed an IATI Implementation Plan setting out how it intends to approach the publication of ODA data, with milestones setting out each stage of the Implementation Plan.

## 2 OTHER DONORS

### 2.1 China

China has aimed at boosting exports to the Western Balkans and Turkey region by setting up Chinese trade centres close to major roadways and densely populated areas. Chinese enterprises also build manufacturing bases in the region. In 2009, state-owned auto-giant Dongfeng struck an agreement with Serbian truck maker Fabrika Automobila Priboj (FAP) to assemble vehicles in Serbia. In 2014, Chinese textile producer Weibo Group announced a €300m investment to build a new textile factory in the former Yugoslav Republic of Macedonia<sup>29</sup>. Annual output is expected to reach €500m annually and generate substantial exports to the EU and create up to 5,000 new jobs. The region serves as a “training ground” for Chinese companies to gain the industrial maturity and technological sophistication necessary to successfully enter Western markets. Investing in the Western Balkans allows China to circumvent the EU’s anti-dumping regulations and export products directly to a large market thanks to free-trade agreements with the EU, Russia, and Turkey.

China is also eager to enhance her imports from the Balkan region. She has a strong interest in regional mineral exploitation in order to help meet demand from her rapidly growing economy. In 2010, Sichuan Jiannanchun International Group partnered with Turkey’s Kürüm Energy, Resources and Metallurgy to form Illyria Mineral Industry and develop Albanian ferro-chrome exports to China. Endowed with large deposits of iron and copper ore, Bosnia-Herzegovina and Kosovo could soon welcome similar projects. Local machinery companies are also in high demand on the ever-growing Chinese market. By investing in the region’s infrastructure projects, China wants to accelerate the creation of a network of ports, logistics centres, and railways to distribute Chinese products and hasten the growth of East-West trade. Chinese entrepreneurs and the China Development Bank (CDB) recently expressed great interest in financing and building the €4.5 billion railway passing through Serbia and the Belgrade-South Adriatic highway. With major Western utility companies unwilling to make risky investments, the Balkan energy sector is giving China the chance to compete on a global scale. Over the past few years, Chinese investors have increasingly targeted new energy projects in the region. The China Development Bank (CDB) is currently funding the construction of a 300 MW coal-fired plant in Stanari, Bosnia-Herzegovina. The €500 million project, China International Water and Electric Corporation signed a Memorandum of Understanding with the government of the former Yugoslav Republic of Macedonia to build 12 hydropower plants along the Vardar River, from Kosovo to the Greek border. The €1.5 billion, 15-year project will be financed up to 85% by a loan from the China Development Bank.

China is a very active donor in Serbia where it is mainly active in Energy and Transport sectors, providing soft loans for renovation of Kostolac B Power Plant and Zemun - Borča bridge over Danube River, which are China’s two main interventions in Serbia. China has committed €10 million and has plans to commit a further €100 million to Serbia. These loans are provided at 2% interest with a 5-year grace period. China is building a thermal power station in Serbia that the EU will not build. In addition, China provides some small grants to other sectors, such as public sector and health, yet these measures are also in line with their goal to provide soft loans. For instance, China is organizing study visits to China to key people from the public administration (state secretaries, assistant ministries, and directors of

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<sup>29</sup> See: SETimes, “Foreign investment to promote Chinese textiles”, 20/5/2014.

sectors within the ministries) to get introduced with China's success in infrastructure development (mainly transport and energy, sometimes other sectors). This is directly connected with China's intention to provide loans to Serbia in those sectors. China has the same policy in Montenegro as well.

China does not have country strategies, as all agreements are made bilaterally through negotiations between governments. There is no need to carry out any environmental impact assessment when obtaining a loan from China (or Russia). Serbia therefore has an interest to select the most favourable deal offered by different providers of infrastructure finance.

## 2.2 Japan

Japan's international assistance increased steadily in the post-war period and by 1993, Japan was the largest global aid donor, contributing 20 per cent of all ODA from DAC countries. However, following the onset of a period of economic stagnation, JICA's aid has declined to a more modest position. By 2002, JICA was delivering aid to 170 countries. Although most of JICA's aid is concentrated on Asian countries, its broad scope means that it has also had an important presence in the Balkan countries too. JICA's vision statement prioritizes "inclusive development" as an approach to development that encourages all people to recognize the development issues they themselves face, participate in addressing them, and enjoy the fruits of such endeavours<sup>30</sup>. The role of New JICA is to provide backing for this process. In the Western Balkans, Japan would like to contribute to human security in post-conflict countries and to promote friendly relations with each beneficiary.

The Japanese concept of "Dynamic Development" refers to the creation of self-reinforcing virtuous cycles of mid- to long-term economic growth and poverty reduction. JICA has set itself four missions: addressing the global agenda, reducing poverty through equitable growth, improving governance, and achieving human security. These are to be achieved on the basis of four strategies: integrated assistance, seamless assistance, promoting development partnerships and enhancing research and knowledge sharing.

An important guiding principle of JICA assistance is to combine diverse aid modalities that will make use of synergies by speeding up the aid process, scaling up pilot and model projects, and spreading them out in other regions and communities. Japanese aid has traditionally emphasized infrastructure support and a significant portion is disbursed in the form of concessional loans and in initiatives to promote foreign direct investment (Riddell, 2007: 60).

**Table 2-1: Japan ODA total net disbursements (€m) and per capita (€)**

	Total net ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	1.8	4.2	-0.5	0.58	1.33	-0.17
<b>Bosnia-Herzegovina</b>	1.7	1.1	2.1	0.44	0.28	0.54
<b>Kosovo</b>	0.8	1.4	6.2	0.46	0.75	3.42
<b>Montenegro</b>	0.7	3.4	0.9	1.06	5.40	1.43
<b>Serbia</b>	3.9	6.6	5.2	0.54	0.91	0.72
<b>The former Yugoslav Republic of Macedonia</b>	17.4	2.7	1.5	8.27	1.28	0.70
<b>Turkey</b>	410.0	18.4	26.1	5.68	0.25	0.35
<b>Grand Total</b>	<b>436.3</b>	<b>37.7</b>	<b>41.3</b>	<b>..</b>	<b>..</b>	<b>..</b>

<sup>30</sup> See JICA website: <http://www.jica.go.jp/english/about/mission/index.html#vision>

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

Japan provides most of her development assistance to Turkey (63% in 2012). Within the Western Balkans, relatively large shares were also directed towards Kosovo and Serbia. In 2012, Kosovo received per capita disbursements of €3.42 per capita. Japanese ODA flows have been volatile, falling in the case of the former Yugoslav Republic of Macedonia over the period 2010-2012 and increasing sharply in the case of Kosovo. A very large disbursement was made to Turkey in 2010 amounting to €410m. The reason for this large net disbursement was an infrastructure loan amounting to €580m for construction of the railway tunnel underneath the Bosphorus<sup>31</sup>.

**Table 2-2: Japan ODA - loans as share of gross disbursements**

	2010	2011	2012
<b>Albania</b>	49.0%	18.5%	38.4%
<b>Bosnia-Herzegovina</b>	2.7%	5.0%	28.7%
<b>Kosovo</b>	0.0%	0.0%	0.0%
<b>Montenegro</b>	0.0%	0.0%	0.0%
<b>Serbia</b>	0.0%	0.0%	12.9%
<b>The former Yugoslav Republic of Macedonia</b>	93.0%	76.8%	61.9%
<b>Turkey</b>	98.9%	90.6%	95.9%

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

Japanese assistance is provided in the form of both loans and grants. Almost all assistance to Turkey has been in the form of loans. Within the Western Balkans, ODA to Kosovo and Montenegro was entirely in the form of grants over the period 2010-2012, while assistance to the former Yugoslav Republic of Macedonia and Albania has been provided through a mix of loans and grants. In Albania, Japanese assistance has focused on infrastructure, the agriculture sector, and the environment sector, but assistance now focuses on private sector development, local industry and rural development and the environment. Grant aid is provided in the form of donations of machinery and equipment in agriculture. JICA has donated tractors, other agricultural machines, and medical equipment to Albania. While the assistance is not tied to Japanese producers, purchases must pass through Japanese trading companies. In 2011, Japanese assistance rehabilitated the main regional hospitals in Albania with equipment supplied with a grant of €7m.

## 2.3 Norway

Norway's focus on global poverty reduction is driven by a combination of moral responsibility and national interests<sup>32</sup>. Its development policy is based on a commitment to achieving the Millennium Development Goals (MDGs), the belief in a strong United Nations and a human-rights-based approach. Development policy aims at challenging structural sources of inequality, injustice, oppression and discrimination. The government is a strong supporter of the multilateral development system, aid effectiveness, policy coherence and innovative financing mechanisms.

<sup>31</sup> Gross ODA disbursements in 2010 from Japan to Turkey amounted to €559m

<sup>32</sup> See: <http://donortracker.org/donor-profiles/norway>



Norwegian ODA is delivered through The Norwegian Agency for Development Cooperation (NORAD) –a specialised directorate under the Ministry of Foreign Affairs.

**Table 2-3: Norway ODA total disbursements (€m) and per capita (€)**

	Total net ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	4.4	4.7	2.8	1.40	1.51	0.87
<b>Bosnia-Herzegovina</b>	32.0	25.6	34.4	8.32	6.65	8.96
<b>Kosovo</b>	42.5	32.8	26.2	23.95	18.30	14.51
<b>Montenegro</b>	6.2	4.9	6.2	9.93	7.89	10.07
<b>Serbia</b>	35.5	34.1	27.2	4.88	4.69	3.77
<b>The former Yugoslav Republic of Macedonia</b>	13.2	12.1	8.7	6.28	5.74	4.11
<b>Turkey</b>	0.2	3.7	3.9	0.00	0.05	0.05
<b>Grand Total</b>	<b>134.0</b>	<b>117.8</b>	<b>109.4</b>			

*Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates*

Norway provides most of her development assistance in the Western Balkans to Bosnia and Herzegovina (31% in 2012), Kosovo (24%), and Serbia (25%). Two of these are also the countries with the largest per capita disbursements of €8.96 per capita in Bosnia and Herzegovina in 2012, €14.51 in Kosovo, while Montenegro received €10.07 per capita in 2012, more than Serbia due to the differences in size of population.

Since 1991, Norway has given more than three billion NOK to Bosnia and Herzegovina, starting with humanitarian aid during the war years 1992-95, followed by aid for rebuilding. Since 2000, assistance has been given for democratisation and work for fulfilling conditions for seeking membership in NATO and the EU. Priority areas are (i) Good governance, (ii) Strengthening the rule of law, (iii) Defence and security sector reform, (iv) Economic development, and (v) Support to the civil society organisations.

In Kosovo, Norway prioritises work in the areas (i) Reform in the justice sector and combating organised crime, capacity building and democracy development in central institutions, (ii) development of small and medium-sized enterprises, employment initiatives and vocational education in the multi-ethnic society and (iii) gender equality and women's rights, which includes combating gender based violence in addition to promoting rights of the minorities.

In Serbia, most assistance used to be channelled through Norwegian volunteer organisations, but with increased focus on state building the projects are now to a greater extent being carried out by the Serbian partners, with technical support from Norwegian sources. Around half of the aid to Serbia is now delivered through bilateral cooperation with the Serbian government. This proportion is increasing. Norway has the following priorities in Serbia (i) Reform of the public sector, including reform of the defence, justice and police sectors; Ensuring democratic monitoring of the military forces and the police, follow-up of the UN Security Council's Resolution 1325, ensuring independent courts of law and strengthening the fight against organised crime and corruption, (ii) Development of the rule of law, including strengthening of the independent control institutions such as the ombudsman, auditor general and anti-corruption agency, (iii) Energy, environment and climate. Help with implementation of laws and building administrative capacity in the areas of energy, environment and climate is important for Serbia's EU process and framework conditions for foreign investments, and (iv) Business growth.

Since 2010, Norway has sought to concentrate her aid on fewer sectors, provide more long-term assistance and allocate more of the aid directly to local players.<sup>33</sup>

## 2.4 Russia

Contrary to general belief, Russia's contribution to ODA in the Western Balkans is rather small. Russia is mostly active in Serbia, while contribution to other countries is insignificant. Russia mainly provides concessional loans and humanitarian aid, but does not provide grants. Russia does not have a country or regional strategy for development assistance to any of the Western Balkans countries, and all agreements are based on direct negotiations between national governments and Russia.

Russia provides budgetary support to Serbia, which helps its macro-economic stability. This support is based on bilateral agreement between two governments. Russia has a different policy to China as she only provides concessional loans rather than grants. There might be some grants in equipment or humanitarian aid, yet that has not been recorded by the ISDACON donor coordination database. ISDACON does not record the Russian loan of €650m to the Serbian Railways. The reason is most likely to be that the data has not been updated.

Russia provides significant support to the Serbian budget, which makes her very popular with all Serbian governments. Therefore, politicians are very positive about Russian support, which might explain why most people in Serbia believe that Russia is the largest donor. The rather negative perception about other sources of support might be seen from the fact that most people in Serbia have not forgotten the NATO air strikes in 1999, and therefore support received from the EU or from other Western Countries are seen as rather little compared to what has been destroyed. On the other side, the Government and key politicians have done very little or nothing to explain the purpose of the support provided by the EU or the other Western Countries, nor have they explained their goals and objectives.

Russia is involved in financing the South Stream Gas Pipeline and has made a large loan in the railways sector. The EU has stated that South Stream is not compatible with EU rules. Gazprom owns both the pipeline and the gas, and this is against competition rules. Gazprom has also bought the main gas producer in Serbia. However, latterly most EU countries involved in the project including Austria, Germany and Italy have voiced their support for its completion.

## 2.5 Switzerland

Swiss development policy is carried out by the Swiss Agency for Development and Co-operation (SDC), which is a federal office within the Department of Foreign Affairs, and the Economic Co-operation and Development Domain of the State Secretariat for Economic Affairs (SECO), which is a federal office within the Department of Economic Affairs, Education and Research. SDC is responsible for the overall coordination of development activities and cooperation with South East Europe, as well as for the humanitarian aid delivered by the Swiss Confederation.<sup>34</sup> The SDC has a Department for cooperation with Eastern Europe, Division for Western Balkans. SDC has 50 cooperation offices worldwide. In the Western Balkans there are offices in Albania, Bosnia and Herzegovina, Kosovo, The former Yugoslav Republic of Macedonia and Serbia. The SDC concentrates its development cooperation on

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<sup>33</sup> See: <http://www.norad.no/en/countries/europe/bosnia-herzegovina--405967>

<sup>34</sup> See: [http://www.sdc.admin.ch/en/Home/About\\_SDC/The\\_SDC\\_in\\_brief](http://www.sdc.admin.ch/en/Home/About_SDC/The_SDC_in_brief)

the world's poorest regions, with priority to ten relatively stable poor countries and regions, none of which is in the Western Balkans and Turkey.

Switzerland's Strategy on International Cooperation 2013–2016 was adopted by Parliament in September 2012. It is directly linked to its foreign policy objectives and its economic foreign policy strategy. The Strategy encompasses all areas of international cooperation, targeting the reduction of poverty and global risks, and specifies Switzerland's objectives, principles instruments and policy direction. This unified Strategy provides strategic orientation to the various credit lines; has wide government ownership; ensures that SDC and SECO work towards a shared vision; and provides a multi-annual financial outlook.

Switzerland's commitment focuses on five goals: (i) Preventing and overcoming crises, conflicts and catastrophes, (ii) Creating access for all to resources and services, (iii) Promoting sustainable economic growth, (iv) Supporting the transition to democratic, free-market systems and (v) Helping to shape pro-development, environmentally friendly and socially responsible globalization. Switzerland engages in bilateral cooperation with selected priority countries and regions and multilateral cooperation with approximately 13 international institutions in the form of financial participation and the joint formulation of policy and programmes.<sup>35</sup>

The State Secretariat for Economic Affairs (SECO) implements the economic and trading policy measures related to development cooperation. SECO has five priority themes: (i) Strengthening economic and financial policy (ii) Extension of city infrastructure and supply structures (iii) Support for the private sector and entrepreneurship (iv) Promotion of sustainable trade and (v) Providing stimulus for climate-friendly growth.

Through its cooperation with Eastern Europe, Switzerland contributes to the political and economic reform processes (transition) in former communist states of Eastern Europe and the former Soviet Union. It aims to strengthen human rights and democracy by creating political institutions that ensure the rule of law and citizens' rights and to promote economic and social development and the sustainable management of natural resources. Cooperation is concentrated on the Western Balkans (Albania, Bosnia Herzegovina, Macedonia, Serbia and Kosovo). The SDC and SECO jointly manage international assistance in the region. Two-thirds of the resources committed are allocated to the SDC and one-third to SECO. The resultant programmes complement each other. The focus of the SDC programme is on (i) The modernisation of public administration (ii) Improved access to public services for the local population, especially for disadvantaged groups (iii) Participation of the population in decision making at municipal level (iv) Reform of the administration of justice and the creation of a police force that serves the people (v) Support for the reform of healthcare and decentralised water provision and (vi) Integration of young people into the jobs market.

**Table 2-4: Switzerland, ODA total net disbursements (€m) and per capita (€)**

	Total net ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	10.7	9.1	8.8	3.40	2.88	2.77
<b>Bosnia-Herzegovina</b>	14.6	19.7	14.6	3.79	5.13	3.81
<b>Kosovo</b>	39.8	42.8	50.1	22.39	23.88	27.74

<sup>35</sup> "Message on International Cooperation 2013-2016: Key Points in Brief", Geneva: Federal Department of Foreign Affairs, 2014.

<b>Montenegro</b>	0.0	0.0	0.1	0.00	0.01	0.18
<b>Serbia</b>	9.0	11.1	16.0	1.23	1.53	2.21
<b>The former Yugoslav Republic of Macedonia</b>	7.9	5.5	5.3	3.76	2.61	2.52
<b>Turkey</b>	0.2	0.4	1.2	0.00	0.01	0.02
<b>Total</b>	<b>82.1</b>	<b>88.6</b>	<b>96.0</b>			

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

Swiss firms are involved in many projects in SEE markets and Switzerland has an export surplus with these countries running into one billion Swiss francs. Switzerland's foreign policy has an interest in political and economic stability and prosperity in the region of the Western Balkans. Development cooperation focuses on conflict prevention and transformation, social development, good governance, promoting economic structures and safeguarding natural resources. Switzerland focuses on 6 priority countries in the region: Bosnia and Herzegovina, Serbia, Montenegro, Kosovo, The former Yugoslav Republic of Macedonia and Albania. Given that about 400,000 people from the region live in Switzerland, especially from Kosovo and the former Yugoslav Republic of Macedonia, Switzerland has a strong interest in peace, stability and prosperity in these countries. The Swiss Migration Partnership Strategy for the Western Balkans 2012-2015 aims to pursue Swiss interests in the partner states, while also taking their interests into consideration.

A main driver of assistance from Switzerland is a concern to create jobs locally to provide an alternative to migration to Switzerland. The SDC is therefore focused on local economic development in the region. Swiss firms are involved in many projects. Swiss aid facilitates the access of Swiss companies to these markets and improves their chances of success in international tenders. Switzerland has export surpluses with these countries running into one billion Swiss francs. While no FDI flow was recorded to the Western Balkans from 2010-2012, Swiss firms made substantial FDI in Turkey amounting to €200m

Switzerland provides most of her development assistance in the Western Balkans to Kosovo (52% in 2012), Serbia (17%) and Bosnia and Herzegovina (15%). In per capita terms the largest ODA flow was to Kosovo at €27.74 per capita in 2012, which is at least ten times greater than to other countries in the region. It is notable that many migrants from Kosovo work in Switzerland, which may partly explain this strong focus of Swiss assistance.

The SDC has developed Cooperation Strategies for each of the countries in the region. For example, the Cooperation Strategy for Albania (2014-2017) covers the sectors of Democratisation, Decentralisation and Local Governance (formerly "Democratisation and Rule of Law"), Economic Development, Urban Infrastructure and Energy (formerly in the Economic Development Domain), and Health (new) Gender and Governance, which are transversal themes for all projects and programmes. Switzerland has provided support to Albania since 1992. A full-fledged programme started in 1997 with the opening of a Cooperation Office. It focused on a socially inclusive market economy, democratic political systems providing access to essential services and supporting regional and European integration. Switzerland is among the top ten donors in Albania, together with the EU, Italy, Austria, Germany, the US and the World Bank. It accounts for 4.2% of total ODA in the country (2013). Contrary to others, its aid volume is growing and likely to reach 6.5% of ODA and should help Switzerland enter the top five donors to Albania over the current cooperation strategy period (2014-2017). Between 2010 and 2013, Swiss Cooperation supported Albania with an average annual budget of 13 million Swiss francs (CHF) in two priority areas:

Democratisation & Rule of Law, and Economic Development. The general orientation and approaches applied so far appear to be appropriate to the remaining challenges posed by Albania's economic and democratic transition, therefore the main thrust of the current Swiss Cooperation Strategy 2014-2017 remains similar to the former strategy. An analysis carried out by SDC of the drivers of change for decentralisation, a health assessment and overall lessons learned concluded that Swiss Cooperation is effective in the given circumstances.

Switzerland has also developed Cooperation Strategies for Bosnia and Herzegovina (2013-2016), Kosovo (2013-2016), The former Yugoslav Republic of Macedonia (2013-2016), and Serbia (2014-2017).

Switzerland increasingly uses in-country structures for project implementation. She has a high degree of alignment with country priorities, since country development cooperation strategies follow national development strategies. Aid is mainly untied, and no conditionality is applied. Aid is predictable through strategies and budget frameworks set out on a multi-year basis. Switzerland reports to DAC, is a member of IATI, and has a high degree of aid predictability

## 2.6 Turkey

Turkey sees the Balkans as a strategic region and a bridge into the European inland<sup>36</sup>. Turkey has close historical, cultural, religious and linguistic ties with the region and gives great importance to advancing her economic relations with these countries. Turkey maintains good political relations with the Balkan countries, and her economic relations are steadily improving. The Balkan countries are attractive for Turkish businessmen due to the privatization processes, investment incentives, trade possibilities with third countries and easy access to a qualified labour force. Turkey also has an economic interest in promoting economic stability and growth in the Western Balkans as a market for Turkish products. Turkey's foreign trade with the Balkan countries was €14 billion in 2011. The free trade agreements signed with all Balkan countries except Kosovo have contributed to this favourable development<sup>37</sup>. Turkish direct investments in the Balkan countries are substantial, representing 7% of total Turkish FDI mainly in communications, banking, construction, mining and retail sectors.<sup>38</sup> For example, the Turkish company TAV has invested €200m in rebuilding Skopje and Ohrid airports under a 20-year concession arrangement.

Turkey's aid agency, TIKA, was established in 1992 as a technical aid organization under the Ministry of Foreign Affairs to respond to the restructuring, adaptation and development needs of the Turkic (Turkish-speaking) Republics after the disintegration of the Soviet Union. In 1999, TIKA was placed under the Prime Minister's Office. Since 2002, TIKA has increased its activity and visibility under a new foreign policy extended TIKA's activities to the Balkan countries for the first time. TIKA is now an independent legal entity that reports to the Deputy Prime Minister.

TIKA functions on the basis of the concept of cooperation<sup>39</sup>. Therefore it places importance on the political priorities of partner countries, paving the way for sharing information and

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<sup>36</sup> See Republic of Turkey Ministry of Economy website: <http://www.economy.gov.tr/index.cfm?sayfa=countriesandregions&region=9>

<sup>37</sup> Turkey signed Free Trade Agreements with the former Yugoslav Republic of Macedonia (1999), Bosnia and Herzegovina (2002), Albania (2006), Montenegro (2008) and Serbia (2009)

<sup>38</sup> Turkish FDI in the Balkans is backed up by bilateral Investment Promotion and Protection Agreements with Albania (1996), The former Yugoslav Republic of Macedonia (1997), Bosnia and Herzegovina (1998), Serbia (2001) and Kosovo (2006).

<sup>39</sup> See TIKA website: <http://www.tika.gov.tr/en/fields-of-activity/2>

experiences. The concept of cooperation also enables the efficient use of resources. During the process of realizing projects, the developmental priorities, needs and socio-economical structures of countries are taken into account. TIKAs sectors of operation include education, restoration, water and sanitation projects, e-government, institutionalization, agricultural development, combating poverty and increasing the employment of women. It provides financial support for infrastructure projects such as irrigation, health and transportation projects and constructing schools and hospitals as well as restoring architectural structures that have been determined to be cultural heritage. Turkey also organises education and youth programmes that bring young people from the Balkan countries to Turkey to encourage engagement with potential future leaders in the region.

In 2011, Turkey's global Official Development Assistance reached €930m, of which €860m was in the form of bilateral assistance and €70m was in the form of multilateral contributions to international organizations<sup>40</sup>. In 2011, Kosovo and Bosnia and Herzegovina were the 11<sup>th</sup> and 12<sup>th</sup> largest recipients of Turkish ODA respectively. In addition to TIKAs, Turkish ODA is also managed through TOKI (Collective Housing Management Administration); the Disaster Emergency Management Administration; Department of Chief of Staff; Turkish National Police; Ministry of Economy; Turkey Sugar Factories (TURKSEKER) affiliated to the Ministry of Science, Industry and Technology; Ministry of Education; Ministry of Health; and the Turkish Red Crescent. In Kosovo, Turkey has made a contribution to KFOR in Kosovo. Located in Prizren, the Kosovo Turkish Representative Committee Presidency has 377 staff, a motorized rifle company, and communication and surveillance task forces.

Turkey has elaborated "Country Development Cooperation Strategies" for the Western Balkan countries including Albania (2011-2015), Bosnia and Herzegovina (2012-2016), Kosovo (2014-2018), The former Yugoslav Republic of Macedonia (2011-2015) and Serbia (2013-2017).

**Table 2-5: Turkey ODA total net disbursements (€m) and per capita (€)**

	Total net ODA			ODA per capita		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	5.8	2.6	6.1	1.9	0.8	1.9
<b>Bosnia-Herzegovina</b>	19.5	12.9	16.6	5.1	3.4	4.3
<b>Kosovo</b>	16.7	16.1	15.6	9.4	9.0	8.6
<b>Montenegro</b>	7.6	2.1	2.1	12.3	3.3	3.4
<b>Serbia</b>	2.8	2.8	4.7	0.4	0.4	0.6
<b>The former Yugoslav Republic of Macedonia</b>	21.3	4.9	9.4	10.1	2.3	4.5
<b>Grand Total</b>	73.9	41.3	54.5	..	..	..

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

Turkish assistance has been mainly directed to Bosnia and Herzegovina (29% of the total from 2010-2012), Kosovo (28%) and the former Yugoslav Republic of Macedonia (21%). Its assistance to both the former Yugoslav Republic of Macedonia and Montenegro has declined substantially over the period 2010-12, while its assistance to Serbia has increased. In 2011, Turkish FDI was mainly directed to the former Yugoslav Republic of Macedonia with a total of €50m, significantly more than the amount directed to Bosnia and Herzegovina which was just €16m.

<sup>40</sup> TIKAs (2011) Turkey's Development Assistance in 2011, Ankara: TIKAs, p



Turkey achieves a high degree of alignment with beneficiary national strategies, since TIKA functions on the basis of the concept of cooperation, with a focus on the political priorities of partner countries, paving the way for sharing information and experiences. TIKA is accountable to Turkish government. Grants are unconditional and mostly untied. Turkey reports to DAC, but does not publish data on the IATI data depository.

## 2.7 United Arab Emirates

The UAE has translated development and humanitarian aid into a foreign policy instrument. The philosophy behind this is two-fold: first, it is dictated by an Islamic belief that helping those in need is a primary duty; and second, that part of the country's wealth from oil and gas should be devoted to assisting less fortunate countries and individuals.<sup>41</sup> The UAE established the Office for the Coordination of Foreign Aid (OCFA) in 2008 to pursue a more coordinated and sustainable approach to foreign aid. OCFA was subsequently merged with the Ministry of International Cooperation and Development (MICAD), which is officially mandated to propose strategies and policies related to foreign aid, raise the profile of the UAE as a major donor and support the foreign aid decision-making process. MICAD produces an annual report, the most recent being *United Arab Emirates Foreign Aid 2012*, which gives a comprehensive analysis of UAE foreign assistance during the year.

**Table 2-6: UAE ODA total disbursements (€m) and per capita (€)**

	Total net ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	0.1	0.0	13.9	0.03	0.00	4.41
<b>Bosnia-Herzegovina</b>	0.0	0.1	0.4	0.01	0.04	0.11
<b>Kosovo</b>	0.4	0.0	0.0	0.25	0.00	0.00
<b>Montenegro</b>	0.0	2.8	5.5	0.00	4.53	8.89
<b>Serbia</b>	0.0	0.0	0.0	0.00	0.00	0.00
<b>The former Yugoslav Republic of Macedonia</b>	0.0	0.0	0.0	0.00	0.00	0.00
<b>Turkey</b>	17.2	-0.8	-1.6	0.24	-0.01	-0.02
<b>Grand Total</b>	<b>17.8</b>	<b>2.1</b>	<b>18.3</b>	..	..	..

Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates

In 2012, UAE provided most of her development assistance in the Western Balkans to Albania (76% in 2012), and Montenegro (30%), although in per capita terms the largest ODA flow was to Montenegro at €8.89 per capita and to Albania at €4.41 per capita. Most of the assistance has been provided in the form of grants, although there were large concessional loan to Turkey in 2010 for €19.2m gross and to Albania for €13.5m in 2012. More recently, the Abu Dhabi Fund for Development (ADFD) has signed an agreement to provide a €36.7m concessional loan to Albania for the construction of the "Tirana-Elbasan" road project. In 2012, the UAE disbursed €13.9m of this loan to Albania. UAE has also funded the €16m Sheik Zayed airport in Kukes.

The interventions of the UAE are developing rapidly also in Serbia. The UAE airline Etihad has taken a 49% stake in the Serbian national carrier JAT and under a five-year management contract changed its name into Air Serbia and has re-developed the airline. United Arab Emirates-based company Eagle Hills will invest up to €3 billion in Serbia to build a business,

<sup>41</sup> See: [http://www.uaeinteract.com/government/development\\_aid.asp](http://www.uaeinteract.com/government/development_aid.asp)

residential and commercial area along the riverfront of Belgrade, transforming a run-down area along the Sava River. The project is expected to begin in 2015. In addition, the Emirates Advanced Research and Technology Holding signed an agreement with the Serbian state-owned defense company, Yugoimport, to jointly develop Advanced Light Attack System cruise missiles. This contract is reportedly worth €200m will pave the way for further cooperation between the two national industries. The Abu Dhabi Development Fund is expected to invest in food production in Serbia, and has signed a preliminary agreement for a long term agricultural development in Serbia for joint investment in state owned farms to develop irrigation systems, machinery and agricultural infrastructure. In exchange the Serbian Government will guarantee food exports to the UAE to ensure her food security in the future. Serbia has also signed MoUs with a number of UAE based companies for the potential production of semiconductors and aircraft components. A main aim of the Serbian government has been to secure a €3bn unconditional loan from UAE in order to avoid turning to the IMF for conditional loans<sup>42</sup> and in March 2013, the Department of Finance of Abu Dhabi (DoF) signed a loan agreement with Serbia for US\$1 billion (€750m). The DoF has stated that this loan will provide new opportunities for cooperation and will develop economic and trade relations. It will support the Serbian economy and will provide numerous investment opportunities for the two countries.

In June 2013, UAE Minister of Economy Sultan Al Mansouri visited Kosovo as part of a UAE strategic action plan to explore promising business and investment opportunities in the Balkan countries, mainly in energy and renewable energy. He said the UAE was also interested in investing in sectors such as agriculture, SMEs, free zones, tourism, air transport, mining, industry, food industries and infrastructure.<sup>43</sup>

In 2010, the United Arab Emirates (UAE) provided, for the first time, whole-of-government reporting of its aid flows at the activity level to the OECD DAC, making it the first country outside the DAC's membership to report in such detail. UAE officially became a member of the OECD Development Assistance Committee (DAC) in July 2014.

## 2.8 USA

The USA is a major donor of official development assistance throughout the world. The purpose of this assistance has been at least partly to further its economic and political influence. According to a classic study of international aid “[t]he primary purpose of United States’ aid has always been to further and promote its own interests, with foreign aid seen as an essential arm of foreign policy, playing a vital role in supporting US geo-strategic interests” (Riddell, 2007: 94). Much of the assistance from USA is delivered through USAID, whose mission is “...to end extreme poverty and promote reliant, democratic societies while advancing our security and prosperity”<sup>44</sup>. USAID is committed to aid transparency and publishes complete financial data on aid allocations on the publicly available Foreign Assistance Dashboard managed by the Department of State. USAID has published Country Development Cooperation Strategies for Albania (2011-2015), Kosovo (2014-2018) and Serbia (2013-2017). Other CDCS are due for completion by the end of 2014.

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<sup>42</sup> See: <http://english.alarabiya.net/en/views/news/world/2013/12/18/Gate-to-the-Balkans-the-growing-relationship-between-the-UAE-and-Serbia.html>

<sup>43</sup> See: [http://www.uaeinteract.com/docs/UAE\\_Minister\\_in\\_Kosovo\\_to\\_explore\\_joint\\_business\\_and\\_investment\\_opportunities/55557.htm](http://www.uaeinteract.com/docs/UAE_Minister_in_Kosovo_to_explore_joint_business_and_investment_opportunities/55557.htm)

<sup>44</sup> See: <http://www.usaid.gov/who-we-are/mission-vision-values>

Although USAID grant aid is partly tied, about two thirds is provided on an untied basis, and the aim is to eventually provide all assistance in the form of untied aid. USAID is also moving towards working directly with governments and local organisations, which it considers as a more effective way of working. However, this is being resisted by interest groups in the USA, such as US consultancy firms that have an interest in maintaining the status quo. Where possible, USAID tries to use the host country procurement systems.

USAID is moving away from large-scale projects costing millions of dollars to smaller-scale projects, which may have similar set-up costs, but offer greater flexibility. Its experience shows that small projects with a small budget can have a large impact.

**Table 2-7: USA Total net ODA (€m) and ODA per capita (€)**

	Total net ODA			Per capita ODA		
	2010	2011	2012	2010	2011	2012
<b>Albania</b>	22.7	18.3	17.0	7.2	5.8	5.4
<b>Bosnia-Herzegovina</b>	21.4	27.3	30.0	5.6	7.1	7.8
<b>Kosovo</b>	76.2	66.3	77.5	42.9	37.0	42.9
<b>Montenegro</b>	5.1	4.6	6.1	8.2	7.5	9.9
<b>Serbia</b>	43.7	30.3	32.4	6.0	4.2	4.5
<b>The former Yugoslav Republic of Macedonia</b>	15.4	14.2	13.1	7.3	6.8	6.2
<b>Turkey</b>	4.8	8.3	10.9	0.1	0.1	0.1
<b>Grand Total</b>	<b>189.2</b>	<b>169.3</b>	<b>186.9</b>	..	..	..

*Source: OECD StatExtracts online database. Data are in current prices converted to Euros at European Central Bank reference exchange rates*

Total ODA from USA remained fairly steady over the three years from 2010 to 2012 (see Table 2-4). Flows to Bosnia and Herzegovina increased, while flows to Serbia experienced a moderate decline. The greatest share of the USA assistance to the region was directed to Kosovo, which received over two-fifths of total assistance to the region. In per capita terms, Kosovo received by far the largest amount at €42.9, while other countries in the Western Balkans received amounts ranging from €4.5 per capita (Serbia) to €9.9 per capita (Montenegro). Turkey received negligible assistance on a per capita basis, amounting to 5% of the total assistance to the region.

# Annex 3: The IFIs

## 1 THE WORLD BANK

The World Bank Group is made up of the International Bank for Reconstruction and Development (IBRD – the “World Bank”), the International Development Association (IDA), the International Finance Corporation (IFC) and some other agencies. The World Bank provides non-concessional loans and development assistance to middle income countries in Latin America, Asia, Africa and Eastern Europe and administers a number of Trust Funds on behalf of donors. The IDA provides both concessional loans and grants to developing countries. The IFC provides loans and equity finance for business ventures in developing countries. In 2013, the management of the World Bank’s program in Southeast Europe was decentralized to Vienna, from where the Country Director for SEE leads the management of the World Bank’s lending program and analytical work in Albania, Bosnia and Herzegovina, Kosovo, The former Yugoslav Republic of Macedonia, Montenegro, and Serbia, to support their economic development and preparation for eventual European Union membership. Currently the World bank has a loan portfolio of almost 40 investment projects in SEE, worth about €1.3 billion, addressing development needs in areas such as transport, energy, environment, health, education and social protection. The World Bank’s has a strategic partnership with the European Union (EU), and works with the EC and European international financial institutions (IFIs) to improve the capacity of clients to absorb EU funds. Against the background of weak growth and even economic contraction in Central and South Eastern European (CESEE) countries, the World Bank Group, the EBRD, and the EIB Group agreed in November 2012 on a new Joint IFI Action Plan, pledging to invest a total of €30 billion in the region over the period 2013-14 to stimulate economic growth.

**Table 1: World Bank lending (commitment) by country, 2010 onward, (€m)**

	2010	2011	2012	Average 2010-2012
<b>Albania</b>	0.2	34.7	227.4	87.4
<b>Bosnia and Herzegovina</b>	95.0	19.6	156.5	90.4
<b>Kosovo</b>	57.3	23.5	18.8	33.2
<b>Montenegro</b>	5.4	61.1	74.1	46.8
<b>Serbia</b>	3.5	368.5	0.9	124.3
<b>The former Yugoslav Republic of Macedonia</b>	9.1	116.5	77.8	67.8
<b>Turkey</b>	2,264.9	1,293.1	467.0	1,341.7
<b>Grand Total</b>	2,435.5	1,916.9	1,022.4	1,791.6

*Source: Calculated from project data on World Bank website*

Most commitments to the region are made in the form of World Bank loans, and only a small amount has been provided as IDA grants mainly to Kosovo (€45m) and Bosnia and Herzegovina (€128m million). Total loans from the World Bank to the Enlargement countries fell by more than one quarter between 2010 and 2013, reflecting the tightening fiscal position of governments and their reluctance to add to their levels of international indebtedness, even from a major development bank.

**Table 2: World Bank commitments by sector, W. Balkans and Turkey, 2010-2012 (€m)**

	2010	2011	2012	Total
<b>Energy, environment, climate change</b>	879.2	388.4	568.2	611.9
<b>SME &amp; Private sector development</b>	377.2	568.9	194.0	380.0
<b>PAR &amp; PFM</b>	1,009.8	574.7	26.5	537.0
<b>Employment and social policies</b>	95.0	229.8	51.4	125.4
<b>Transport</b>	0.0	0.0	0.0	0.0
<b>Agriculture and rural development</b>	0.0	14.5	0.0	4.8
<b>Total</b>	2,361.2	1,776.3	840.1	1,659.2

Source: Calculated from project data on World Bank website

Most World Bank loans have been in the Energy, Environment, Private Sector Development, and PAR sectors. Loans to the Energy, Environment, and PAR sectors have been falling while those for Private Sector Development have been increasing, in fact doubling between 2010 and 2013.

**Table 3: World Bank commitments by country and sector, 2010-2103 (€m)**

Sector	AL	BA	XK	MK	ME	RS	TR	Total
<b>Energy, environment, climate change</b>	110	30	3	52	9	0	1,845	2,049
<b>SME &amp; private sector development</b>	0	90	5	37	123	300	1,424	1,980
<b>PAR &amp; PFM</b>	0	25	20	160	0	75	1,499	1,779
<b>Employment and social policies</b>	56	102	0	101	12	0	112	384
<b>Transport</b>	0	0	0	0	0	75	0	75
<b>Agriculture and rural development</b>	0	0	15	0	0	0	0	15
<b>Total</b>	166	247	43	351	144	450	4,880	6,282

Source: Calculated from project data on World Bank website

World Bank loans to Turkey have focused on the Energy, Environment, Private Sector Development and PAR/PFM sectors almost equally. In the Western Balkans, large loans have been made to Albania in the Energy sector, to Bosnia and Herzegovina and Macedonia for Private Sector Development, Employment and Social Policies, in Montenegro for Private Sector Development, and in Serbia for Private Sector Development, PAR/PFM and Transport (see Table 3).

According to our interview with GIZ in Albania “the World Bank is trying to introduce a results-based approach. However, even though the indicators are not met, there is pressure to make disbursements and so the beneficiary still gets the funds”. In other words, a results-based approach seems to lack incentive compatibility.

The World Bank has an investment arm known as the International Finance Corporation (IFC) that, like the EBRD, lends to the private sector, at local market rates of interest. The investment flows are therefore classified as OOF. The flows for the period 2010-2012 are shown in Table 4.

**Table 4: Financial flows from IFC (€m)**

	2010	2011	2012	Average 2010-2012
<b>Albania</b>	0.0	35.5	9.4	15.0
<b>Bosnia-Herzegovina</b>	-1.3	-9.5	-8.8	-6.5
<b>Kosovo</b>	11.8	0.0	-0.4	3.8

<b>Montenegro</b>	7.1	-4.8	5.5	2.6
<b>Serbia</b>	25.7	124.1	62.0	70.6
<b>The former Yugoslav Republic of Macedonia</b>	28.2	-2.0	-3.9	7.4
<b>Turkey</b>	291.3	191.1	70.0	184.1

Source: OECD International Development Assistance database

Investments by the IFC to almost all the Enlargement countries declined quite significantly between 2010 and 2012, especially in Turkey, though they were on an increasing trend in Serbia, and have even turned negative in Bosnia and Herzegovina (interest payments and exceeded the inflow of new funds).

## 2 THE EUROPEAN INVESTMENT BANK

The European Investment Bank (EIB) is the financing institution of the EU and finances investment projects in support of EU policy objectives and in support of the EU external actions. It has an external mandate including an EU guarantee against losses on projects undertaken outside the EU<sup>1</sup>. Its horizontal high-level objectives are provision of finance in local private sector development in particular support to SMEs, development of social and economic infrastructure including transport, energy, environmental infrastructure and information and communication technology, and in climate change mitigation and adaptation<sup>2</sup>.

EIB financing can be combined with EU budgetary resources through assistance programmes such as IPA when appropriate, in the form of guarantees, risk capital and interest rate subsidies, investment co-financing, and technical assistance for project preparation and implementation<sup>3</sup>. EIB financing operations are carried out in cooperation with other IFIs and European bilateral financial institutions (EBFIs) in order to maximise synergies, cooperation and efficiency and to ensure risk sharing and coherent project and sector conditionality, in order to minimise possible duplication of costs and unnecessary overlap<sup>4</sup>. Cooperation between the EIB and the European Commission is regulated through a Memorandum of Understanding signed in 2013. The key principles of the Memorandum are to emphasise the importance of working in partnership and in a complementary manner, and to ensure coherence between their financing operations and to maximise synergies between EIB financing and EU budget based instruments. In addition to exchange of information and strategic coordination the EIB and the EC aim to coordinate through the EU Platform for Blending in External Cooperation and Development in order to improve the quality and efficiency of external cooperation blending mechanisms. In addition, it is envisaged that EIB loan conditions will be aligned with country-level sectoral policies. The Memorandum envisages that EU Delegations will liaise with the EIB in relation to their technical discussions with beneficiaries in relevant donor coordination committees and subcommittees.

In practice, the cooperation between the EIB and the EU IPA programme is mainly institutionalised through the Western Balkans Investment Framework, based in Brussels. However, in considering the coordination between the EIB and the EU Delegations in the Western Balkans and Turkey, the project team did not find much evidence of real coordination or cooperation between the EIB financing operations at the country level or in

<sup>1</sup> Decision No 1080/2011/EU of the European Parliament and the Council.

<sup>2</sup> Memorandum of Understanding between the European Commission and the European Investment Bank in respect of Cooperation and Coordination in the Regions covered by the External Mandate

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.



the operational sense that would suggest that the sector objectives of the IPA programme are in any way closely aligned with the sectoral objectives and financing decisions of the EIB. For example, the EIB investments in the region are heavily skewed towards the provision of credit lines and to infrastructure investments in the field of private sector development, transport and energy, and very much less in evidence in other IPA priority sectors such as environment, agriculture and rural development, regional development or the social sector (see Table 5).

**Table 5: Sectors supported by EIB in the Western Balkans and Turkey, 2010-ongoing (disbursements) (€m)**

	2010	2011	2012	2013	Total
<b>Credit lines</b>	1,013	940	1,450	1,450	4,853
<b>SME &amp; Private sector development</b>	930	694	540	492	2,657
<b>Transport</b>	445	617	487	460	2,009
<b>Energy</b>	315	545	75	199	1,134
<b>Environment &amp; Climate change</b>	167	55	254	6	482
<b>Agriculture and rural development</b>	0	150	0	150	300
<b>Regional development sector</b>	0	0	0	200	200
<b>Employment and social policies</b>	50	100	0	0	150
<b>Total</b>	2,919	3,101	2,806	2,958	11,784

*Source: Calculated from European Investment Bank database. Note: SME & private sector development consists of the EIB sectors "Industry", "Services" and "Telecom"; Environment and climate change consists of "Water, Sewerage" and "Solid waste"; Regional development sector consists of "Urban development"; Employment and social policies consists of "Health" and "Education"*

The total investment by the EIB in the Western Balkans and Turkey amounted to €11.8 billion between 2010 and 2013. As can be seen from Table 2.2-7, the main area of investment undertaken by the EIB in the region is credit lines, which accounts for over €4.8 billion of EIB investments over the four year period. SME & Private sector development and Transport are the second and third most important sectors respectively, absorbing together a further €4.7 billion investment loans. Energy sector accounts for over €1 billion in loans. The EIB has made no loans at all in the sectors of PAR, PFM, Democracy human rights and the rule of law, or security and migration.

**Table 6: Countries supported by EIB, 2010-ongoing (disbursements) (€m)**

	2010	2011	2012	2013	Grand Total
<b>Turkey</b>	1,935	2,068	2,135	2,302	8,439
<b>Serbia</b>	760	711	275	318	2,064
<b>Bosnia and Herzegovina</b>	72	175	206	213	666
<b>The former Yugoslav Republic of Macedonia</b>	52	125	110	103	390
<b>Montenegro</b>	49	18	45	7	119
<b>Albania</b>	51	5	35	5	96
<b>Kosovo</b>				10	10
<b>Grand Total</b>	2,919	3,101	2,806	2,958	11,784

*Source: Calculated from European Investment Bank database*

The greatest amount of EIB investments takes place in Turkey, with Serbia a distant second place (see Table 6). Investments in Turkey have been increasing steadily, while investments in Serbia have fallen noticeably in recent years. Other Western Balkan countries have

received relatively little infrastructure investment, and while this has been increasing in Bosnia and Herzegovina, the allocations to other countries have been slightly decreasing in Macedonia and quite volatile in Montenegro and Albania.

**Table 7: Sectors supported by EIB by country, 2010-ongoing (disbursements) (€m)**

	AL	BA	MK	XK	ME	RS	TR	Grand Total
<b>Credit lines</b>	5	110	270	10	64	736	3,658	4,853
<b>SME &amp; Private sector development</b>	4	23	5	0	10	741	1,873	2,657
<b>Transport</b>	85	326	65	0	23	495	1,015	2,009
<b>Energy</b>	2	1	1	0	1	43	1,087	1,134
<b>Environment &amp; Climate change</b>	0	105	50	0	21	0	306	482
<b>Agriculture &amp; rural development</b>	0	0	0	0	0	0	300	300
<b>Regional development sector</b>	0	0	0	0	0	0	200	200
<b>Employment and social policies</b>	0	100	0	0	0	50	0	150
<b>Grand Total</b>	96	666	390	10	119	2,064	8,439	11,784

Source: Calculated from European Investment Bank database

The EIB invests quite differently in each country (see Table 2.2-9). The transport sector has received large share of total investment in Albania and Bosnia and Herzegovina and to a lesser extent also in Serbia, while credit lines have predominated in Kosovo, Macedonia, Montenegro and Turkey. Major investments in Serbia have been fairly balanced between credit lines and private sector development.

### 3 THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

The EBRD invests primarily in private sector clients whose needs cannot be fully met by the market. It aims to foster transition towards open and democratic market economies in which businesses are competitive, innovation is encouraged, household incomes reflect rising employment and productivity, and environmental and social conditions reflect peoples' needs. EBRD is able to stimulate local banks to provide new lending by taking on up to 50% of the risk of a project. EBRD has made significant use of financial blending instruments, which have increased the number of projects financed, for example in Central Asia. Most of the investment has gone into the transport sector, private sector development and the energy sector (See Table 8). Much less has gone into the environment sector and the social sectors.

**Table 8: EBRD projects in the Western Balkans by sector, 2010-2013 (€m)**

	2010	2011	2012	2013	Grand Total
<b>Transport</b>	359	653	280	31	1,322
<b>Private sector development</b>	480	170	126	134	910
<b>Energy</b>	324	470	101	13	908
<b>Water and Environment</b>	69	27	18	14	127
<b>Social sectors</b>	11	0	0	0	11
<b>Grand Total</b>	1,242	1,319	525	191	3,277

Source: WBIF database

In deciding on its investments the EBRD takes into account the economic transition impact of its loans as well as the political impact on democratic transition including the issues of political accountability, civil society and political participation, the rule of law including the control of corruption and civil and political rights. These elements form part of a new political conditionality of the EBRD loans in the region alongside the more traditional assessment of economic impact made by the Office of the Chief Economist.<sup>5</sup> The EBRD makes significant use of donor funds in the form of grants from donor countries and co-financing with other international financial institutions, as well as funding from the EBRD Shareholder Special Fund (SSF). In 2012, total donor funding amounted to €178 million.

**Table 9: EBRD non-concessional loans to Enlargement countries (€m)**

	2010	2011	2012	Average 2010-2012
<b>Albania</b>	53.9	92.8	114.6	87.1
<b>Bosnia-Herzegovina</b>	113.0	97.6	126.3	112.3
<b>Kosovo</b>	0.0	0.0	1.1	0.4
<b>Montenegro</b>	15.7	44.2	48.4	36.1
<b>Serbia</b>	339.4	402.4	139.0	293.6
<b>The former Yugoslav Republic of Macedonia</b>	20.1	22.0	0.0	14.0
<b>Turkey</b>	383.4	798.5	721.3	634.4

*Source: OECD International Development Statistics*

Loans from the EBRD to the Enlargement countries doubled between 2010 and 2011 and fell back a little in 2012. The largest beneficiary has been Turkey and Albania. Net financial flows to Macedonia, Kosovo, and Serbia were close to zero in 2012 (see Table 9).

Since 1991 the EBRD has invested about €6.8 billion in more than 431 projects in the Western Balkans. It has concentrated on the promotion of private sector development in the region through the Local Enterprise Facility (LEF), a €400 million investment vehicle for SMEs in the Western Balkans, Croatia, Turkey, Bulgaria and Romania. This provides long-term financing to businesses that lack access to credit, and providing them with pre- and post-investment support. The Facility includes a €20 million contribution from the Italian government and €380 million from the EBRD. Since its launch, LEF has financed projects in a broad range of sectors such as manufacturing, agribusiness, telecommunications, property and natural resources<sup>6</sup>.

### *3.1.1.1 EBRD Venture Capital Investment Programme*

The EBRD Venture Capital Investment Programme is a dedicated €100 million capital pool and team investing early and growth stage venture capital in innovative, high-growth technology companies from central Europe to central Asia. It is focused on providing active leadership in the development of technology and venture financing ecosystem in its countries of operation including the Western Balkans and Turkey.

## **4 THE EUROPEAN FUND FOR SOUTH EAST EUROPE**

The European Fund for South East Europe is a successful public-private partnership that has attracted private finance for micro-finance and SMEs and has become the largest

<sup>5</sup> Ibid, p. 41

<sup>6</sup> EBRD Annual Report, 2012

microfinance fund in the world. Private capital is protected by public funds, yet benefits from dividends and profits. The EFSE, initiated by the German KfW, is supported by a wide range of public investors<sup>7</sup>, international financial institutions,<sup>8</sup> and private investors.<sup>9</sup> The Fund aims to foster economic development and prosperity primarily in the Southeast Europe region but also in the European Eastern Neighbourhood region through the sustainable provision of additional development finance, notably to micro and small enterprises ("MSEs") and to private households, via qualified financial institutions.

The EFSE has made it its goal is to provide its services in a responsible manner. It bases its corporate values on high standards of business ethics. These are additionality, transparency in the disclosure of information, compliance of partner institutions with high standards of business ethics, close monitoring of partner institutions and end-borrowers, presence in the markets and proximity to partner institutions, and a responsible HR policy of Fund service providers. Third parties carry out an independent Annual Development Impact Study on behalf of the Fund to objectively evaluate its development orientation, to retrieve primary data from partner institutions and end-borrowers, and to assess the level of compliance of the partner institutions with EFSE's ethical business principles.

EFSE's funding strategy is to use donor funds to leverage additional funds for development purposes. This is achieved by issuing different share "tranches" bearing different risks. The first Junior tranche is provided by public donor funds and bears the most risk, the second Mezzanine tranche is provided by development finance institutions and international financial institutions and the third Senior Tranche is provided by private investors who bear the least risk. Thus in the case of loss on investments, donor funds are at risk in the first instance. When these are used up, the IFI funds are called upon to cover the loss. Only in the case of the unexpectedly large losses do private investors bear a loss. In this way, the fund is attractive to private investors and the donor and funds can leverage large-scale participation in the fund by IFIs and private investors.

While mezzanine and senior investors invest at regional level, donor funds can either be earmarked to a specific country or the region at large. Country-specific donor funds are exclusively used for investments in one particular country, facilitating a possible later transfer of ownership to local stakeholders. Regionally earmarked donor funds allow the flexible use of funds and can therefore best accommodate changing development finance needs in the target region. In order to undertake investments, different sources of funds representing different risk tranches are pooled. They then constitute one single source of financing for the Fund. Consequently, the Fund uses these pooled funds flexibly within each country based on the Fund's overall investment policy. This approach creates efficiency gains and also effectively addresses the risks associated with each investment.

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<sup>7</sup> Public investors include the European Investment Fund as Trustee for the European Commission, KfW as Trustee for the European Commission, German Federal Ministry for Economic Cooperation and Development, Swiss Agency for Development and Cooperation, Austrian Development Agency, Danish International Development Agency, Government of the Republic of Albania, Small and Medium Business Credit Support CJSC (a subsidiary of the Central Bank of Armenia).

<sup>8</sup> IFI supporters include the the International Finance Corporation, European Bank for Reconstruction and Development, KfW Development Bank, Netherlands Development Finance Company, Oesterreichische Entwicklungsbank, European Investment Bank

<sup>9</sup> Institutional private investors include Sal. Oppenheim, BN&P Good Growth Fund, Credit Cooperatif, ESPA VINIS Microfinance, The Waterloo Foundation, Steyler Bank, Versorgungsfonds des Landes Brandenburg and Finance in Motion.

In the third quarter of 2013, the EFSE had over one hundred and thirty thousand active borrowers in the region<sup>10</sup>, who had an average outstanding loan amount of €5,577. The total portfolio value of the fund at that time was €766m and the total amount disbursed since it began its activities in 2005 was €3bn. The distribution of the loan amounts to end-borrowers was quite varied across the beneficiaries with the largest share distributed in Serbia (27%) followed by Turkey (15%), Bosnia and Herzegovina (12.0%), Kosovo (4%), Montenegro (3%), Albania (3%) and the Former Yugoslav Republic of Macedonia (3%). The EFSE is also active in Bulgaria, Croatia and Romania. Most of the loans (46%) are for working capital and only 16% are for fixed assets, with the remaining 38% provided for both purposes. The largest share of loans (32%) goes to the production sector and this share is increasing, while the share going to the trade sector is 31% and to services is 20%.

## 5 THE COUNCIL OF EUROPE DEVELOPMENT BANK

The Council of Europe Development Bank (CEB) uses donor funds to support “highly social” projects. These funds are used to finance technical assistance for these projects through external consultancy services but donor funds may also be used to fund additional in-house staff. It is claimed that such assistance improves the institutional capacity of the project sponsor while maintaining strong project ownership<sup>11</sup>. Donor funds are also used to provide financial support for highly social projects in the form of interest rate subsidies or investment grants. This support helps project sponsors address the financial constraints such as limited borrowing capacity. The CEB states that donor funds ensure the technical and financial sustainability of its large-scale social projects, while donors benefit from the CEB’s expertise in funding social projects, including a robust procurement control scheme, while maintaining oversight on the use of such funds, through best-practice governance systems<sup>12</sup>. At end December 2013, the amount of donor funds administered by the Bank stood at almost € 200 million (including Social Dividend Account). These funds were held in 38 trust accounts. Of particular interest are the following Trust Funds managed by the CEB.

**Table 10: Donor Trust Funds for Western Balkans managed by the CEB**

Funds	Year set up	Purpose	Fund resources	No. of projects or programmes supported
<b>Norway Trust Account for the Western Balkans</b>	2004	To finance activities that support social and economic reforms in the Western Balkan countries, including technical assistance to improve the institutional capacity of public authorities.	€3.2 million	39
<b>Spanish Social Cohesion Account</b>	2009	To finance technical assistance in favour of CEB projects, with a focus on CEB target group countries	€2.0 million	13
<b>Tripartite EU-KfW-CEB facilities</b>	2000	To finance various activities, such as technical assistance, in favour of CEB-KfW projects in Central, Eastern and South Eastern European countries	€189.8 million	6
<b>EU financial</b>	2009	To support CEB projects in the	€9.2 million	5

<sup>10</sup> See EFSE Quarterly Factsheet, Q3, 2013

<sup>11</sup> CEB website: <http://www.coebank.org/Contenu.asp?arbo=154&theme=2>

<sup>12</sup> Ibid.

<b>instruments and programmes</b>		Western Balkans, with funds from facilities such as the Western Balkans Investment Framework (WBIF)		
<b>Regional Housing Programme Fund</b>	2012	To finance the "Regional Housing Programme", a joint initiative of Bosnia and Herzegovina, Croatia, Montenegro and Serbia that aims to benefit 74,000 refugees and displaced persons at a cost of €584 million over 5 years.	€69.8 million	4
<b>Bilateral EU trust accounts</b>	2012	To finance technical assistance and costs borne by the CEB in relation to the Regional Housing Programme	€10.6 million	4
<b>Sweden Special Account</b>	2010	To finance activities in favour of a specific CEB project, i.e. a State prison in Bosnia & Herzegovina	€1.1 million	1

Source: CEB website

The CEB focuses on several specific sectors of activity as shown in Table 11.

**Table 11: Sectors supported by the CEB**

Sectoral Lines of Action	Sectors of Action
<b>Strengthening social integration</b>	Aid to refugees, migrants and displaced persons
	Social housing for low-income persons
	Creation and preservation of viable jobs *
	Improvement of living conditions in urban and rural areas
<b>Managing the environment</b>	Natural or ecological disasters
	Protection of the environment
	Protection and rehabilitation of the historic and cultural heritage
<b>Supporting public infrastructure with a social vocation</b>	Health
	Education and vocational training
	Infrastructure of administration and judicial public services

Source: CEB Annual Report, 2013

\* As of 1 January 2014, within the framework of the new Development Plan 2014-2016, the "Creation and preservation of viable jobs" sector has become a separate sectoral line of action.

On 9 July 2014, the CEB became an ODA-eligible international organisation. It will thus from now on start reporting on its aid flows to the OECD DAC Credit Reporting System Aid Activity Database. The CEB's assistance to the region to date can be obtained from the organisation's annual reports, summarised below in Table 12. .

**Table 12: Council of Europe Bank Loans Disbursed (€ millions)**

Country	2011	2012	2013
<b>Turkey</b>	298.975	168.545	251.032
<b>The former Yugoslav Republic of Macedonia</b>	3.700	13.689	11.491
<b>Montenegro</b>	10	0	0
<b>Albania</b>	25.137	8.678	2.789
<b>Serbia</b>	32.500	5.452	34.340
<b>Bosnia and Herzegovina</b>	0.547	0.061	7

Source: CEB Annual Report, 2013



## 6 ISLAMIC DEVELOPMENT BANK

The strategic objectives of the Islamic Development Bank (ISD) are the promotion of Islamic financial industry and institutions, poverty alleviation and the promotion of cooperation among member countries. The priority areas of intervention are Human Development, Agricultural Development and Food Security, Infrastructure Development, Intra-trade among member countries, Private Sector Development, Research and Development in Islamic economics, and Banking and Finance. The Bank extends loans to its member countries for infrastructure and agriculture projects such as roads, canals, dams, schools, hospitals, housing, and rural development. Loans are provided to both the public and private sectors, with a focus on the economic and social development of the member countries.

The IDB and World Bank signed an MoU in 2012 setting out the framework for partnership in the area of global Islamic financial sector development. Through the MoU, the World Bank and the IDB will explore Islamic Finance as a potential tool supporting the efforts of countries to reach their development goals. The IDB also signed an MoU with the EIB in 2012 to jointly support their operations in the MEDA region through a technical assistance facility to which the EBRD also contributes funds. The IDB has financed 33 projects in Albania with a total value of about €340m million up to the end of 2012<sup>13</sup>. Two months before elections, the government signed a loan agreement for €100 million with the Islamic Development Bank to fund the construction of the road from Qukes to Qafe Plloce, in the region of Korca and Pogradec. It is a continuation of the Tirana-Elbasan road and is part of Corridor VIII. The first 2.9 km of the road was financed by the state budget. In February 2014 the government signed a further loan agreement of €20m with the Saudi Arabia Fund that will complete the required funds for constructing the road (estimated total cost around €120). In November 2012 a loan for about €6m was approved for the construction of the Durres fishing port.<sup>14</sup>

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<sup>13</sup> IDB (2012) Facts and Figures on IDB Member Countries, Islamic Development Bank

<sup>14</sup> See: Islamic Development Bank Annual Report 2012

# Annex 4:

## Net Disbursements by Donor, 2010 to 2012

ODA Net Disbursements by Donor (in EUR millions)					
	2010	2011	2012	TOTAL	AVERAGE
All Donors Total	2,598.9	4,685.6	4,557.6	11,842.1	3,947.4
DAC Countries Total	1,473.5	1,092.7	829.1	3,395.3	1,131.8
Non-DAC Countries, Total	90.7	55.3	75.0	220.9	73.6
Multilateral, Total	1,034.8	3,537.6	3,653.5	8,225.9	2,742.0
G7 Countries, Total	961.8	653.0	458.2	2,073.0	691.0
DAC EU Members, Total	682.1	737.1	446.0	1,865.3	621.8
	2010	2011	2012	TOTAL	AVERAGE
EU Institutions	839.9	3,391.8	3,535.9	7,767.6	2,589.2
United States	189.2	169.3	186.9	545.4	181.8
Germany	180.8	189.2	170.1	540.1	180.0
Japan	436.3	37.7	41.3	515.2	171.7
France	87.0	192.4	0.2	279.7	93.2
Switzerland	82.1	88.6	96.0	266.7	88.9
Sweden	72.5	77.1	77.5	227.1	75.7
Austria	77.0	67.0	79.9	223.9	74.6
Turkey	73.9	41.3	54.5	169.6	56.5
Norway	57.6	49.3	47.9	154.8	51.6
OSCE	54.2	51.4	48.9	154.5	51.5
IDA	95.0	38.5	13.3	146.9	49.0
Greece	54.3	50.3	34.5	139.1	46.4
Italy	46.5	45.8	25.6	117.9	39.3
Spain	65.1	28.1	-4.8	88.4	29.5
United Kingdom	23.0	19.3	33.3	75.6	25.2
Korea	26.7	11.2	9.3	47.3	15.8
UNHCR	4.9	23.2	17.1	45.2	15.1
Netherlands	22.7	12.3	9.9	44.9	15.0
Global Fund (GFATM)	15.5	16.7	12.1	44.3	14.8
Luxembourg	12.6	8.1	17.9	38.7	12.9
United Arab Emirates	17.8	2.1	18.3	38.2	12.7
Finland	10.7	10.6	8.8	30.0	10.0
GEF	3.0	9.2	11.1	23.2	7.7

Czech Republic	9.0	6.6	6.7	22.4	7.5
Slovenia	5.0	6.1	6.9	18.0	6.0
Russia	0.0	9.3	7.9	17.3	5.8
UNICEF	4.9	5.6	4.6	15.1	5.0
Hungary	3.8	7.0	3.7	14.5	4.8
OFID	6.2	1.1	5.9	13.3	4.4
Portugal	12.2	0.6	0.3	13.1	4.4
Poland	-2.7	16.0	-1.8	11.5	3.8
UNDP	4.5	3.0	3.4	10.9	3.6
Isl. Dev Bank	6.2	-1.3	2.1	7.1	2.4
UNFPA	2.4	2.1	2.5	7.0	2.3
IFAD	3.5	1.1	2.1	6.8	2.3
Slovak Republic	1.9	2.2	2.0	6.1	2.0
Romania	1.4	2.0	2.2	5.6	1.9
IAEA	2.6	1.4	1.0	5.1	1.7
Israel	0.7	2.5	0.6	3.8	1.3
WHO	0.0	1.4	0.1	1.5	0.5
GAVI	0.7	0.4	0.2	1.3	0.4
Australia	0.1	0.2	0.7	1.0	0.3
Estonia	0.2	0.3	0.2	0.7	0.2
Ireland	0.2	0.3	0.2	0.7	0.2
Cyprus	0.0	0.3	0.4	0.7	0.2
UNAIDS	0.4	0.0	0.0	0.4	0.1
Iceland	0.4	0.0	0.0	0.4	0.1
Latvia	0.0	0.2	0.0	0.2	0.1
Lithuania	0.0	0.2	0.0	0.2	0.1
New Zealand	0.0	0.1	0.0	0.1	0.0
Canada	-1.1	-0.7	0.9	-1.0	-0.3
Denmark	7.3	7.5	-18.5	-3.7	-1.2
Belgium	-3.2	-2.4	-2.6	-8.2	-2.7
IMF (Concessional Trust Funds)	-9.1	-8.1	-6.9	-24.2	-8.1
Kuwait (KFAED)	-7.3	-9.9	-12.8	-30.0	-10.0
<b>TOTAL</b>	<b>2,598.9</b>	<b>4,685.6</b>	<b>4,557.5</b>	<b>11,842.0</b>	<b>3,947.3</b>
<b>TOTAL donors &gt; 10m</b>	<b>2,545.5</b>	<b>4,621.3</b>	<b>4,534.2</b>	<b>11,701.0</b>	<b>3,900.3</b>

Source: OECD QWIDS International development statistics database

## Annex 5: Sectoral distribution of ODA by main donor

Table 1 Sectoral distribution of ODA by main donor organisations in Albania, 2010-12 (Percentage of total for each donor and number of sectors per donor)

	EU	EL	IT	DE	IDA	US	CH	SE
Transport	38%	10%	20%	0%	16%	0%	0%	0%
Environment	13%	0%	6%	40%	8%	0%	17%	15%
Justice and Home Affairs	10%	0%	0%	6%	0%	18%	0%	23%
Public Administration Reform	9%	0%	0%	3%	6%	22%	25%	9%
Social policies	8%	0%	2%	0%	2%	1%	10%	19%
Agriculture and rural development	5%	0%	3%	0%	3%	4%	5%	10%
Education	4%	85%	6%	25%	8%	0%	8%	0%
Private sector development	2%	0%	19%	1%	0%	12%	6%	0%
Multisector	1%	2%	0%	2%	7%	9%	4%	5%
Public Finance Management	1%	0%	0%	0%	1%	1%	0%	2%
Security and migration	1%	0%	0%	0%	0%	12%	0%	1%
Human rights and minorities	1%	0%	0%	0%	0%	2%	0%	7%
Other	0%	0%	1%	0%	6%	0%	8%	3%
Health	0%	0%	2%	0%	11%	11%	4%	0%
Energy	0%	0%	36%	18%	28%	2%	6%	0%
General budget support	0%	0%	0%	0%	0%	0%	0%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Number of sectors per donor</b>	<b>12</b>	<b>3</b>	<b>9</b>	<b>7</b>	<b>11</b>	<b>11</b>	<b>10</b>	<b>10</b>
<b>Memo: Donor share in all ODA</b>	<b>29%</b>	<b>12%</b>	<b>12%</b>	<b>11%</b>	<b>7%</b>	<b>7%</b>	<b>3%</b>	<b>3%</b>

Source: OECD International aid statistics, Creditor Reporting System (CRS). Data are based on US\$ values

**Table 2: Sectoral distribution of ODA by main donor organisations in Bosnia and Herzegovina, 2010-12, (Percentage of total for each donor and number of sectors per donor)**

	EU	IDA	US	DE	SE	AT	CH	ES
<b>Transport</b>	30%	12%	0%	0%	0%	0%	0%	88%
<b>Private sector development</b>	29%	0%	17%	3%	15%	0%	1%	4%
<b>Security and migration</b>	8%	0%	9%	8%	2%	18%	23%	1%
<b>Energy</b>	7%	20%	0%	17%	0%	0%	1%	0%
<b>Environment</b>	4%	8%	0%	23%	20%	0%	17%	2%
<b>Justice and Home Affairs</b>	3%	2%	32%	9%	14%	2%	8%	0%
<b>Public Administration Reform</b>	3%	2%	17%	5%	20%	3%	13%	0%
<b>Health</b>	0%	2%	0%	1%	0%	6%	10%	0%
<b>Multisector</b>	3%	3%	5%	2%	1%	0%	4%	0%
<b>Social policies</b>	3%	21%	2%	3%	11%	2%	3%	0%
<b>Education</b>	1%	0%	0%	23%	0%	50%	5%	0%
<b>Agriculture and rural development</b>	1%	6%	10%	0%	4%	0%	0%	0%
<b>Public Finance Management</b>	0%	19%	1%	0%	1%	0%	0%	0%
<b>Other</b>	0%	0%	1%	1%	0%	7%	8%	0%
<b>Human rights and minorities</b>	1%	0%	1%	0%	7%	0%	1%	0%
<b>General budget support</b>	0%	0%	0%	0%	0%	6%	0%	0%
<b>Total</b>	100%	100%	100%	100%	100%	100%	100%	100%
<b>Number of active sectors</b>	12	10	10	11	10	8	12	4
<b>Memo: Donor share in all ODA</b>	43%	10%	6%	6%	5%	4%	4%	3%

Source: OECD International aid statistics, Creditor Reporting System (CRS). Sectors are adapted from DAC 5-digit codes to reflect IPA programming sectors. Data are based on US\$ values

**Table 3: Sectoral distribution of ODA by main donor organisations in Kosovo, 2010-12, (Percentage of total for each donor and number of sectors per donor)**

	EU	US	CH	DE	OSCE	NO	SE	AT
<b>Security and migration</b>	49%	5%	71%	2%	6%	4%	64%	44%
<b>Justice and Home Affairs</b>	17%	29%	2%	14%	14%	20%	6%	6%
<b>General budget support</b>	5%	0%	2%	0%	0%	0%	0%	0%
<b>Agriculture and rural development</b>	4%	2%	1%	2%	0%	7%	4%	6%
<b>Environment</b>	4%	4%	4%	17%	0%	0%	2%	0%
<b>Public Administration Reform</b>	4%	8%	5%	6%	0%	20%	1%	1%
<b>Private sector development</b>	4%	12%	1%	15%	0%	10%	0%	3%
<b>Other</b>	3%	3%	4%	2%	0%	0%	0%	3%
<b>Social policies</b>	2%	1%	1%	3%	0%	11%	3%	0%
<b>Multisector</b>	2%	4%	1%	5%	50%	0%	8%	1%
<b>Human rights and minorities</b>	2%	1%	0%	1%	31%	2%	2%	7%
<b>Energy</b>	2%	8%	6%	13%	0%	1%	0%	0%
<b>Education</b>	2%	6%	2%	16%	0%	21%	7%	28%
<b>Transport</b>	1%	0%	0%	0%	0%	1%	0%	0%
<b>Public Finance Management</b>	1%	16%	0%	3%	0%	0%	3%	0%
<b>Health</b>	1%	1%	1%	0%	0%	4%	0%	2%
<b>Number of active sectors</b>	16	14	13	13	4	11	10	10
<b>Memo: Donor share in all ODA</b>	45%	17%	10%	5%	5%	3%	2%	2%

Source: OECD International aid statistics, Creditor Reporting System (CRS). Sectors are adapted from DAC 5-digit codes to reflect IPA programming sectors. Data are based on US\$ values.



**Table 4: Sectoral distribution of ODA by main donor organisations in Montenegro, 2010-12, (Percentage of total for each donor and number of sectors per donor)**

	EU	DE	US	LU	IDA	UAE
<b>Private sector development</b>	29%	18%	29%	1%	0%	0%
<b>Environment</b>	21%	42%	0%	1%	45%	92%
<b>Transport</b>	10%	0%	0%	0%	0%	0%
<b>Multisector</b>	7%	3%	11%	7%	0%	0%
<b>Public Administration Reform</b>	5%	5%	19%	5%	0%	0%
<b>Energy</b>	5%	16%	0%	0%	37%	0%
<b>Agriculture and rural development</b>	4%	0%	0%	31%	0%	0%
<b>Education</b>	3%	9%	0%	28%	0%	0%
<b>Social policies</b>	2%	0%	3%	2%	16%	0%
<b>Security and migration</b>	2%	0%	11%	0%	0%	0%
<b>Other</b>	1%	1%	2%	15%	0%	7%
<b>Justice and Home Affairs</b>	1%	1%	21%	2%	0%	0%
<b>Public Finance Management</b>	1%	0%	0%	0%	0%	0%
<b>Health</b>	1%	0%	0%	4%	0%	0%
<b>Human rights and minorities</b>	0%	0%	0%	0%	0%	0%
<b>Total</b>	100%	100%	100%	100%	100%	100%
<b>Number of active sectors per donor</b>	14	8	7	10	3	2
<b>Memo: Donor share in all ODA</b>	46%	13%	7%	5%	4%	4%

Source: Creditor Reporting System. Sectors are adapted from DAC 5-digit codes to reflect IPA programming sectors. Data includes ODA from both bilateral and multilateral donors. Data are based on US\$ values

**Table 5: Sectoral disbursement of ODA by main donor organisations in Serbia, 2010-13 (Percentage of total for each donor and number of sectors per donor)**

Sector	EIB	EU	WB	RU	EBRD	DE	CN	AZ	US
<b>Public Administration Reform &amp; Public Finance Management</b>	4%	38%	40%	100%	0%	35%	12%	0%	38%
<b>Transport</b>	39%	8%	21%	0%	58%	0%	47%	100%	0%
<b>Private Sector Development</b>	52%	8%	17%	0%	0%	1%	0%	0%	9%
<b>Energy, environment</b>	4%	12%	16%	0%	42%	49%	40%	0%	0%
<b>Social Policies</b>	2%	17%	4%	0%	0%	2%	0%	0%	10%
<b>Justice and Home Affairs</b>	0%	6%	0%	0%	0%	1%	0%	0%	28%
<b>Agriculture and Rural Development</b>	0%	4%	2%	0%	0%	13%	0%	0%	14%
<b>Unspecified</b>	0%	5%	0%	0%	0%	0%	0%	0%	0%
<b>Security, Migration</b>	0%	2%	0%	0%	0%	0%	0%	0%	0%
<b>Other</b>	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>Number of active sectors per donor</b>	5	9	6	1	2	6	3	1	5
<b>Memo: Donor share in all ODA</b>	25%	24%	11%	9%	8%	7%	4%	2%	2%

Source: ISDACON database: Note, data includes disbursements of both ODA and OOF Data are based on € values.

**Table 6: Sectoral distribution of ODA by main donor organisations in The former Yugoslav Republic of Macedonia, 2010-12, (Percentage of total for each donor and number of sectors per donor)**

	EU	DE	US	JP	OSCE	CH	NO	SE
<b>Private sector development</b>	31%	20%	31%	1%	0%	0%	7%	0%
<b>Multisector</b>	30%	3%	16%	0%	52%	4%	0%	1%
<b>Agriculture and rural development</b>	8%	0%	2%	5%	0%	0%	0%	34%
<b>Public Administration Reform</b>	8%	3%	4%	0%	0%	43%	22%	6%
<b>Environment</b>	4%	7%	0%	86%	0%	37%	17%	32%
<b>Social policies</b>	4%	0%	0%	0%	0%	0%	8%	13%
<b>Justice and Home Affairs</b>	2%	8%	19%	0%	47%	0%	8%	2%
<b>Education</b>	2%	21%	17%	1%	0%	3%	15%	1%
<b>Security and migration</b>	1%	0%	2%	1%	0%	1%	5%	2%
<b>Human rights and minorities</b>	1%	0%	0%	0%	0%	0%	0%	2%
<b>Public Finance Management</b>	1%	0%	0%	0%	0%	0%	1%	0%
<b>Transport</b>	1%	0%	0%	0%	0%	0%	0%	0%
<b>Other</b>	0%	0%	0%	0%	0%	8%	0%	0%
<b>Energy</b>	0%	33%	1%	0%	0%	0%	12%	0%
<b>Health</b>	0%	0%	0%	0%	0%	0%	0%	0%
<b>Total</b>	100%	100%	100%	100%	100%	100%	100%	100%
<b>Number of active sectors per donor</b>	12	7	8	5	2	6	9	9
<b>Memo: Donor share in all ODA</b>	46%	12%	10%	8%	4%	4%	3%	2%

Source: OECD international aid statistics, Creditor Reporting System. Data are based on US\$ values

**Table 7: Sectoral distribution of ODA by main donor organisations in Turkey, 2010-12, (Percentage of total for each donor and number of sectors per donor)**

	EU	JP	FR	DE	AT	ES	US	SE
<b>Private sector development</b>	37%	0%	16%	11%	0%	0%	7%	0%
<b>Transport</b>	23%	77%	0%	1%	0%	78%	0%	0%
<b>Energy</b>	15%	0%	0%	22%	0%	0%	7%	0%
<b>Environment</b>	2%	17%	68%	4%	0%	10%	1%	0%
<b>Multisector</b>	9%	0%	0%	6%	0%	0%	0%	0%
<b>Education</b>	0%	0%	11%	49%	99%	6%	0%	0%
<b>Agriculture and rural development</b>	5%	0%	0%	0%	0%	0%	0%	0%
<b>Other</b>	1%	3%	1%	0%	0%	0%	63%	3%
<b>Justice and Home Affairs</b>	1%	0%	0%	2%	0%	0%	9%	31%
<b>Human rights and minorities</b>	1%	0%	0%	0%	0%	0%	1%	42%
<b>Public Administration Reform</b>	1%	0%	0%	0%	0%	0%	0%	17%
<b>Social policies</b>	1%	0%	1%	1%	0%	2%	0%	4%
<b>Health</b>	0%	0%	0%	0%	0%	0%	2%	0%
<b>Security and migration</b>	0%	0%	0%	0%	0%	0%	4%	0%
<b>General budget support</b>	0%	0%	0%	0%	0%	0%	0%	0%
<b>Public Finance Management</b>	0%	0%	0%	0%	0%	0%	0%	0%
<b>Total</b>	100%	100%	100%	100%	100%	100%	100%	100%
<b>Number of sectors per donor</b>	11	3	5	8	1	4	8	5

Source: Creditor Reporting System. Sectors are adapted from DAC 5-digit codes to reflect IPA programming sectors. Data includes ODA from both bilateral and multilateral donors. Data are based on US\$ values

# Annex 6:

## Comprehensive Donor Table

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*(Non-exhaustive list of donors in alphabetical order)*

### 6.1.1 European donors – EU and multilateral institutions, development banks, etc.

Council of Europe Development Bank (CEB)	
Institutional setting	The Council of Europe Development Bank operates within the framework of the Council of Europe and supports its priorities. It is a separate legal entity and financially independent. 41 Member States. All Western Balkans countries and Turkey are members. Governing Board - Chairman and one representative for each Member State; Administrative Council - Chairman and one representative for each Member State; Governor; Auditing Board. As at 31 December 2013, the Bank had a subscribed capital of 5 472 million euros shared between Member States. Own funds stand at 7 116 million euros, including equity amounting to 2 460 million euros.
Address	Headquarters: 55, avenue Kléber. F-75116 PARIS, France. Switchboard: +33(0)1 47 55 55 00. Fax: +33(0)1 47 55 03 38, <a href="mailto:info@coebank.org">info@coebank.org</a> ; <a href="http://www.coebank.org/">http://www.coebank.org/</a>
Management modality	Centralised
Beneficiaries	Western Balkans and Turkey. Potential borrowers: Governments, local or regional authorities as well as public or private financial institutions.
Strategies applied	The CEB contributes to the implementation of socially oriented investment projects in favour of social cohesion in Europe through four sectoral lines of action: strengthening social integration, managing the environment supporting public infrastructure, Supporting MSMEs. Its strategic framework is set out in a formal "Development Plan" that describes the logic underpinning its action and sets forth guidelines for the activity in the medium term. The current Development Plan covers the period 2014-2016.
Economic and geopolitical considerations behind the intervention	Western Balkans countries and Turkey are among "target countries" for CEB with increased support in the period 2010-2014, because of a significant increase in unemployment resulting in greater vulnerability, both economic and social, of the countries of South-Eastern Europe that were already weakened in the aftermath of the financial crisis. CEB actively participates in the Western Balkans Investment Framework (WBIF). Finance provided by CEB under the WBIF has leveraged total project investments of about €990 million.
Financing instruments	The CEB provides loans (but not subsidies) to its 41 Member States to finance projects corresponding to the sectoral, geographic, social and financial criteria defined in the Bank's Articles of Agreement and Policy for loan and project financing.
Source of finance and identity of participating banks/institutions	The CEB bases its activity on its own funds and reserves and receives no aid or subsidy from its Member States. Thanks to its excellent rating, the Bank raises its funds in the international capital markets on the best possible terms.
Budget/financial size of support provided	See Summary Table
Terms and conditions of financing as available	Potential borrowers: Governments, local or regional authorities as well as public or private financial institutions. The Bank evaluates the debt sustainability of the borrower and, where necessary, of the guarantor.
Tied /untied	Untied
Nature of support	Loans
Information on TA	Development plan 2014-2016: the Bank aims to strengthen its ability to offer technical

	assistance as well as its ability to manage funds with a social purpose.
Involvement of government guarantees	Loans must be guaranteed by a Member of the Bank if granted to any legal person approved by that Member
Involvement of intermediaries	Yes, for SME financing: commercial banks or leasing companies.

European Bank for Reconstruction and Development (EBRD)	
Institutional setting	The shareholders of the EBRD are 64 countries, the European Union and the European Investment Bank. The EBRD employs 1,257 staff in its London HQ and 392 staff in Resident Offices in the transition countries.
Address	Head office: One Exchange Square. London EC2A 2JN. Phone +44 20 7338 6000; <a href="http://www.ebrd.com/">http://www.ebrd.com/</a>
Management modality	HQ in London; Offices in all Western Balkan countries and Turkey
Beneficiaries	Private sector, banks, municipalities and publicly owned companies. EBRD maintains a close policy dialogue with governments, authorities, IFIs and representatives of civil society.
Strategies applied	Focus sectors of support include sustainable energy, structural reform in the transport sector, institutional and operational improvements to municipal and environmental services, gender equality, and small business finance and advisory support. EBRD has developed country strategies as follows: <b>Strategy for Albania 2012-2015:</b> Promoting Sustainable energy policies and environmentally sound investments, Enhancing commercialisation, competition and private sector involvement in infrastructure, Supporting the development of a more competitive private sector, Strengthening the financial sector and deepening intermediation. <b>Strategy for BiH 2014-2017:</b> Restructuring and expansion of the local private sector, Forging closer linkages with wider regional markets, Promoting a more efficient and sustainable use of resources. <b>Strategy for Kosovo, 2013.</b> <b>Strategy for Montenegro 2013-2016:</b> Expanding the economic base through enhancement of competitiveness, Supporting sustainable tourism, property and associated environmental and infrastructure needs, Promoting energy security and efficiency, and regional integration of energy markets. <b>Strategy for Serbia 2014-2017:</b> Enhancing the role and competitiveness of the private sector, Stabilising the financial sector, Developing sustainable and efficient public utilities. <b>Strategy for The former Yugoslav Republic of Macedonia 2013-2016:</b> Enhancing competitiveness and facilitating private investment in the corporate and municipal sectors, Promoting energy efficiency and sustainable energy, Advancing regional integration. <b>Strategy for Turkey 2012-2015:</b> Increasing private sector participation, sustainability and efficiency in the energy sectors, Developing mid-sized corporates in underdeveloped regions, Strengthening regional and rural infrastructure sectors, Supporting deepening of financial intermediation and local currency capital markets
Economic and geo-political considerations behind the intervention	The EBRD promotes economic transition in post-communist countries. The current strategic priority is to support and sustain the continuing recovery in the region in the aftermath of the global financial crisis, fostering and strengthening local currency and capital markets, tackling energy security and energy efficiency as key challenges of the transition region.
Financing instruments	Loan and equity finance, guarantees, leasing facilities and trade finance.
Source of finance and identity of participating banks/institutions	The main source of finance is funds borrowed on the international capital markets. EBRD made a net profit of €1 billion in 2012 on a portfolio of investment operations valued at €37.5 billion and assets of €20.5 billion. It had reserves of €7.8 billion. The EBRD received donations from 23 bilateral and multilateral donors, of which the EU provides 45%.
Budget/financial size of support provided	In 2012 the total volume of operations was €1.5 billion in South Eastern Europe and €1.0 billion in Turkey compared to a total business volume of €8.9 billion. Direct investments generally range from €5 million to €230 million
Terms and conditions of financing as available	Finance is usually provided at local market rates so as not to undermine the local financial institutions.

Tied /untied	Untied
Nature of support	The EBRD funds up to 35% of the total project cost for a greenfield project or 35% of the long-term capitalisation of an established company. Additional funding by sponsors and other co-financiers is required. The EBRD may identify additional resources through its syndications programme. Typical private sector projects are based on at least one-third equity investment. To be eligible for EBRD funding, the project must be located in an EBRD country of operations, have strong commercial prospects, involve significant equity contributions in-cash or in-kind from the project sponsor, benefit the local economy and help develop the private sector, and satisfy banking and environmental standards.
Information on TA	EBRD provides targeted Technical Assistance using funds donated by member governments and institutions. The EBRD's complementary, donor-funded business development programmes –Enterprise Growth Programme (EGP) and Business Advisory Services (BAS) – help build stronger businesses.
Involvement of government guarantees	EBRD provides its own guarantees.
Involvement of intermediaries	Projects are delivered through financial intermediaries such as local banks and investment funds, as well as directly by EBRD Private sector credit lines are channelled through local banks in the countries of operation

European Commission (DG Enlargement)	
Institutional setting	DG Enlargement, Brussels HQ; country Delegations of the EU run by EU External Action Service
Address	European Commission, DG Enlargement, 15, Rue de la Loi, B – 1000 Brussels, Belgium; <a href="http://ec.europa.eu/enlargement/">http://ec.europa.eu/enlargement/</a>
Management modality	Regional projects centralised in Brussels; country projects managed through EU Delegations or country governments (where accredited)
Beneficiaries	Western Balkans and Turkey
Strategies applied	Enlargement Strategy 2013
Economic and geo-political considerations behind the intervention	Enlargement perspective; assistance is largely focused on meeting requirements for a country to accede to the EU, although IPA II also introduces the aim of economic and social development
Financing instruments	Grants increasingly based on conditionality; within IPA II explicitly results-based with incentives for good performance.
Source of finance and identity of participating banks/institutions	EU Budget
Budget/financial size of support provided	Financial commitments amount to €11.7 billion over period 2014-2020.
Terms and conditions of financing as available	Grants
Tied /untied	Assistance is not tied
Nature of support	Grants. TA, supplies, works, in some cases budget support; moving towards sector-based approach
Information on TA	Competitive contracting of international consultancy companies on basis of projects
Involvement of government guarantees	None
Involvement of intermediaries	Funds channelled through intermediaries on basis of partnership agreements (e.g. Council of Europe, OSCE)



### European Fund for South East Europe (EFSE)

Institutional setting	The European Fund for Southeast Europe is a public-private partnership. The General Assembly of Shareholders is the highest level of authority. The main decision-making powers lie with the Board of Directors supported by its technical committees: the Investment Committee and the EFSE Development Facility Committee. KfW – an AAA-rated institution – is the Fund's lead institution and initiator.
Address	General Contact Point: Theodor-Stern-Kai 1, 60596 Frankfurt am Main Germany. EFSE's Fund Advisor: Finance in Motion GmbH, Sylvia Wisniwski.E-mail: <a href="mailto:s.wisniwski@finance-in-motion.com">s.wisniwski@finance-in-motion.com</a> ; Fax: +49 (0) 69 97 78 76 50 – 10 <a href="http://www.efse.lu/">http://www.efse.lu/</a>
Management modality	Centralised
Beneficiaries	Countries of operation
Strategies applied	EFSE provides sustainable funding to entrepreneurs and private households in Southeast Europe, including the European Eastern Neighbourhood Region, helping small businesses to grow and generate additional income, and to create as well as to sustain employment. In addition, it assists low-income families in the improvement of their housing conditions.
Economic and geo-political considerations behind the intervention	The European Fund for Southeast Europe aims to foster economic development and prosperity in the Southeast Europe region, including the European Eastern Neighbourhood Region, through the sustainable provision of additional development finance.
Financing instruments	The Fund offers long-term funding instruments to qualified partner lending institutions to serve the financing needs of micro and small enterprises and low-income private households. EFSE operates through financial intermediaries in the region of Southeast Europe including commercial banks, microfinance banks, microcredit organisations and non-bank financial institutions such as leasing companies. Financial instruments include medium to long-term senior loans, subordinated loans, term deposits, subscriptions to bond issues, co-investments (syndicated loans), standby letters of credit, guarantees, and equity and quasi-equity participations.
Source of finance and identity of participating banks/institutions	The EFSE source of funds is various donor agencies and European governments, international financial institutions, as well as by private investors. To-date, EFSE has acquired committed funds of over €962 million, approximately 66% of which is private capital.
Budget/financial size of support provided	See Summary Table
Terms and conditions of financing	Due to the innovative investment structure of the Fund, EFSE is able to provide nearly unlimited access to long-term financing resources at market conditions for qualified financial institutions in the region of Southeast Europe.
Tied /untied	Untied
Nature of support	Credit lines for SMEs, Technical Assistance
Information on TA	Complementary to the financial investment activities of EFSE, partner institutions can benefit from technical assistance, consulting and training offered by the EFSE Development Facility. The EFSE Development Facility organizes and co-finances technical assistance, consulting and training
Involvement of government guarantees	No
Involvement of intermediaries	Yes, main channel

### European Investment Bank (EIB)

Institutional setting	The EIB is the European Union's bank, owned by and representing the interests of the EU Member States. The EIB Group consists of the European Investment Bank and the European Investment Fund, – the specialist arm providing SME risk finance. Shareholders – 28 Member States of the EU. The EIB has a Board of Governors, a
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	Board of Directors, an Audit Committee and a Management Committee. It has offices in Serbia and an office in Turkey. It employs around 2,000 staff.
Address	Headquarters: 98-100, boulevard Konrad Adenauer, L-2950 Luxembourg, Phone: +352 43791; <a href="http://www.eib.org/">http://www.eib.org/</a>
Management modality	Centralised
Beneficiaries	Western Balkans countries and Turkey
Strategies applied	EIB supports projects that make a significant contribution to growth and employment in Europe. Focus on four priority areas: Innovation and skills, Access to finance for smaller businesses, Climate Action, Strategic Infrastructure. In the late 1990s, EIB financing in the region focused on urgent repairs and repairs to damaged infrastructure: bridges, railways, ports, airports and roads, in line with the countries' priorities at the time. Over the last six years, the EIB has diversified its lending activity into new sectors such as health, education, R&D and foreign direct investment. In 2010 the EIB opened a new regional representation office in Belgrade in order to facilitate the development of EIB activity in the region, while underlining the commitment of the European institutions to supporting the Candidate and Potential Candidate Countries of the region in their journey along the road towards the European Union. The first loan in Kosovo was signed in 2013. The Western Balkans Investment Framework (WBIF) is implemented jointly by the EIB with the EC, the EBRD and the CEB as well as EU Member States and other multilateral and bilateral institutions and blends available grants and loans for priority projects in the region. See: <a href="http://www.eib.org/attachments/country/factsheet_western_balkans_2013_en.pdf">http://www.eib.org/attachments/country/factsheet_western_balkans_2013_en.pdf</a>
Economic and geo-political considerations behind the intervention	The EIB is the largest international financier in the Western Balkans and has been active in the region since 1977. In the late 1990s, EIB financing in the region focused on urgent repairs and repairs to damaged infrastructure: bridges, railways, ports, airports and roads, in line with the countries' priorities at the time. Over the last six years, the EIB has diversified its lending activity into new sectors such as health, education, R&D and foreign direct investment.
Financing instruments	Concessional loans
Source of finance	The EIB funds its operations by borrowing on the capital markets rather than drawing on the EU budget. Borrowing through bond issues.
Budget/financial size of support provided	.Over the past 10 years, the Bank has financed projects totalling €6.6bn. In 2013 the EIB signed financing contracts amounting to €656m in the Western Balkans, up from €671m in 2012. Total disbursements were EUR 719m, down from €859m in 2011. It provides loans to individual projects for which total investment cost exceeds EUR 25m. Blending: Support helps to unlock financing from other sources, particularly from the EU budget.
Terms and conditions of financing	Generally finances one-third of each project but it can be as much as 50%. This long term, supportive financing often encourages private and public sector actors to make investment. All the projects not only be bankable but also comply with strict economic, technical, environmental and social standards. 300 engineers and economists screens every project, before, during and after EIB lends.
Tied /untied	Untied
Nature of support	Most financing is through untied loans (90%), but EIB also offers guarantees, microfinance, equity investment. It provides loans to individual projects for which total investment cost exceeds EUR 25m. Blending: Support helps to unlock financing from other sources, particularly from the EU budget.
Information on TA	Advising: helps with administrative and project management capacity which facilitates investment implementation
Involvement of government guarantees	EIB loans are guaranteed by EU member states
Involvement of intermediaries	Yes, Intermediated loans are made via local banks.

## 6.1.2 European donors – bilateral donors

Austrian Development Agency (ADA)	
Institutional setting	The Austrian Development Cooperation (ADC) forms part of Austrian foreign policy under the Federal Ministry for Europe, Integration and External Affairs. The Austrian Development Agency (ADA) is the operational unit of the ADC. It has country offices in Albania and Kosovo.
Address	Head Office: Zelinkgasse 2, 1010 Vienna, Tel: +43 (0)1 90399-0; Fax: +43 (0)1 90399-2290; Email: <a href="mailto:office@ada.gv.at">office@ada.gv.at</a> ; <a href="http://www.entwicklung.at/en/">http://www.entwicklung.at/en/</a>
Management modality	Centralised
Beneficiaries	Countries of operation
Strategies applied	<b>Albania</b> Country strategy 2011-2013; sectors: Water and sanitation, education and training, science and research for development, rural development, energy, employment, promotion of small and medium-sized enterprises, good governance and rule of law; <b>BiH</b> Country strategy 2011-2013, Sectors: education: Vocational Educational Training and Higher Education, Economic development, Governance: Strengthening of State-Level Institutions; <b>Kosovo</b> Country Strategy 2013-2020; sectors: Poverty reduction through ecologically sustainable economic and social development, Peace and human security through the strengthening of the rule of law, democratic institutions, Support for European and regional integration of Kosovo. Other countries: phased-out
Economic and geo-political considerations behind the intervention	Austria is major investor and trading partner with Western Balkans and Turkey. Austrian foreign policy has always attached particular importance to the Balkans for political, cultural and economic interrelations. The prime goal of Austrian foreign policy is to support the transformation of the Western Balkans into a zone of stability and involving the entire region in the process of European integration. Source: <a href="http://www.bmeia.gv.at/en/foreign-ministry/foreignpolicy/europe/western-balkans.html">http://www.bmeia.gv.at/en/foreign-ministry/foreignpolicy/europe/western-balkans.html</a>
Financing instruments	ODA grants;
Source of finance	Government of Austria.
Budget support provided	See Summary Table
Terms and conditions of financing	Unconditional
Tied /untied	Untied
Nature of support	Grants
Involvement of government guarantees	No
Involvement of intermediaries	No

Germany		
	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)	KfW Entwicklungsbank (KfW Development Bank)
Institutional setting	GIZ operates in 130 countries. 16,000 staff, 70 % employed locally as national personnel. GIZ's business EUR 2.1 billion as at 31 December 2012.	German government-owned Promotional Bank with 650 employees. Office in more than 70 countries. KfW Entwicklungsbank (KfW Development Bank) is part of KfW banking group and provides financing to governments, public enterprises and commercial banks engaged in microfinance and SME promotion in developing countries.
Address	Head Offices in Bonn and Eschborn: Friedrich-Ebert-Allee 40, 53113 Bonn,	Palmengartenstraße 5-9 60325 Frankfurt am Main

	Phone: +49 228 44 60-0, Fax: +49 228 4460-17 66; Dag-Hammarskjöld-Weg 1-5, 65760 Eschborn, Phone: +49 6196 79-0, Fax: +49 6196 79-11 15, Email: <a href="mailto:info@giz.de">info@giz.de</a> ; <a href="http://www.giz.de/en">http://www.giz.de/en</a>	Germany Phone +49 69 74 31-0 Fax +49 69 7431-2944 eMail <a href="mailto:info@kfw.de">info@kfw.de</a> <a href="https://www.kfw-entwicklungsbank.de/">https://www.kfw-entwicklungsbank.de/</a>
Management modality	Centralised with Country Offices in all Western Balkans countries and Turkey	Centralised with Country Offices in all Western Balkans countries and Turkey
Beneficiaries	Countries of operation	Countries of operation
Strategies applied	No country strategies; sectors prioritised: <b>Albania:</b> sustainable economic development water sector reform agricultural and rural development. <b>BiH:</b> sustainable economic development, democracy and civil society; <b>Kosovo:</b> sustainable economic development, Public administration, democracy, civil society, Education; <b>Montenegro:</b> support the government's economic and structural reform; <b>Serbia:</b> sustainable economic development and employment, democracy and civil society and public administration, public infrastructure (energy and water); <b>The former Yugoslav Republic of Macedonia:</b> sustainable economic development, democracy and civil society; <b>Turkey:</b> climate change mitigation and adaptation, economic development, assistance related to situation in Syria.	An agreement reached between the government of a partner country and the German Government during intergovernmental negotiations (held about every two years) serves as the basis for bilateral cooperation. The partner countries themselves propose projects and programmes within the framework of these agreements and are responsible for their preparation and implementation. Finance provided for investments and reform programmes in a range of sectors including health, education, water supply, energy, rural development and financial system development.
Economic and geo-political considerations behind the intervention	Strong geopolitical and economic interests (increasing trade and investments). Focus on peace and stability, EU integration process, NATO accession. Growing geopolitical importance of Turkey: bordering the sensitive regions of the Balkans, the Caucasus and the Middle East. Source: Federal Foreign Office <a href="http://www.auswaertiges-amt.de/EN/Laenderinformationen/LaenderR-eiseinformationenA-Z_node.html">http://www.auswaertiges-amt.de/EN/Laenderinformationen/LaenderR-eiseinformationenA-Z_node.html</a>	On behalf of the Federal Government, KfW Development Bank administers Germany's official Financial Cooperation in more than 100 developing and transition countries including South East Europe. Its priority areas of activity include poverty reduction and economic development, good governance, education and health care, and protection of the climate and the environment. In this way the bank helps the Federal Government achieve its developmental goals.
Financing instruments	Unconditional grants	Loans
Source of finance	German government (various ministries); Coordination with KfW	KfW banking group covers over 90% of its borrowing needs in the capital markets, mainly through bonds that are guaranteed by the federal government. This allows KfW to raise funds at advantageous conditions. Its exemption from having to pay corporate taxes due to its legal status as a public agency and unremunerated equity provided by its public shareholders allow KfW to provide loans for purposes prescribed by the KfW law at lower rates than commercial banks. KfW is not allowed to compete with commercial banks, but it facilitates their business in areas within its mandate.
Budget support provided	See Summary Table	
Terms and conditions of financing	Unconditional	The projects and programmes promoted by KfW Development Bank are proposed by the governments of partner countries; the respective country's development strategies and structures form the basis. On behalf of the

		German Federal Government, and primarily the Federal Ministry for Economic Cooperation and Development, KfW checks whether the projects and programmes are developmentally sound and eligible for promotion.
Tied /untied	Untied	Untied
Nature of support	TA, grants	The projects and programmes financed by KfW are put out to tender and implemented by the partners or project-executing agencies. Before the invitation to tender, KfW checks the documents and gives the partner approval by means of a 'no objection' letter. Before a bidder is awarded a contract, the project-executing agency provides KfW with an evaluation report together with a proposal for contract award and a draft of the contract. KfW approval is a prerequisite if the contract is to be signed. KfW remains in constant contact with the partners, providing advice throughout the project cycle and in particular during the awarding process.
Involvement of government guarantees	No government guarantee, Bilateral Agreements on Technical Cooperation	Yes, the KfW Law expressly provides that the Federal Republic guarantees all existing and future obligations of KfW in respect of money borrowed, bonds and notes issued and derivative transactions entered into by KfW
Involvement of intermediaries	No	Consultants are appointed regularly to support the project-executing agency in various phases of a project. Consultants collect initial data, produce feasibility studies and develop plans and tender documents for the project. Alternatively, they may support the project-executing agency in evaluating bids, managing construction at a later stage or training local specialists. Generally speaking, consulting and other advisory services are also put to international and public tender.

Greek Ministry of Foreign Affairs	
Institutional setting	Ministry of Foreign Affairs, Greece Embassies in Western Balkans and Turkey
Address	Hellenic Ministry of Foreign Affairs, 1st Vas. Sofias Av., 106 71 Athens, Greece; <a href="http://www.mfa.gr/en/">http://www.mfa.gr/en/</a>
Management modality	Centralised
Beneficiaries	Countries of operation
Strategies applied	Greece's regional policy for the Balkans revolves around the following axes: Regional development through optimum use of existing regional platforms as well as EU mechanisms. Greece contributes to regional growth via RCC, the Regional Cooperation Council and various bi- and tri-lateral cooperation platforms that it promotes with partners and states in the region.
Economic and geo-political considerations behind the intervention	In the Balkan region, Greece is established as a major investment force in most countries of the peninsula. It has launched an important Plan of bilateral economic assistance. Within this framework, Greece has drawn up the Hellenic Plan for the Economic Reconstruction of the Balkans for 2002-2006-2011, with overall budget of which is €550 million, aims at implementing large-scale infrastructure projects, strengthening private initiative and bolstering cooperation between the countries of our region (i.e. Albania, BiH, Bulgaria, Montenegro, The former Yugoslav Republic of Macedonia, Romania and Serbia), for the implementation of investments, studies, activities and actions that serve the objectives of the Plan. Recipient countries are not only Greece's trade partners, but also frequently serve as communication channels linking Greece with the rest of Europe and its broader market. The Adriatic-Ionian Initiative (AII) is an informal cooperation platform participated in by Greece,

	Albania, BiH, Montenegro, Serbia, Croatia, Slovenia and Italy. Established in 2000, Permanent Secretariat in Ancona. The All is administered by a Committee of High-Level Officials, has working groups on SMEs, transport, culture, tourism, inter-university cooperation, the environment and fire fighting. Objective of All is the establishment of a European macro-regional programme for the Adriatic-Ionian. Greek-Turkish relations are an important parameter not only in the relations between the two countries, but also in the development and stability of the wider region of Southeast Europe and the Eastern Mediterranean. The two countries still have a lot of political issues to resolve. Greece has important bridge with Albania via Greek minority in Albania.
Financing instruments	ODA grants
Source of finance	Greek Government
Budget/financial size of support provided	See Summary Table
Terms and conditions of financing	Unconditional
Tied/untied	Untied
Nature of support	nature of support: TA, supplies, works, grants
Information on TA	
Involvement of government guarantees	No
Involvement of intermediaries	No

### Italian Development Cooperation

Institutional setting	Ministry of Foreign Affairs, Directorate General for Development Cooperation, Italian Embassies, Development Cooperation Offices in all Western Balkans countries; Italian Embassy in Turkey.
Address	Head office: Redazione Portale Cooperazione Italiana allo Sviluppo c/o Unità Tecnica Centrale Dgcs, Via Salvatore Contarini, 25 - 00135 Roma, Tel. 06 3691.6316 / 06 3691.6308. Email: redazione.cooperazione@esteri.it. Source: <a href="http://www.cooperazioneallosviluppo.esteri.it/pdgcs/italiano/cooperazione/intro.html">http://www.cooperazioneallosviluppo.esteri.it/pdgcs/italiano/cooperazione/intro.html</a>
Management modality	Centralised
Beneficiaries	Countries of operation
Strategies applied	Italian Cooperation in Western Balkans is concentrated in the sectors of infrastructure, energy, the environment, health, education, public administration, support for the private sector (SMEs in particular). <b>Albania:</b> energy, transport, health, private sector (loans for SMEs); <b>BiH:</b> rural development, health, public administration, civil society, local development; <b>Kosovo:</b> agriculture and rural development, health, civil society; <b>Montenegro:</b> institutional strengthening, economic develop; <b>Serbia:</b> SMEs, regional development/decentralisation (Serbia still member of Italian cooperation, but phasing-out). <b>The former Yugoslav Republic of Macedonia:</b> social (health, education) and economic development (loans to SMEs); Source: <a href="http://www.cooperazioneallosviluppo.esteri.it/pdgcs/italiano/iniziative/Europa.asp">http://www.cooperazioneallosviluppo.esteri.it/pdgcs/italiano/iniziative/Europa.asp</a>
Economic and geo-political considerations behind the intervention	The Western Balkans is a political and security priority for Italy. Italy supports the processes underway in the region in both the European and transatlantic domain. Attention for the Balkan countries is a unique opportunity for Italy as a whole, particularly as a result of Italy's many industrial and commercial centres, and its access to strategic sectors such as telecommunications, infrastructures and banks. Geographic proximity, interdependence with regard to security and migration, common interest in cooperation are the reasons underlying South Eastern Europe's crucial importance for Italy. Italy has sound, deeply entrenched economic relations in terms of both trade and investments. Italy is helping to stabilize the region with a strong military presence (Albania, BiH, Kosovo). Italy has strong cooperation with Turkey as trade and investment partner. Source:



	<a href="http://www.esteri.it/MAE/EN/Politica_Estera/Aree_Geografiche/Europa/Balcani/">http://www.esteri.it/MAE/EN/Politica_Estera/Aree_Geografiche/Europa/Balcani/</a>
Financing instruments	ODA grants and loans;
Source of finance	Italian government
Budget/financial size of support provided	See Summary Table
Terms and conditions of financing	Unconditional aid
Tied/untied	Partially tied
Nature of support	technical assistance, combination of instruments, including trade support.
Information on TA	
Involvement of government guarantees	No guarantees. Bilateral cooperation defined in agreement with the individual recipient countries and adopted in cooperation protocols
Involvement of intermediaries	Commercial banks for SME credit lines

<b>Luxembourg</b>		
	<b>Lux Development</b>	<b>Caritas Luxembourg</b>
Institutional setting	Ministry of Foreign Affairs	Ministry of Foreign Affairs
Address	10, rue de la Grève, L-1643 Luxembourg <a href="http://www.lux-development.lu/en">http://www.lux-development.lu/en</a>	29 r. Michel Welter, L-2730 Luxembourg <a href="http://www.caritas.lu/">http://www.caritas.lu/</a>
Management modality	Centralised, Agency Lux Development	Centralised, NGO Caritas Luxembourg
Beneficiaries	Montenegro	Montenegro
Strategies applied	Sectors: education: Vocational Education	Sectors: education
Economic and geo-political considerations behind the intervention		
Financing instruments		
Source of finance and identity of participating banks/institutions	Government of Grand Duchy of Luxembourg	Government of Grand Duchy of Luxembourg - 80% Government of Montenegro - 20%
Budget/financial size of support provided		
Terms and conditions of financing as available	Unconditional	20% national contribution
Tied /untied		
Nature of support	Project Assistance	Works
Information on TA		
Involvement of government guarantees		



Involvement of intermediaries
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### Swedish International Development Cooperation Agency (SIDA)

Institutional setting	SIDA is a government organisation under the Swedish Foreign ministry. It administers approximately half of Sweden's budget for development aid. SIDA has staff in Swedish Embassies in Albania, Bosnia and Herzegovina, Kosovo, Serbia, The former Yugoslav Republic of Macedonia, and Turkey.
Address	HQ: Valhallavagen 199, 10525 Stockholm; <a href="http://www.sida.se/english/">http://www.sida.se/english/</a>
Management modality	Centralised/decentralised
Beneficiaries	Countries of operation
Strategies applied	The Swedish government has adopted a new results strategy for reform cooperation with the countries in Eastern Europe, the Western Balkans and Turkey for 2014-2020. This strategy will replace bilateral cooperation strategies Albania Country development cooperation strategy 2009-2012 (sectors: Democratic governance and human rights, Natural resources and environment), Kosovo Country development cooperation strategy 2009-2012 (sectors: Environment and Climate, Education, Democratic Governance and Human Rights), Serbia Country development cooperation strategy 2009-2012 (sectors: Democratic governance and human rights, Natural resources and environment) and the Turkey Country development cooperation strategy 2010-2013 (sectors: Democracy, human rights and gender equality.)
Economic and geo-political considerations behind the intervention	Swedish bilateral aid focus on countries based on the following criteria: poverty, previous Swedish development cooperation, good governance, prevalence of corruption, human rights and democratic governance. Other factors include Swedish added value and comparative advantage including the scope of Swedish business sector's interest and activities in the country.
Financing instruments	ODA grants
Source of finance and identity of participating banks/institutions	Government of Sweden
Budget/financial size of support provided	See Summary Table
Terms and conditions of financing	Unconditional
Tied/untied	Partially tied
Nature of support	TA, grants
Involvement of government guarantees	No
Involvement of intermediaries	Delegated projects: implementation by World Bank

## 6.2.1 Non-European donors – multilateral institutions, development banks

### Islamic Development Bank

Institutional setting	The Islamic Development Bank Group (IDB Group) is a South-South multilateral development finance institution established in 1973. It comprises five entities, one of which is IDB Bank. It has 56 member countries. To become a member of IDB, a country must fulfill certain conditions. First, the country must become a member of the Organization of Islamic Cooperation (OIC); second, it should pay the first installment of its minimum subscription to the Capital Stock of IDB; and third, accept such terms and conditions that may be decided by IDB Board of Governors. The Bank's principal office is in Jeddah in the Kingdom of Saudi Arabia, it has 4 regional offices and 12 field representations. The authorized capital stock of IDB is 30 billion Islamic Dinars, subscribed capital is 15 billion Islamic Dinars. Albania and Turkey are
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	member countries. No country offices in the region.
Address	Head office: P. Box. 5925 Jeddah, 21432 Kingdom of Saudi Arabia. <a href="mailto:ldbarchives@isdb.org">ldbarchives@isdb.org</a> . Telephone: (+9662) 6361400; Fax: (+9662) 6366871; Telex: 601 137 ISDB SJ; <a href="mailto:ldbarchives@isdb.org">ldbarchives@isdb.org</a> ; <a href="http://www.isdb.org/">http://www.isdb.org/</a>
Management modality	Centralised
Beneficiaries	Albania and Turkey; other countries only for educational scholarships
Strategies applied	Member Country Partnership Strategy for Turkey 2010-2013 anchored on the priorities of Turkey's Ninth Development Plan 2007-2013. <b>General strategic objectives:</b> Promotion of Islamic financial industry and institutions, Poverty alleviation, Promotion of cooperation among member countries. Partnership pillars include Supporting Growth (Infrastructure development), Enhancing Human Development (Education), Raising Employment (Private Sector Development), and "Reverse Linkage" (support Turkey provides other MCs) supported by a financing envelope of US\$2 billion for the 2010-2013 period.
Economic and geo-political considerations behind the intervention	To be the leader in fostering socio-economic development in member countries and Muslim communities in non-member countries in conformity with Sharia law. The purpose of the Bank is to foster the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of Shari'ah i.e., Islamic Law. The Bank is also required to establish and operate special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, in addition to setting up trust funds. Such loans, in conformity with Shariah, are interest-free and the Bank recovers its administrative expenses by levying a service fee.
Financing instruments	IBD finances loans, leasing, instalment sales, Istisna'a financing for manufacturing, lines of financing for SMEs, equity participation and Murabaha for foreign trade
Source of finance	The IDB does not borrow from the market and its operations are sustained by shareholders' capital, retained earnings and funds generated internally through its foreign trade and project financing operations. DB uses its equity (paid-in capital and reserves) as well as resources mobilized from the financial markets to fund its operations. IDB issues Sukuk (Islamic Bond) on a Public and Private Placement basis in multi currencies, USD is the main currency of issuance. From the Islamic money market, IDB mobilizes funds on a short and medium term basis through commodity murabaha placements.
Budget support provided	See Summary Table
Terms and conditions of financing	Loans, in conformity with Shariah, are interest-free and the Bank recovers its administrative expenses by levying a service fee. Loans to governments or public institutions mainly in the Least Developed Member Countries (LDMCs) for implementation of social infrastructure projects. Interest-free loans -Bank charges service fee of 2.5%, to recover part of the administrative costs, grace period of 3-7 years and repayment is spread over a period of 15-25 years.
Tied /untied	
Nature of support	
Information on TA	The purpose of IDB's technical assistance is to provide technical expertise to prepare or implement a particular project, or for the purpose of formulating policies, or for providing institutional support or human resources development and training
Involvement of government guarantees	Yes. Main document Financing Agreement signed between the borrower and the Bank. IBD loans are extended mostly to governments, or public institutions having a government guarantee. They provide long-term financing for development projects in basic infrastructure and agriculture.
Involvement of intermediaries	IDB extends lines of financing to the National Development Financing Institutions (NDFIs) or Islamic Banks (IBs) to promote the growth of small and medium scale enterprises, particularly in the industrial sector.

The World Bank	
Institutional setting	The International Bank for Reconstruction and Development (IBRD) is one of five institutions that make up the World Bank Group. Its HQ is in Washington DC. The 188 member countries, or shareholders, are represented by a Board of Governors, who are the ultimate policymakers. Generally, the governors are member countries' ministers of finance or ministers of development. They meet once a year at the Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund. It has Country Offices in Albania, BiH, Kosovo, Montenegro, Serbia, The former Yugoslav Republic of Macedonia and Turkey.
Address	Headquarters: 1818 H Street, NW Washington, DC 20433 USA; Tel: (202) 473-1000 <a href="http://www.worldbank.org/">http://www.worldbank.org/</a>
Management modality	Centralised
Beneficiaries	Countries of operation
Strategies applied	<b>Albania</b> Country partnership strategy (2011-2014), Sectors /objectives: Accelerating recovery to high growth in a post-crisis Europe; Broadening and sustaining social gains, Reducing vulnerability to climate change. <b>BiH</b> Country partnership strategy 2012-2015; sectors/objectives: Sustain growth through improved competitiveness; Reform public finances and institutions to improve service delivery and make growth more inclusive; and Achieve the sustainable use of the natural resources, including by adapting to climate change. <b>Kosovo</b> Country partnership strategy 2012-2015; sectors /objectives: accelerate broad-based economic growth and employment generation; and improve environmental management. <b>Montenegro</b> Country partnership strategy 2011-2014; Sectors/objectives: Strengthen institutions and competitiveness in line with EU accession requirements, Improving environmental management. <b>Serbia</b> Country partnership strategy 2012-2015; sectors / objectives: Competitiveness, Improved Efficiency and Outcomes of Social Spending. <b>The former Yugoslav Republic of Macedonia</b> Country partnership strategy 2011-2014; Sectors/ objectives: Faster growth by improving competitiveness, More inclusive growth by strengthening employability and social protection, Greener growth through more sustainable resource use. <b>Turkey</b> Country partnership strategy 2012-2015; sectors / objectives: enhanced competitiveness and employment; improved equity and public services; and, deepened sustainable development. <b>All strategies support EU integration process.</b>
Economic and geo-political considerations behind the intervention	The World Bank is a vital source of financial and technical assistance to developing countries around the world. The World Bank Group has set two goals for the world to achieve by 2030: (i) End extreme poverty by decreasing the percentage of people living on less than \$1.25 a day to no more than 3% (ii) Promote shared prosperity by fostering the income growth of the bottom 40% for every country
Financing instruments	Investment operations focus on the long-term (5 to 10 years) and finance goods, works and services, Development policy operations typically run from one to three years, and provide quick-disbursing external financing to support government policy and institutional reforms. Banking products: Conditional Loans (flexible loans, contingent financing, local currency loans), guarantees, risk management products, trust funds and (non-lending) analytical and advisory services
Source of finance and identity of participating banks/institutions	IBRD raises most of its funds on the world's financial markets. IBRD is structured like a cooperative that is owned and operated for the benefit of its 188 member countries.
Budget/financial size of support provided	See Summary Table
Terms and conditions of financing as available	Product example: IBRD Flexible Loan Borrowers benefit from long maturities (up to 30 years), transparent LIBOR-based pricing, built-in hedging products to manage financial risks over the life of the loan, and the ability to customize repayment schedules according to project needs or debt management requirements.
Tied /untied	Untied
Nature of support	Grants (IDA), concessional loans (IDA) and non-concessional loans (IBRD)
Information on TA	Competitive contracting of international consultancy companies on basis of projects
Involvement of government guarantees	Yes
Involvement of	Banks and microcredit organisations

intermediaries

## 6.2.2 Non-European donors – bilateral donors

Japan International Cooperation Agency (JICA)	
Institutional setting	Japan International Cooperation Agency (JICA), established as an Incorporated Administrative Agency in 2003. JICA aims to contribute to the promotion of international cooperation as well as the sound development of Japanese and global economy by supporting the socioeconomic development, recovery or economic stability of developing regions. Full-time staff 1,842 (end of fiscal 2012).
Address	Headquarters: 1-6th floor, Nibancho Center Building 5-25, Niban-cho, Chiyoda-ku, Tokyo 102-8012, Japan. JICA Balkan office: Business Centre USCE, 17th Floor, Bulevar Mihajla Pupina 6, 11070 Beograd, Serbia. JICA Turkey office: Ugur Mumcu Cad, 88/6 B Block, Gaziosmanpasa 06700 Ankara, Turkey <a href="http://www.jica.go.jp/english/">http://www.jica.go.jp/english/</a>
Management modality	Centralised. JICA is a bank as well as a technical assistance programme, In 2008, the Japan Bank for International Cooperation (JBIC) merged with the JICA
Beneficiaries	Countries of operation
Strategies applied	<b>Albania:</b> cooperation schemes primarily in the areas of agriculture, infrastructure development, medical care, education and the environment. <b>BiH:</b> 1) the consolidation of peace and ethnic reconciliation, and 2) sustainable economic growth that takes the environment into consideration; <b>Kosovo:</b> assistance on economic and social stability, including human resource training, as well as on the environment; <b>Montenegro:</b> 1) the transition to a market economy, 2) medical care and education, 3) environmental conservation, and 4) socioeconomic infrastructure. <b>Serbia:</b> technical cooperation, and beginning in 2011, through Japanese ODA loans, with a primary focus on: 1) Market-oriented economic reform, 2) Health/Education, and 3) Environmental Protection. <b>The former Yugoslav Republic of Macedonia:</b> focus on: 1) Development of Environmental Infrastructure and Enhancement of the Management Capacity, and 2) Development of the Private Sector; <b>Turkey:</b> environmental improvement and human resources development, through Japanese ODA loans and technical cooperation.
Economic and geo-political considerations behind the intervention	Japan aims to realize balanced, sustainable growth of the world economy through development cooperation as “investment in the future” to secure the development and prosperity of the world as a whole including Japan. Assistance for developing countries is beneficial not only for developing countries but also for the whole international community including developed countries. Under the idea of “investment in the future,” Japan will continue to be engaged in development cooperation such as collaboration between ODA which addresses the expanding demand for infrastructure in developing countries and export of infrastructure systems, promotion of “Universal Health Coverage” in the field of global health, and support for advancement of women’s roles in the workforce.
Financing instruments	Grants and concessional loans
Source of finance	Government of Japan
Budget/financial size of support provided	See Summary Table
Terms and conditions of financing	Unconditional
Tied/untied	Untied
Nature of support	TA, supplies, works, grants and concessional loans
Information on TA	Experts mainly hired in Japan
Involvement of government guarantees	No
Involvement of intermediaries	No

### Swiss Development Cooperation (SDC)

Institutional setting	Two federal offices coordinate international development cooperation on behalf of the Swiss Confederation: the Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (SECO). The SDC has a Department for cooperation with Eastern Europe, Division for Western Balkans. SDC has 50 cooperation offices worldwide. In the Western Balkans there are offices in Albania, Bosnia and Herzegovina, Kosovo, Serbia and The former Yugoslav Republic of Macedonia.
Address	SDC - Head office: Freiburgstrasse 130, 3003 Berne. Phone: +41 31 322 34 75; Fax: +41 31 324 16 9; <a href="mailto:info@deza.admin.ch">info@deza.admin.ch</a> ; Source: <a href="http://www.sdc.admin.ch/">http://www.sdc.admin.ch/</a>
Management modality	Centralised
Beneficiaries	Countries of operation
Strategies applied	Swiss Cooperation Strategies: <b>Albania</b> 2014-2017; sectors: democratization and rule of Law, economic and social Development; <b>BiH</b> 2013-2016; sectors: local governance & municipal services, economy & employment, health. <b>Kosovo</b> 2013-2016; sectors: democratic governance and decentralization, economy and employment, water and sanitation, health; <b>Serbia</b> 2014-2017; sectors: Economic Development,, Rule of Law and Democracy, Education, Energy Efficiency and Renewable Energy; <b>The former Yugoslav Republic of Macedonia</b> 2013-2016; sectors: Advance democratic governance at local and central levels, adjust the economic system towards a social market-based economy, support international water standards
Economic and geo-political considerations behind the intervention	Swiss firms are involved in many projects that facilitate the access of Swiss companies to SEE markets and improve their chances of success in international tenders. Switzerland already has export surpluses with these countries running into one billion Swiss francs. Switzerland's foreign policy has an interest in political and economic stability and prosperity in the region of the Western Balkans. Development cooperation focuses primarily on conflict prevention and transformation, social development, good governance, promoting economic structures and safeguarding natural resources. Switzerland focuses on 6 priority countries in the region: Bosnia and Herzegovina, Serbia, Montenegro, Kosovo, Albania and The former Yugoslav Republic of Macedonia. Given that about 400,000 people from the region live in Switzerland, especially from Kosovo and Macedonia, and so the Swiss have a vested interest in peace, stability and prosperity in these countries. The Swiss Migration Partnership Strategy for the Western Balkans 2012-2015 aims to pursue Swiss interests in the partner states, while taking into consideration the interests of the partner states. Priorities: Return and reintegration with particular emphasis on minorities and vulnerable people. Moreover Switzerland has a geo-political interest in Albania as the TAP gas pipeline will pass through that country and a Swiss company is a member of the consortium that will build it.
Financing instruments	ODA grants
Source of finance	Swiss Government
Budget support provided	See Summary Table
Terms and conditions of financing	Unconditional
Tied /untied	Mainly untied
Nature of support	TA, supplies, grants
Involvement of government guarantees	No
Involvement of intermediaries	No

### Turkish Cooperation and Coordination Agency (TIKA)

Institutional setting	The Turkish Cooperation and Coordination Agency, (TIKA) was established in 1992, works under Turkish Prime Ministry. TIKA works in 100 countries and has 33 Programme Coordination Offices in 30 cooperation partner countries, including offices in all Western Balkans countries. TIKA carries out the task of being a
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	cooperating mechanism for the state institutions and organisations, universities, non-profit organisations and the private sector. Turkey provided in 2012 a total of 2,533.3 million USD in ODA and 56.53 million USD in OOF (other official flows), with the latter in the form of loan facilities (to Egypt).
Address	Headquarters: Atatürk Bulvarı No:15 , Ulus/ANKARA. Phone : 0 (312) 508 10 00, Fax : 0 (312) 309 89 68 - 309 89 69; <a href="http://www.tika.gov.tr/en/">http://www.tika.gov.tr/en/</a>
Management modality	Centralised
Beneficiaries	Countries of operation
Strategies applied	Projects focus on sectors of education, restoration, water and sanitation projects, e-government projects, projects in the field of institutionalization, agricultural development, combating poverty and increasing the employment of women. Others consist of providing financial support for infrastructure projects such as irrigation, health and transportation projects and constructing schools and hospitals as well as restoring architectural structures that have been determined to be cultural heritage.
Economic and geo-political considerations behind the intervention	The Balkans is a priority for Turkey not only from the political, economical and geographical perspectives, but also due to its historical, cultural and human ties with the region. The Balkans, being the geographical connection of Turkey with the rest of Europe, bears great importance. High level political dialogue, security for all, utmost economic integration and the preservation of the multi-ethnic, multi-cultural and multi-religious social structures in the region constitute four main axes of Turkey's Balkan policy. Turkey is a founding member of the Southeast European Cooperation Process (SEECPP), and contributes substantially to RCC budget and plays an effective role in the joint regional projects. Trilateral consultation mechanisms founded upon Turkish initiative between Turkey-BiH-Serbia and Turkey-BiH-Croatia. Meetings of Foreign affairs ministries were held 4 times, last time in May 2013.
Financing instruments	Project/Program Assistance; These refer to the construction/renovation of buildings for the improvement of basic infrastructures in the relevant countries and also include the donation of equipment. Technical Cooperation
Source of finance and identity of participating banks/institutions	Government of Turkey
Budget/financial support provided	See Summary Table. ODA funds for Albania, BiH, Kosovo, Montenegro, Serbia and The former Yugoslav Republic of Macedonia, were more than US\$70 million in 2012
Terms and conditions of financing	Unconditional, mainly untied
Tied/untied	Mainly untied
Nature of support	
Information on TA	Organizing expert training - increasing capacity using comparative advantage of experience by assigning consultants
Involvement of government guarantees	No
Involvement of intermediaries	No

## USAID

Institutional setting	USAID is an independent federal agency that receives overall foreign policy guidance from the Secretary of State. The USAID Administrator and Deputy Administrator are appointed by the President and confirmed by the Senate. There are geographic, functional and central bureaus in the Agency. USAID's overseas organizational units are known as field missions. USAID spends 1% of Federal budget. 8,000 professionals work in 87 missions around the world. Country missions/offices in all Western Balkans countries. Interventions in Turkey are of humanitarian nature (earthquake, Syria crisis).
Address	1300 Pennsylvania Ave NW, Washington, D.C. 20004, USA <a href="http://www.usaid.gov/">http://www.usaid.gov/</a>
Management modality	Centralised/decentralised
Beneficiaries	Countries of operation



Strategies applied	The priority goal of USAID in the enlargement countries is to promote EU accession. Individual tailored Country Development Cooperation Strategies have been adopted for:- Albania 2011-2015; Bosnia and Herzegovina 2012-2016; - Kosovo 2014-2018; - Serbia 2013-2017
Economic and geo-political considerations behind the intervention	U.S. foreign assistance has always had the twofold purpose of furthering America's interests while improving lives in the developing world. USAID carries out U.S. foreign policy by promoting broad-scale human progress at the same time it expands stable, free societies, creates markets and trade partners for the United States, and fosters good will abroad. Focus: Promoting tolerance and reconciliation in the western Balkans by helping countries there reach their goal of Euro-Atlantic integration. Europe and Eurasia is region of increasing economic importance, American investments help support American trade and investment. And as home to several NATO allies, development ties strengthen critical national security bonds. Source: <a href="http://www.usaid.gov/where-we-work/europe-and-eurasia">http://www.usaid.gov/where-we-work/europe-and-eurasia</a>
Financing instruments	ODA grants
Source of finance	US Government
Budget support provided	See Summary Table
Terms and conditions of financing	Unconditional
Tied /untied	Partly tied
Nature of support	TA, supplies, works, grants, Loan guarantee scheme for enterprises (DCA)
Involvement of government guarantees	No
Involvement of intermediaries	No (except for DCA guarantee fund, commercial banks)



# ANNEX 7: Country aid coordination mechanisms

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This section describes the various aid coordination mechanisms in the Western Balkan countries and Turkey in the context of each country's pre-accession status and as part of their respective Paris, Accra and Busan commitments – where applicable.

## 1 ALBANIA

Albania is committed to take forward the recommendations of the Paris Declaration, Accra Agenda for Action and Busan Partnership for Effective Development Co-operation<sup>1</sup>. The multifaceted donor coordination architecture in Albania comprises several instruments, an electronic monthly newsletter and a Donor Database.

### 1.1 Department of Strategy and Donor Coordination (DSDC) - Aid Co-ordination Unit<sup>2</sup>

The Department of Strategy and Donor Coordination (DSDC), established in December 2005, plays a crucial role in Albania's modernisation reforms, whose main feature has been the establishment of the Integrated Planning System (IPS)<sup>3</sup>, adopted in November 2005. The IPS is the key national decision-making system for determining the strategic direction and the allocation of resources and sets out a broad planning and monitoring framework designed to avoid fragmentation and duplication and to ensure that the government's core policy and financial processes function in a coherent, harmonised, efficient and integrated manner.

Two core processes cover all government agencies and activities: The National Strategy for Development and Integration (NSDI)<sup>4</sup>, which establishes the government's medium to longer term goals and strategies for all sectors; and the Medium-Term Budget Programme (MTBP), which requires each ministry to develop a 3-year plan to deliver the programme's outputs to achieve its policy objectives within the ministry's expenditure ceiling as set out in the government's fiscal plan.

The DSDC was established to ensure that strategic planning and budgeting processes are coherent and effectively managed thereby ensuring that external assistance is targeted

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<sup>1</sup> An "External Assistance Orientation Document" endorsed by its Council of Ministers in April 2008 ([http://dsc.gov.al/dsc/pub/external\\_assistance\\_orientation\\_document\\_10\\_1.pdf](http://dsc.gov.al/dsc/pub/external_assistance_orientation_document_10_1.pdf)) states as its main purpose "to strengthen government leadership role in the process of external assistance coordination" and identifies "the ways in which the government will take on greater leadership on external assistance management". A subsequent publication by the Council of Ministers ("External Assistance ... from Coordination to Government-Donor Policy Dialogue" ([http://dsc.gov.al/dsc/pub/external\\_assistance\\_updated\\_2011\\_796\\_1.pdf](http://dsc.gov.al/dsc/pub/external_assistance_updated_2011_796_1.pdf)) reiterates the endorsement of the Paris Declaration and elaborates that "the Government is committed to take leadership in making progress against the priority actions identified, taking forward the recommendations of the 2008 Survey on Monitoring the Paris Declaration and Accra Agenda for Action."

<sup>2</sup> See [http://dsc.gov.al/dsc/Department\\_of\\_Strategy\\_and\\_Donor\\_Coordination\\_5\\_2.php](http://dsc.gov.al/dsc/Department_of_Strategy_and_Donor_Coordination_5_2.php)

<sup>3</sup> See [http://dsc.gov.al/dsc/Integrated\\_Planning\\_System\\_6\\_2.php](http://dsc.gov.al/dsc/Integrated_Planning_System_6_2.php)

<sup>4</sup> See [http://dsc.gov.al/dsc/National\\_Strategy\\_for\\_Development\\_and\\_Integration\\_7\\_2.php](http://dsc.gov.al/dsc/National_Strategy_for_Development_and_Integration_7_2.php)

towards national priorities and is effective, transparent and accountable. It works with the Ministry of Finance to ensure that the Medium-Term Budget Programme and the annual budget reflect the Government's strategic priorities, and with the Ministry of European Integration for guaranteeing that European integration priorities are an integral part of all government processes. The DSDC led the preparation of the National Strategy for Development and Integration 2007-2013, which entailed a broad consultative process involving key national stakeholders and the donor community. Prior to the preparation of the NSDI, the DSDC coordinated the process of developing sector- and crosscutting strategies by line ministries that provided the main input for the NSDI.

The DSDC ensures the effective management of external assistance to support the national priorities, including donor coordination tasks. Its Aid Co-ordination Unit provides a 'one stop shop' for donors with respect to strategic matters related to external assistance. Together with the Ministry of Finance, the DSDC co-leads the negotiations with donors on policy-based conditions for loans and credits and participates in negotiations led by the Ministry of European Integration on IPA programming. It is also responsible for organising all major coordination activities such as the regular (high level and technical) Government-donor roundtables meetings and the IPS Support Group. In co-operation with donors and line ministries, the DSDC established Sector Working Groups, whose aim is to ensure that external assistance is effectively coordinated and supports sector strategy aims. It leads, together with the Donor Technical Secretariat (*see below*) the monitoring process for the OECD/DAC Surveys for monitoring the effectiveness of development aid<sup>5</sup>. The DSDC has organised two bi-annual donor-government roundtables; eight periodic Strategic Planning Committee meetings, four IPS support group meetings and several meetings with donors at sector level. It has participated in the High Level Forums on Aid Effectiveness in Accra (2008) and Busan (2011) followed up by meeting the commitments of the Accra Agenda for Action and Busan Partnership for Effective Development Cooperation. It also participated in Donor Coordination Conferences in Brussels.

## 1.2 Donor Technical Secretariat (DTS)<sup>6</sup>

The Donor Technical Secretariat (DTS) is a transitory initiative of donors designed to facilitate stronger information exchange between donors and the Government so as to improve aid effectiveness and assist the Government in assuming greater national ownership for the donor coordination process. The DTS is composed of four multilateral donors – OSCE, World Bank, UNDP and EU Delegation – and two bilateral donors who rotate on annual basis (e.g. Austria and Germany in 2013). The EU Delegation held the chair of the DTS during 2012, while in 2013 the rotating chair of the DTS is the UN (through UNDP). An expert funded by one of the DTS members supports the DTS structures.

## 1.3 DTS Steering Committee

The DTS Steering Committee represents the technical level of the six DTS agencies and meets with the DSDC on a monthly basis to discuss operational and strategic issues, including follow-up on issues of donor coordination identified by the high level donor and Government structures. In addition, the Heads of the six DTS Agencies meet on an ad-hoc

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<sup>5</sup> Some of the key outputs of DSDC activities in this respect include: The External Assistance Orientation Document 2008, linked to the NSDI priorities, The External Assistance Progress reports for 2008, and 2009-2010, Contribution to the OECD DAC Surveys of 2006, 2008 and 2010, in collaboration with DTS, The Conclusion of the Framework Agreement and Cooperation protocols with donors,

<sup>6</sup> See [http://www.dsdc.gov.al/dsdc/Donor\\_Technical\\_Secretariat\\_177\\_2.php](http://www.dsdc.gov.al/dsdc/Donor_Technical_Secretariat_177_2.php)

basis to provide strategic advice to the Steering Committee and to represent donors in high-level meetings with the Albanian Government on strategic donor coordination issues, based upon mandates received from Development and Integration Partners (DIP) meetings.

## **1.4 Government - Donor Roundtables (DRT)**

The donor coordination architecture in Albania is led by regular annual Government-Donor Roundtables (DRT) co-chaired by the Deputy Prime Minister (or Minister in charge of donor coordination) and the rotating chair of the DTS. The annual Roundtable of Government and Donor Heads of Missions addresses strategic issues of coordination, monitors major progress in improved aid effectiveness and provides a forum for Government-Donor dialogue on critical issues, such as the country's strategic framework, EU integration or IPA programming. At the roundtable, there are also reports on coordination efforts in the sectors and on progress toward meeting the targets of the Paris Declaration. To prepare and coordinate the donor community prior to the ambassador-level Roundtables, Development and Integration Partners (DIP) Meetings are convened by the Donor Technical Secretariat.

## **1.5 Development and Integration Partners (DIP) Meetings<sup>7</sup>**

The Development and Integration Partners (DIP) meeting is a technical forum, organised by the DTS, where bilateral and multilateral donors meet regularly to discuss and decide on donor coordination issues. The meeting offers a platform for DSDC officials to speak about topics related to the Integrated Planning System (IPS), national strategies and donor coordination. It also receives reports from the DTS structures relating to their activities. The DIP meetings are co-chaired by the DTS rotating chair and the DSDC Director. The DIPs can also meet without the presence of the DSDC when they discuss internal donor issues. The DIP meetings are organised on quarterly basis, but can also be called in ad-hoc basis to discuss emergent issues.

## **1.6 Donor Integrated Planning System (IPS) Support Group**

Given the IPS's major role for avoiding fragmentation and duplication between the GoA's core policy and financial planning processes by linking the country's strategies to the budget and donor assistance, the IPS reform has been supported by several donors. In the context of the 2<sup>nd</sup> phase of the IPS, launched on 9 April 2013, a donor IPS Support Group – a policy-level advisory board comprised of the funding donors and the GoA representatives meets as often as twice a year to monitor jointly with the GoA its absorption of donor assistance, as well to create a high-level discussion forum on the reform.

## **1.7 Sector Working Groups**

Sector Working Groups (SWG) play a key role as a forum of information exchange between government and donors at the sector level. There are around 33 Sector Working Groups (SWGs), which are facilitated by a Government Focal Point and a Donor Focal Point. The SWGs are co-chaired by the respective Minister/Deputy Minister and the Donor Focal Point. SWGs serve both government and donors to discuss about the sector priorities and their funding, to identify areas for joint projects and programmes and for analysing capacity development needs. They meet according to an annual programme prepared at the beginning

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<sup>7</sup> See

[http://dsdc.gov.al/dsdc/Meeting\\_of\\_the\\_DEVELOPMENT\\_and\\_INTEGRATION\\_PARTNERS\\_516\\_2.php](http://dsdc.gov.al/dsdc/Meeting_of_the_DEVELOPMENT_and_INTEGRATION_PARTNERS_516_2.php)

of each year. The groups provide the infrastructure necessary to implement the IPS and the Paris and Busan Agenda.

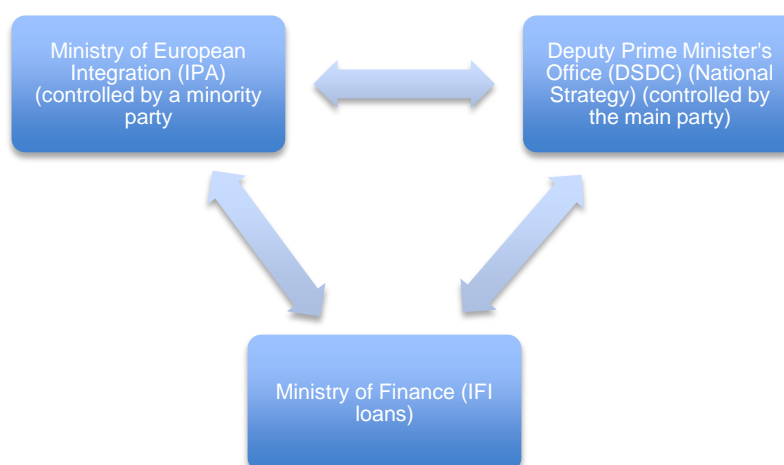
The role of these SWGs is very important for forward-looking, upstream planning of assistance, joint actions and strengthening of the line ministry's capacity and overview of the sector. They need to be revitalised and strengthened and used for planning future donor assistance, particularly in IPA II programming.

## 1.8 Donor Database<sup>8</sup>

The DSDC, in cooperation with the Donor Technical Secretariat, has established a Donor Database, which comprises up to date information and data on all assistance provided to Albania by the donors operating in the country since 1994, including information on foreign assistance disbursements. The database includes data (last updated in May 2013) – by status, by type (bilateral/ multilateral) or by individual donor, or by sector – on all on-going, closed and forecasted projects, total commitments per project, total disbursement and actual disbursements until 2012, forecasts for commitments and disbursements, and the type of assistance provided (grant vs. loan). It is user friendly, and data are downloadable in a simple excel format. The database is intended to help increase coordination and reduce potential overlaps among projects or donors, and it is used to prepare annual External Assistance Progress Reports. Ultimately, the information contained in the database, might also be used to better orient external assistance to country's needs and strategic priorities and sectors.

## 1.9 Summary

The Albanian government has developed an elaborate system of donor coordination. However this has not met the expectations for improvements in donor effectiveness, as documented in relevant sections of this report, although “the new government is doing a good job in breathing new life into it”<sup>9</sup>. One difficulty has been that the elements of the system are held by different Ministries that are under the control of different political parties, and which have addressed different sections of the donor structures, which are themselves fragmented and subject to different political and strategic interests. The situation is displayed in the following diagram:



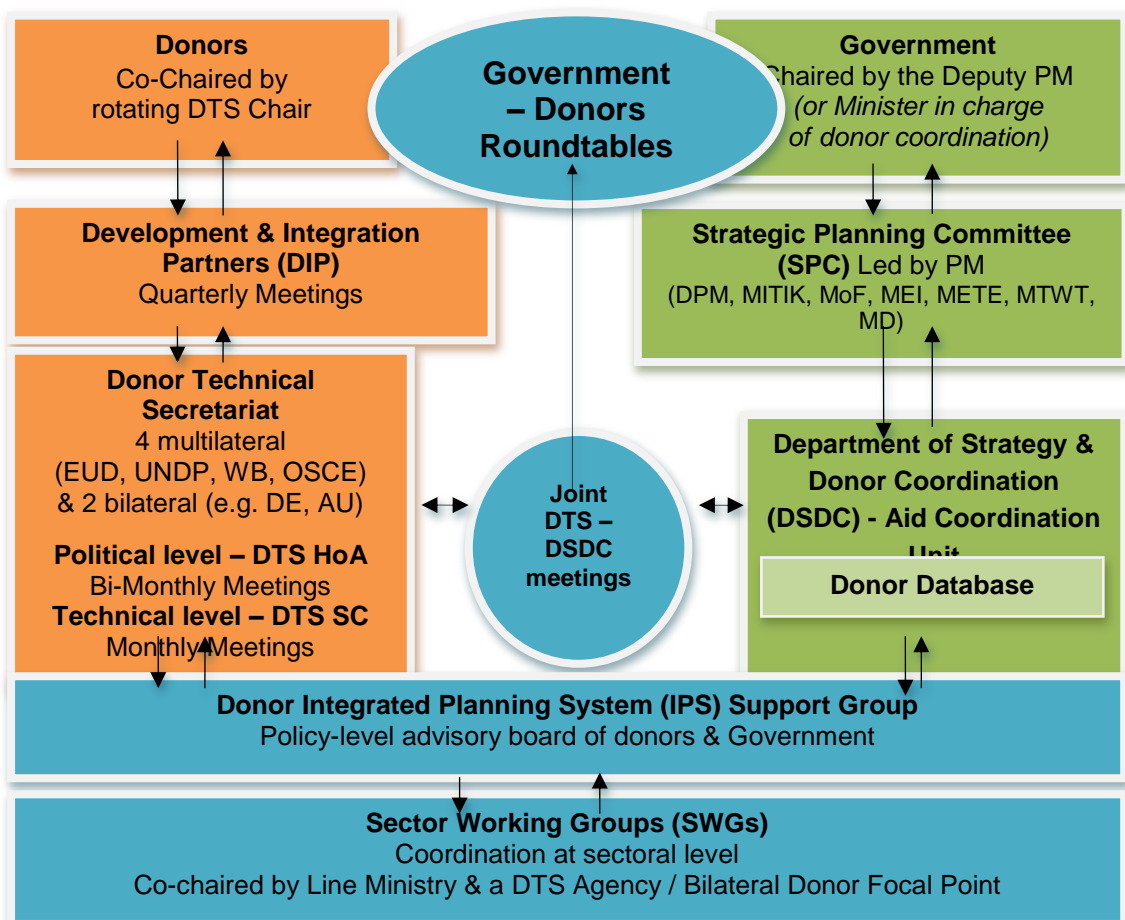
<sup>8</sup> See [http://www.dsdc.gov.al/dsdc/Donor\\_Database\\_33\\_2.php](http://www.dsdc.gov.al/dsdc/Donor_Database_33_2.php)

<sup>9</sup> Interview, USAID, Tirana, 19/2/2014

It is expected that adopting a sector approach will bring about an improvement in the effectiveness of the donor coordination mechanism. As explained at in interview at the EU Delegation in Tirana:

“Sector Working Groups and the European Union Delegation programming should be able to bring this all together. The MEI should provide political leadership to this process with consultancy support from the EUD. It is a balancing act between taking over the process and local ownership. The government is aware of the need to coordinate this process and there is an inter-ministerial working group that meets regularly. However, it seems that the MEI is being side-lined, even though it should be the most important Ministry.”<sup>10</sup>

### Donor Coordination Architecture – Albania



<sup>10</sup> Interview, EU Delegation, Tirana, 19/2/2014

## 2 BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina adheres to the Busan Partnership for Effective Development Cooperation and has endorsed the Paris Declaration on Aid Effectiveness. The country has been improving its aid coordination process since 2006, when the Council of Ministers approved an Information Note on “Strengthening the Efficiency of the International Aid Coordination System in Bosnia and Herzegovina”. The responsibility for donor coordination is split between the Directorate of European Integration (DEI) for EU donors, and the Ministry of Finance and Treasury (MoFT) for other donors, including IFI's. The Director of the DEI is also the National IPA Coordinator.

Bearing in mind the roles of the NIPAC foreseen by the IPA II Regulation (the organisation and coordination of consultations with relevant authorities in country, consultations with other donors in the context of planning/programming of IPA II, overall introduction of activities related to the establishment of sector approach, consultations with civil society), it seems as though the mechanisms of donor coordination in Bosnia and Herzegovina cannot be considered as fully completed yet, and is in need of further development.

Bosnia and Herzegovina is listed among the countries adhering to the Busan Partnership for Effective Development Cooperation and officially endorsed the Paris Declaration on Aid Effectiveness in December 2009. The country has improving its aid coordination process since 2006, when the Council of Ministers approved an Information Note on “Strengthening the Efficiency of the International Aid Coordination System in Bosnia and Herzegovina”.

### 2.1 Donor Coordination Forum (DCF)<sup>11</sup>

Shortly before, in December 2005, a Donor Coordination Forum (DCF) was established by 17 major donor agencies, intended to serve as a semi-formal platform for information exchange among its members. The DCF membership now includes 20 donor organizations and its scope is gradually expanding, with discussions focused on how the coordination of donor activities can be further improved. The MoFT regularly organises Donor Coordination Forum meetings and publishes annually donor-mapping reports showing the donors active in Bosnia and Herzegovina, and setting out their contribution by sector. The Forum meets quarterly, with the chair rotating among its members<sup>12</sup>. Meetings of the DCF are often complemented by expert presentations from the government and international organisations, providing an opportunity for donor coordination based on sharing knowledge, experiences and best practices.

### 2.2 Donor Coordination Forum (DCF) Secretariat

Initially, since its foundation, the Secretariat of the DCF was collectively hosted by the UNDP and the UN Resident Coordinator's (UNRC) Office. However, since 2008, the BiH Government has adopted a more proactive approach to the management of external assistance, which has included the establishment of a new aid coordination architecture, improvements of the public expenditure planning process, efforts to enhance the programming and management of external funds in line with BiH development priorities, as well as participation in initiatives aiming to improve the effectiveness of external assistance flows to BiH.

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<sup>11</sup> See <http://www.donormapping.ba/index.php/publications/dcf-articles/77-welcome-to-dcf>

<sup>12</sup> See <http://www.donormapping.ba/index.php/publications/dcf-articles/254-dcf-meeting-06-02-2014>



In October 2008, a Sector for Coordination of International Aid (SCIA) was constituted within the BiH Ministry of Finance and Treasury (MoFT). Through its establishment, the BiH Government sought to achieve better oversight and a greater synchronisation of aid activities, increased exchange of information and stronger partnership between donors and government, as well as alignment of aid with the country's own development priorities, thereby improving the effectiveness of international aid in BiH and further reinforcing the state government's ownership over its own development. It is however worth mentioning that while the SCIA's main responsibility is coordination of international economic aid to BiH in line with commitments made in signing the Paris Declaration on Aid Effectiveness, its mandate excludes EU aid, whose management and coordination remains the responsibility of the Directorate of European Integration under the Council of Ministers at state level. Shortly after the establishment of SCIA, responsibility for aid coordination and management was transferred to it. The SCIA organises the Forum's quarterly meetings, chaired by the Minister of Finance and Treasury, carries out a Donor Mapping Exercise and Report and provides technical support to the DCF members. The United Nations Country Team (UNCT) continues to provide the SCIA under the MoFT with annual, consolidated information on financial and programmatic targets. In late 2012, the UNCT participated in the government-led 2011 Paris Declaration Survey and provided the SCIA with a consolidated questionnaire that included UN information on financial assistance and other Paris Declaration-related aspects.

### **2.3 Donor Mapping Exercise (DME) and Reports (DMR)**

In 2006 the DCF had initiated a Donor Mapping Exercise (DME) as a tool to improve the management of aid information and to synchronize and enhance cooperation of the donor community in BiH. The DME has two components: an analytical report which offers an overview of donor activities contributing to major reforms in BiH per sector, and an online database with details of project activities funded by the 20 leading donors in BiH – members of the DFC. To date, the DFC Secretariat has produced five Donor Mapping Reports (DMR)<sup>13</sup>. While previous editions were prepared with the financial and technical support of donors (UNDP, DFID and Sida), the latest edition for 2011 - 2012 was prepared by the SCIA, in cooperation with representatives of BiH institutions and members of DCF; it therefore represents a good example of sustainable capacity building within the BiH institutions, by enhancing the capacities of the Ministry of Finance and Treasury. The DMR is directed to the activities and financial portfolios of DCF members and therefore does not include the activities of all donors in BiH. It provides an overview of ODA allocations to BiH, which are further analysed by sector, as well as donor profiles. Both summary data and graphs are used for illustration purposes.

### **2.4 DCF On-Line Donor Mapping Database (DMD)<sup>14</sup>**

The DCF has also established a Donor Mapping Database (DMD) with up to date information and data on assistance provided to BiH by the donors that are members of the DCF. The DMD has been the primary source of information on external aid to BiH and the primary data source for producing the DMRs, along with questionnaires addressed to both donor agencies and local institutions. It is one of the two information systems hosted by the SCIA to support its work (together with a Grants Resource Management System (GRMS), which is used by

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<sup>13</sup> See <http://www.donormapping.ba/index.php/donor-mapping-reports/dmr-2011-2012>

<sup>14</sup> See <http://85.158.34.5:9704/dmd/faces/dmdPublicStart>



the MoFT for its management of the Public Investment Programme - PIP<sup>15</sup>. It is worth mentioning that donor agencies have the primary responsibility for entering and updating project information in the DMD. In this context, following some standstills that had accompanied the inter-institutional procedures of transferring the domain of the DCF website to the MoFT – during which the website remained blocked for security reasons and needed to be upgraded – in September 2013 the MoFT finally enabled the access to a new DMD database and provided the DCF members with a User Manual, usernames and passwords for updating the existing projects and entering of new projects corresponding to the second half of 2012 and the entire 2013.

Despite significant room for both methodological and functional improvements (the system is slow and often not available or accessible on-line, issues that are expected to be tackled through the new DMD), the database is user friendly, as it can be downloaded in excel format. It includes project data by donor and by sector (in 10 sectors) regarding their status, project start and end date, geographic level and delivery channel (Implementing Agency), type of financing, total project value, allocated and disbursed funds, and the projects' strategic goals, DAC and CRS Sector, MIPD Sector and Subsector.

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<sup>15</sup> A project is being prepared to develop the DMD and GRMS into a linked Public Investment Management Information System (PIMIS) - with initial support by the Ministry of Foreign Affairs of the Netherlands. It is aimed to enhance aid effectiveness by enabling informed decision making by all BiH institutions, donors and lenders on public investment needs and priorities. Progress on the preparation of the Public Investment Programme (PIP) should be facilitated by a new design to include PIP projects; their links with strategic planning (Country Development Strategy and Social Inclusion Strategy, Sector strategic plans – thereby providing a link with the gradual implementation of the Sector Approach in BiH); links with the EU integration process (SAA, EU Partnership Agreement); and a mechanism for identification of priority projects per institution.

### 3 Kosovo

On July 11<sup>th</sup>, 2008, a few months after Kosovo's Declaration of Independence following almost a decade under transitional UN administration, a Donor Conference was held in Brussels to discuss the future of Kosovo as well as the donor support it would require. Based on consultations between stakeholders and the Government, multilateral and bilateral donors had pledged over 1.2 billion € to support Kosovo's socio-economic development objectives. These pledges were dependent on the implementation of a series of reforms, including the overhaul of the donor coordination framework in Kosovo, the establishment of a harmonised development agenda and a mechanism for effectively managing these contributions. An overall approach was agreed in relation to the planning of external assistance; this approach was further revised in April 2010, when the European Commission informed Kosovo authorities as well as EU member states and other donors about the revision of its planning approach; it invited all stakeholders' input to the Multi-Annual Indicative Planning exercise and Document (MIPD) and announced a gradual move from the project-based approach to a sector approach to streamline Kosovo's and donors' efforts and thus improve aid effectiveness and impact.

In June 2011 the Government of Kosovo took an important step toward establishing a donor coordination mechanism with the adoption of Regulation Nr.04/2011 'on Donor Coordination'. Its stated aim was to increase the Government's role in the coordination of foreign aid to Kosovo, by "creating a system that ensures the effectiveness and transparency between the activities of the Government and the Donor Community". The Regulation installed the Ministry of European Integration (MEI) as the main body responsible on behalf of the Government for coordination of donor assistance in Kosovo, established internal structures within the MEI tasked with the related functions, and set out a number of bodies in this respect. The current donor coordination architecture in Kosovo comprises the following elements.

#### 3.1 Department of Development Assistance<sup>16</sup>

Within the Ministry of European Integration (MEI), the Department of Development Assistance (having recently replaced the initially established through the Regulation '*Department for Strategy and Coordination – DSC*') is nowadays in charge of:

- Coordinating the planning, programming, monitoring, reporting and evaluation of both EU and other donor assistance;
- Supporting activities of the internal Government structures on donor coordination;
- Supporting the development of capacity building programmes with regard to the coordination of development assistance;
- Managing and maintaining/updating the donor coordination database;
- Cooperating with the Office of the Prime Minister and line Ministries regarding the preparation of strategic and policy documents regarding development assistance, by determining the annual and multi-annual financing priorities in support of the EU Stabilisation and Association process;
- Offering assistance – acting as a support mechanism - to the NIPAC;

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<sup>16</sup> See <http://www.mei-ks.net/?page=2,289>

- Coordinating on behalf of the Kosovo institutions the effective management of assistance within EU regional initiatives;
- Coordinating the preparation of financial agreements between Kosovo and the EU.

The Department, whose head reports directly to the MEI Secretary General, incorporates - and is supported in its operations - by internal sub-structures (“Divisions”) for Planning and Coordination, Public Administration and Rule of Law, and Economic and Social Development.

### 3.2 High Level Forum (HLF)<sup>17</sup>

A High Level Forum on Aid Effectiveness (HLF) took place in March 2009. It was intended to become a permanent mechanism for the analysis and assessment of aid provided for social and economic development and for improving the governance and performance of development aid. It was intended to approve priorities for donor assistance in compliance with the strategic documents of the Government of Kosovo to provide recommendations for the improvement of donor coordination, and define and approve key indicators for monitoring progress. In addition, the HLF was intended to assess the effectiveness of donor coordination using indicators defined by the Paris Declaration and to propose improvements to the effectiveness of external aid to Kosovo. Its was chaired by the Prime Minister and brought together top officials of the Kosovo Government and Ambassadors and heads of bilateral and multilateral donor organisations. The Secretariat within the Ministry of European Integration (MEI) has the responsibility for organising, coordinating and supporting the annual meetings of the High Level Forum. However, in practice the HLF does not meet on a regular basis and does not function as a discussion forum.

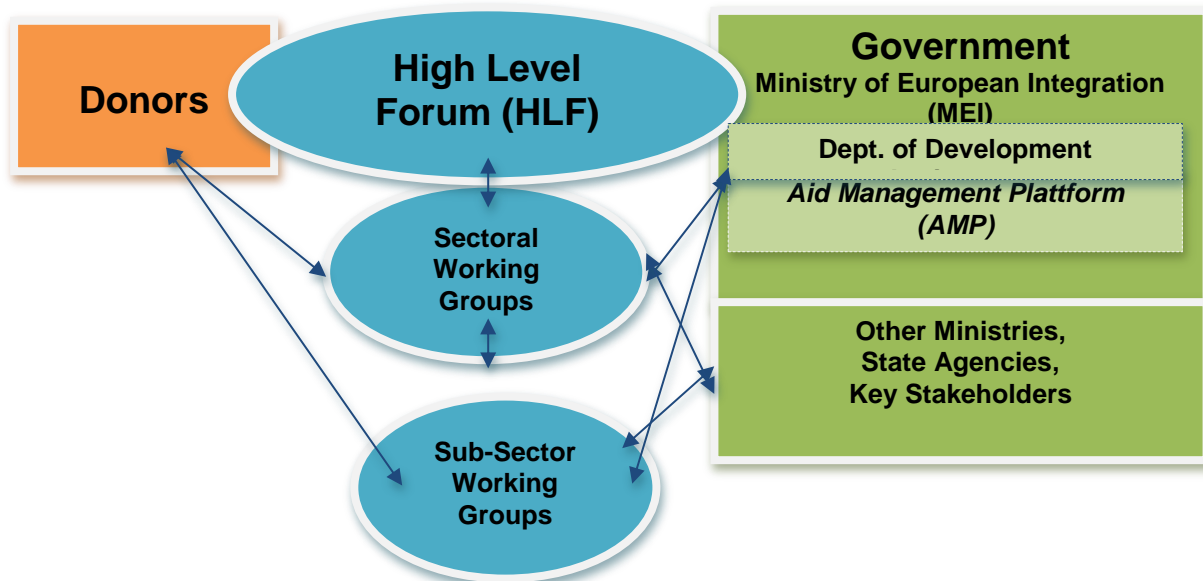
### 3.3 Sectoral Working Groups

Sectoral Working Groups (SWGs) play a key role as platforms for exchange of information between the government and donors at the sector level. Initially seven (according to the Regulation), there are nowadays eight such working groups under the responsibility of different line Ministries, designed to ensure coordination of donor assistance in the sectors of Rule of Law, Education and Employment, Agriculture and Rural Development, Economy, Trade and Industry, Public Finance, Transportation and Infrastructure, Governance, Environment. SWG meetings review the existing sectoral strategies or initiate the drafting of such sectoral strategies; establish common performance indicators for measuring the progress of the sector’s development, and discuss and report on the donor projects in the context of the Medium Term Expenditure Framework. Each SWG consists of representatives from the MEI, line ministries and major stakeholders. The Secretariat of the SWGs is within the MEI.

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<sup>17</sup> See <http://mei-ks.net/?page=2,90>

## Donor Coordination Architecture – Kosovo



### 3.4 Aid Management Platform (AMP)

The Aid Management Platform (AMP) is part of a three-year Aid Management Programme funded by the EC Liaison Office in Kosovo (ECLO) “to strengthen the capacity of the Ministry of European Integration (MEI) to track and report on aid flows, strengthen coordination with donors, reduce transaction costs, and inform analysis and decision-making on the part of Government and donors”. The programme started in November 2009 and took a phased approach over the three year period, comprising two main components: A customised Web-based application to facilitate tracking, reporting and monitoring of donor activities (the Aid Management Platform - AMP), and a series of institutional strengthening activities to build aid management and coordination capacity within MEI. The AMP Kosovo was implemented by Development Gateway International (DGI), and is now managed by the MEI<sup>18</sup>. It became available to the public as of October 11, 2010, intended to promote transparency and coordination among major stakeholders including donors, the Government, the media, civil society and others. It provides a full overview of the foreign aid committed and disbursed in the Kosovo. It is designed to provide real-time information reported by the donors about key components of official aid flows occurring in the country - including commitments, disbursements, sectors, locations, aid modalities and other project details. It reports all amounts in Euros using official donor exchange rates if available or current market rates when no official exchange rate is provided. As a result, the government, donors and the general public can access information on donor funding, as well as use maps and data dashboards to make it easier to visualise and comprehend aid flows to Kosovo.

Most importantly, the EU funded programme made possible to deepen and combine the gains made already by the AMP with institutional strengthening. It enabled building the Government’s capacity to analyse trends and make informed decisions about resource

<sup>18</sup> As already mentioned, the management and maintaining/Updating the database of the Aid Management Platform (AMP) is the task of the Department of Development Assistance (having recently replaced the *Department for Strategy and Coordination – DSC* that was initially established for this purpose through the Regulation). The AMP is available at [https:// www.amp-mei.net](https://www.amp-mei.net).

allocation as well as improve coordination with and among donors – through activities such as: Technical assistance to the MEI to assume complete administration of the system and associated processes; training of staff from over 20 donor agencies and 10 line Ministries; training for additional user groups, including ministries, journalists, researchers, and NGOs; conducting of process analyses, surveys and impact evaluations; knowledge-sharing workshops, enabling the Kosovo institutions to benefit from the experience of other AMP countries; and other activities to ensure that the system supports and becomes fully embedded in MEI and donor aid management processes. Unfortunately, the line ministries are not really properly familiar with this instrument, which is their responsibility.

At present, plans are also underway to assess and explore the potential for integrating AMP and the Integrated Financial Management System (IFMS) operated by the Ministry of Economy and Finance. An initial assessment indicated that the AMP-IFMS integration would enable government decision-makers to have a complete picture of all resources in Kosovo — both domestic and external — and could facilitate the inclusion of the large proportion of “off-budget” donor activities into the budget planning process. Furthermore, a continued focus on data quality could be reinforced through regular data validation workshops, support to donors in providing data that is compliant with the International Aid Transparency Initiative (IATI) standard, and through the inclusion of additional information in AMP.

### **3.5 Annual Report on Donor Activities<sup>19</sup>**

Since the launch of the 2009 Donor Funding Report in October 2010, the MEI has been able to prepare Annual Reports on Donor Activities using data from the AMP. The implementer’s (GSI) website reports that, while past donor funding reports had required a cumbersome Excel-based data gathering process that took over four months to yield the final product, with the AMP operational, the MEI is now able to produce a more detailed donor funding report in just two weeks. Nevertheless, we cannot fail to notice that the last Annual Report to be found on-line is the “2011 Annual Report on Donor Activities” of May 2012. There are however much more up to date Quarterly Summary Reports, the latest of which concerns the third quarter of 2013.

### **3.6 Monitoring and Evaluation of Donor Coordination System**

Monitoring and evaluation of the whole system of donor coordination in Kosovo is based on data in the Aid Management Platform, other data concerning both public expenditure and the use of external funds (notably from the IFMS), the reports issued by the High-Level Forum, the Sectoral Working Groups and Sub-Sector Working Groups (as a rule, also inserted in the Aid Management Platform). The key indicators used for measuring the results of such donor coordination are based on those of the Paris Declaration Survey.

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<sup>19</sup> See <http://amp-mei.net/contentrepository/publicDocTabManager.do?action=publicShow>

## 4 MONTENEGRO

Despite 'Serbia and Montenegro' being listed among the countries adhering to the Paris Declaration on Aid Effectiveness and Accra Agenda for Action, following its Declaration of Independence in June 2006 the Government of Montenegro does not yet appear among those having officially endorsed the Busan Partnership for Effective Development Cooperation. Since 2006, donor assistance had been coordinated by the Prime Minister's Cabinet, in other words by the PM himself, while some ministries (notably those of Tourism, Economic Development, Spatial Planning and Environment, Education and Science, Labour and Social Affairs), were also active in coordinating with donors in their specific sectors.

In February 2007, in conjunction with the launch of the IPA Programme (preceding the forthcoming appointment of the National Aid Coordinator) and as part of its wider support for developing an Integrated Planning and Coordination System (IPCS) in Montenegro, a second phase of the 'Capacity Development Support Programme' was designed by UNDP in cooperation with the Foundation Open Society Institute. Its main purpose was to assist a recently established Permanent Commission for Coordination of EU Assistance. Coordinated by the Deputy Minister of the then Ministry for International Economic Relations and European Integration (MIEREI), which was also to serve as its Secretariat, the Commission consisted of 17 members – representatives of the General Secretariat of the Government and line Ministries at Assistant Minister / Secretary General level, with its main role in "IPA programming, horizontal coordination among Ministries, identifying capacity gaps, drafting of specific assistance programmes, monitoring and evaluation of implementation, review of implementation reports, and coordination with other donor's programmes"<sup>20</sup>.

However, a few months later, in November 2006 the Ministry for International Economic Relations and European Integration was dismantled. Its responsibilities and competences were assigned to a new Secretariat for European Integration (SEI), operating with an enhanced mandate and reporting directly to the Deputy Prime Minister for European Integration – also a new position, appointed as the National Aid Coordinator (NIPAC). Two departments were created in the new Secretariat for European Integration – a Sector for Coordination of EU Accession process and a Sector for Coordination of Donor Assistance. In parallel, two related units were established in other Ministries: a Sector for EU and NATO affairs (which incorporated the Directorate for EU affairs) in the Ministry for Foreign Affairs, and a Department for European Affairs and International Cooperation in the Ministry of Internal Affairs and Public Administration.

Work on establishing a donor coordination mechanism in Montenegro began in 2008. Following a number of informal meetings among donors under the auspices of the EC Delegation, the UN and the OSCE in autumn 2008, the first Donor Coordination Meeting was held in December 2008, with wide participation involving a number of bilateral donors, aimed at setting out an institutional framework for the management and coordination of aid flows. The meeting's conclusions invited the Government of Montenegro to take responsibility for donor coordination; recorded the joint commitment of the Government and the donor community "to agree a model for establishing a suitable donor coordination mechanism and a single aid database for the use of the Government and accessible to all partners (donors, agencies and beneficiaries"; it agreed to exchange a simple information matrix where each donor would indicate the specific DAC sectors it was involved in. On the base of this matrix,

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<sup>20</sup> Draft Government Decree of 10.07.2006

periodic sector coordination meetings were to be organised up to three times yearly, chaired by the Prime Minister and including the Deputy Prime Minister for European Integration (NIPAC) and relevant Ministers.

Nevertheless, the process did not move ahead as planned. The “Strategic Interim Evaluation of EU IPA Pre-accession Assistance to Montenegro”<sup>21</sup> includes in its findings “complaints” by donors of Government inactivity since the first Donor Coordination Meeting of December 2008, while confirming our findings that in recent years “information exchange meetings between donors were organised mainly by the donors themselves”. We assume that this inactivity may also be partly attributed to the phasing out of many donors’ presence in Montenegro, with most of their remaining operations run without local presence (e.g. JICA, Norway, the Netherlands from Belgrade, the World Bank from Sarajevo) with only periodic liaison missions to Podgorica.

In the period 2010-2012 the mechanism of donor coordination was established in the Deputy Prime Minister and later in the Prime Minister Office, through establishment of Working Group for Donor Coordination, consisting of representatives of all ministries. For the purpose of efficient coordination information system has been developed.

On 17 May 2010 the Government of Montenegro adopted a document on “Information on Establishing a System of Coordination of Donor Support in Montenegro”, which re-enacted the effort for establishing donor coordination putting this time in charge the Cabinet of the Deputy Minister for International Economic Cooperation, Structural Reforms and Improving Business Environment. However, according to the same “Strategic Interim Evaluation of EU IPA Pre-accession Assistance to Montenegro” of December 2010 “so far, there is still lack of donor coordination.” By that time, a pilot database for mapping donor interventions that had been developed by the Ministry of Information Society in accordance with the conclusions of the first Donor Coordination meeting proved “not well designed”/unsuitable for public use; our own feedback from donor representatives confirms that the database was never publicly available.

This comes in stark contrast with the fact that, by around the same time, Montenegro became the first country of the region to join the International Aid Transparency Initiative (IATI). Its Minister of Foreign Affairs, attending IATI’s First Annual Conference, expressed full support of its core principles, “according to which the transparency of international aid significantly contributes to enhancement of domestic accountability, taking over the ownership of development processes and to the enhancement of mechanisms of aid coordination”<sup>22</sup>. It is also incompatible with the often repeated commitment of the Government to “work closely with UNDP, Delegation of the European Commission, OSCE and bilateral donors in developing an adequate institutional framework for the efficient management and

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<sup>21</sup> Strategic/Interim Evaluation of EU IPA Pre-accession Assistance to Montenegro (Evaluation 1) - Draft Report, December 2010, SOGES S.p.A.: “Donors complain that since this Government was appointed (June 2009) it has not invited donors to a meeting. In the previous government donors had regular meetings with the Premier but this is not practiced any more. The last meeting with the Premier was in December 2008. Coordination of donor activities at Government level has been very weak and not institutionally established until recently. There were duplications among different interventions. During recent years, donors’ information exchange meetings were organised mainly by the donors themselves.”

<sup>22</sup> H.E. Mr. Milan Roćen, Minister of Foreign Affairs of Montenegro Address at the First Annual Conference International Aid Transparency Initiative (IATI), The Hague, 20-21 October 2009. <http://www.mvpei.gov.me/en/news/28813/177188.html>



coordination of aid flows”, “for the implementation of the principles of transparency and mutual accountability”.<sup>23</sup>

After the elections held at the end of 2012 Ministries changed their regulations on the Internal Organization and Working posts and this Act for the Ministry of Foreign Affairs and EU Integration specified that Directorate General for Economic Diplomacy and Cultural Cooperation is, among others, responsible for central donor coordination mechanism, including reactivating and updating donors data base. It is in charge of coordination of the international development aid and humanitarian assistance, culture, education and sport.

The donor coordination system in Montenegro has now been legally re-established by the Act on Systematisation of the Ministry of Foreign Affairs and European integration (MFAEI) that was adopted in June 2013. Under this Act, a new Directorate General for Economic Diplomacy and Cultural Cooperation has been established that will initiate a Law on Development and Humanitarian Aid to be adopted by the end of 2018.

In addition, in recent years, several line ministries have established different types of direct coordination with donors. The Ministry of Justice has made significant efforts to this effect in regard to the reform of the judicial system; several meetings over the last three years have been reported as excellent opportunities for the exchange of ideas and have provided good opportunities for the EU Delegation to monitor the process. There have also been good experiences with donor coordination also in the sectors of education, public administration reform - and in the tourism sector, where the Minister invites all donors to meetings twice a year.

At a different level, the EU Delegation plays an active role in this respect, e.g. by inviting all donors to present their future intervention plans and to contribute to the process of preparing the IPA National Programme for 2010 and/or of the Multi-annual Indicative Planning Document for 2011-2013. Given the positive response by the donor community, the IPA programming documents benefit from useful references to potential synergies with assistance from key bilateral/international donors. The EU Delegation hosts its own Database of EU funded projects, which is publicly available<sup>24</sup>.

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<sup>23</sup> Ibid.

<sup>24</sup> See <http://www.delme.ec.europa.eu/code/navigate.php?Id=2220>

## 5 SERBIA

The current aid coordination mechanism in Serbia is multifaceted. It combines structures and instruments formally established by the Government of Serbia and donor-government coordination fora and working groups.

In the early stages of the transition process, donor coordination was performed internally within the donor community, through informal, ad hoc meetings for information sharing and avoiding major overlaps, often without the presence of government representatives. In November 2000 the government set up a Development and Aid Coordination Unit (DACU) tasked with the promotion of national priorities through close cooperation with donors. Initially, the DACU was created within the Ministry of International Economic Relations; later, from May 2007 to July 2010, it was moved in the Ministry of Finance. Finally, in July 2010 it was established as the Department for Planning, Programming, Monitoring and Reporting on EU Funds and Development Assistance within the Serbian European Integration Office (SEIO) – however it is still widely called the “DACU”. During the same period, the needs for improving the management of assistance provided to various sectors, and for building capacities in the ministries in charge of each sector, resulted in an ever increasing number and augmented competences of Units dealing specifically with aid coordination and the management of related donor funded projects. Most of the line ministries also appointed Senior Program Officers (SPOs) responsible for the management of EU pre-accession funds under the DIS.

In September 2003 the Government established an Inter-Sector Development and Aid Coordination Network (ISDACON) to facilitate communication and the flow of information on development and international assistance within the entire public administration. Consisting of representatives – at operational level – of all line ministries, ISDACON was tasked to proactively coordinate, programme, manage and monitor external development assistance within the respective sectors. In September 2004 the ISDACON Network was complemented with the establishment of the ISDACON information system, a managerial tool for assisting these monitoring and programming functions.

In addition, in order to further improve the efficiency and effectiveness of international assistance, the Government of Serbia developed two medium term aid planning documents defining priorities for international support. Since 2007, the Government’s strategic priorities for international assistance are defined in a multi-annual (three-year) planning document entitled “Needs of the Republic of Serbia for International Assistance” (Needs Assessment Document, widely called the NAD), which is revised annually to include one additional year.

### **5.1 Sector for Planning, Programming, Monitoring and Reporting on EU Funds and Development Assistance within the Serbian European Integration Office (SEIO)**

In order to ensure segregation of duties for programming, implementation and monitoring of EU pre-accession assistance under the DIS, while at the same time maintaining coherence with and coordination of all foreign aid and ensuring the efficiency and effectiveness of all related processes, in June 2010 the Government of Serbia amended the Decree on the establishment of the SEIO, increasing its competences so as to include the entire responsibility for aid coordination, planning, programming, monitoring and reporting on EU funds and development assistance (i.e. not limited to EU funds only). Both the DACU, renamed as Department for Planning, Programming, Monitoring and Reporting on EU Funds

and Development Assistance and the ISDACON staff and equipment were transferred to the SEIO.

The Sector for Planning, Programming, Monitoring and Reporting on EU Funds and Development Assistance (still called DACU)<sup>25</sup> is responsible for ensuring the efficient and effective use of international development assistance so that it contributes to the Government's priorities. DACU carries out its functions through supporting the programming, including project design, of international development assistance by the line Ministries, reporting on the use of external assistance and by being the focal point for donor coordination. In parallel, DACU has particular responsibilities in relation to IPA programming: It plays the role of the Technical Secretariat of the NIPAC who has the responsibility for monitoring all five IPA components. DACU works in close coordination and consultation with a number of other central government entities, in particular:

- The General Secretariat of the Government, which facilitates the process of policy coordination and planning process in line ministries including the development and implementation of the process of budget beneficiary medium term plan.
- The Ministry of Finance which is responsible for planning of the national budget, future fiscal strategy (containing MTEF) and introduction of the Decentralised Implementation System (DIS).
- Other SEIO departments responsible for oversight of the legal approximation process with the *acquis communautaire* and for coordination of the EU accession process.

## 5.2 Commission for Programming and Management of EU Funds and Development Assistance

The Commission for Programming and Management of EU Funds and Development Assistance was established in November 2007 with the mandate to propose priorities for the use of international assistance. Members of the Commission are the Deputy Prime Minister, nine Ministers and the Director of the SEIO. The Commission meets regularly as envisaged in its Action Plan.

## 5.3 Sector Working Groups for Development Assistance

In 2010, Sector Working Groups (SWGs) for Development Assistance were established with the objective to ensure aid effectiveness in the specific sectors through inter-ministerial, inter-agency coordination of all relevant institution(s) in regard to planning, programming, monitoring and reporting on development assistance at operational level as well as improving the programming of IPA funds.<sup>26</sup>

Up until 2014, SWGs covered the sectors of Rule of law; Public administration; Civil society, media and culture; Competitiveness; Human resources development; Transport; Environment and energy; and Agriculture and rural development. Officially appointed members of these SWGs are representatives from the SEIO/DACU and relevant ministries. However, representatives of donors, civil society organisations and other stakeholders are invited to

<sup>25</sup> See <http://www.evropa.gov.rs/Evropa/PublicSite/AboutUs.aspx>

<sup>26</sup> Since this report was completed in March 2014, SWGs have been reestablished in order to correspond to latest NAD. Donor coordination mechanism has also been changed and is now incorporated into SWGs, which has proved to be a very effective and efficient mechanism.

participate in the groups' work at specific instances during the aid programming and implementation cycle. Sector working groups meet regularly at least four times a year, but in practice meetings take place more frequently (taking into account their tasks related to the preparation of the Needs Assessment Document, programming, consultations with donors and stakeholders). Recently, the system of SWGs has been reestablished in order to correspond to latest NAD. Donor coordination mechanism has also been changed and is now incorporated into SWGs which have proved to be very effective and efficient mechanism..

## 5.4 Overall Donor Coordination Meetings for Aid Coordination

The Overall Donor Coordination Meetings represent the highest level coordination instrument between representatives of the donor community and Government officials. It provides a policy-level forum for dialogue on development policies, discussion of priorities based on both donor and national priorities and coordination of external assistance for improving the effectiveness of assistance. Overall Donor Coordination Meetings take place at least twice a year, to discuss the "Annual Report on International Assistance to the Republic of Serbia"<sup>27</sup> in the previous year (prepared by DACU/SEIO) and the national priorities for aid, as defined in the Needs Assessment Document (NAD). Such meetings may nevertheless be organised more frequently should the need arise.

## 5.5 Informal Donor Coordination Meetings

Informal Donor Coordination Meetings are chaired by DACU representatives and bring together government officials with representatives of then ten main/most active donors with the objective to enhance the effective use of donor funds by improving planning, management and monitoring of interventions. Meetings are organised on an ad hoc basis, when needs arise per need to discuss specific aid coordination issues, such as the introduction of the sector-wide approach (SWAP), aid monitoring of aid, the development and updating of the ISDACON IS, the structure and drafting of the NAD, etc.

## 5.6 Informal Donor Coordination Groups

Donor Coordination Groups are all informal and established for operational purposes, mainly for information sharing, analysis, discussion and coordination. Currently there are 17 (and at least two more emerging) such donor coordination groups, each covering specific sector or cross-sectoral issues. Participants are mainly donor representatives and representatives of government and relevant public institutions. Some of these groups are more active than others, but most provide some useful insights at the operational level and a forum for closer donor-government interaction and exchange of ideas. In assessing the overall performance and usefulness of these donor-government coordination mechanisms, it is worth mentioning that there is still no comprehensive National Development Strategy that determines the country's developmental course for the upcoming years. On the other hand, there are a many national strategies and plans and around 80 sector strategies. Not all of them are solid and well coordinated, and their ownership is sometimes questionable; nevertheless, the mere fact that the strategies exist is important for the coordination process, as they provide a basis for

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<sup>27</sup> See e.g.

<http://www.evropa.gov.rs/Documents/Home/DACU/12/83/84/report%20english%20final.pdf>;

<http://www.evropa.gov.rs/Documents/Home/DACU/12/83/84/Report%20on%20International%20Assistance%20to%20Serbia%20in%202011.pdf>

donor alignment. At the same time, it explains the very form this donor coordination has taken to date, with an abundance of sector/cross-sector coordination instruments.

## 5.7 ISDACON Information System and Data Base; Other Aid Coordination Tools

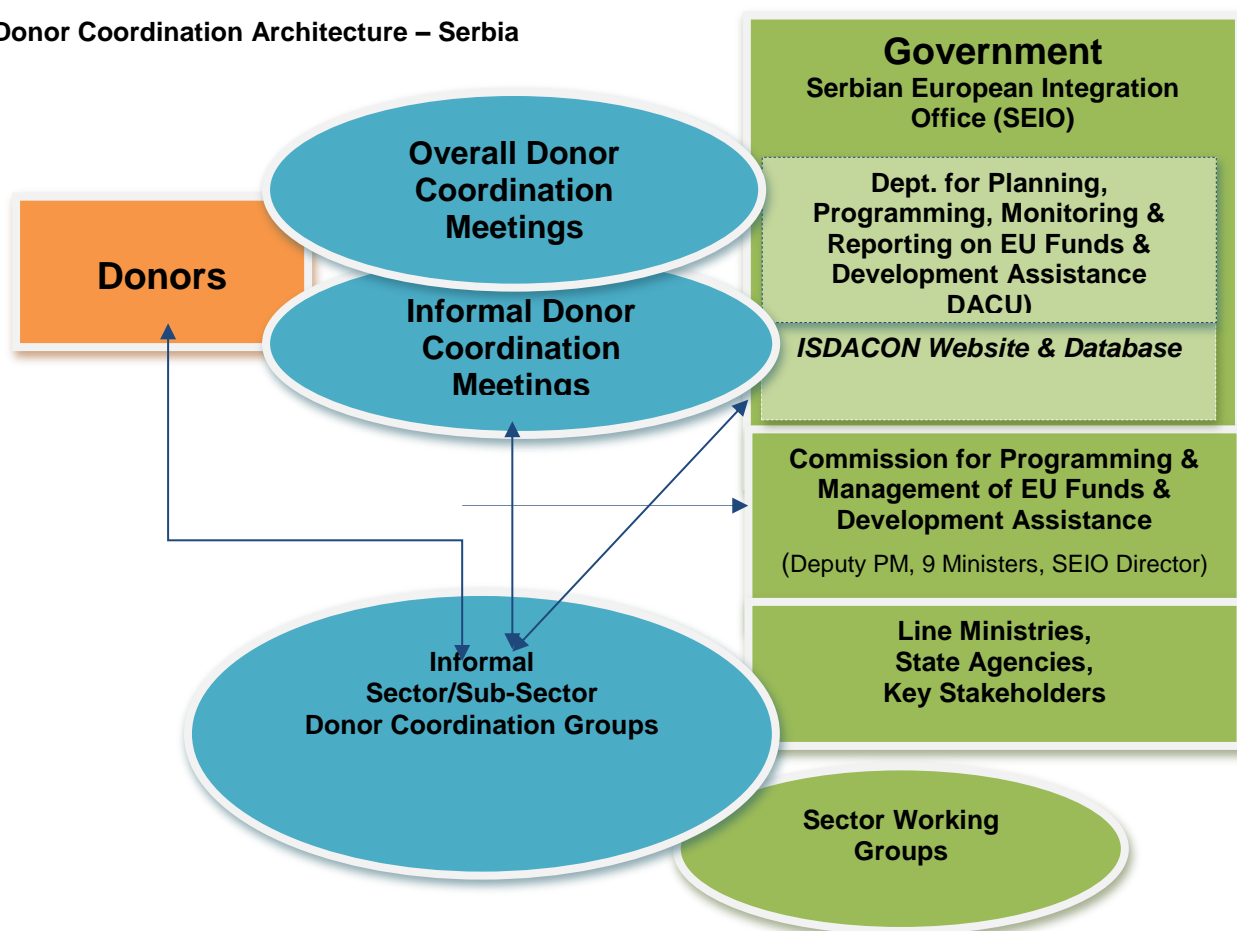
There are three main tools developed to assist the aid monitoring functions and the alignment of donor resources to national priorities. The ISDACON Information System and database includes an aid management platform, partly funded by SIDA and DFID, as well as a website for sharing related information<sup>28</sup>. The database consolidates all data on development assistance since 2000 - by type of donation, project, status, donor/development partner, donor budget year, disbursement year, allocated funds, actual disbursement, area (according to the jurisdictions of line ministries), OECD/DAC Sector. Along with presenting the data available for all priority projects and programmes financed from external assistance, ISDACON enables their comprehensive monitoring and comparative analysis, thus serving as the basis for more efficient planning and using of both EU funds and other forms of foreign aid. The sources for data compilation are reports by both donors and beneficiaries of development assistance. Initially underutilised, difficult to navigate and not considered user friendly, the DACU/SEIO has gradually created a useful portal with user-friendly solutions for viewing data in simple graphical, numerical and textual forms and a more effective monitoring and management tool<sup>29</sup>. One can search through projects and donations by choosing one of two main criteria; either through the 'project search' section – by the project status, area, development partner, targeted donor, interested donor and year; or through the 'donations search' section – by the donation status, development partner budget year, disbursement year, development partner and OECD sector. Users may use standard Microsoft tools (MS Office, Internet Explorer) to access it, with Internet Explorer 8.0 being the minimum software request.

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<sup>28</sup> See <http://www.evropa.gov.rs/Evropa/PublicSite/index.aspx>;  
<http://www.evropa.gov.rs/Evropa/PublicSite/InternationalAssistance.aspx>

<sup>29</sup> With many donors gradually phasing out their assistance, demands on ISDACON are going to change as it will gradually become a monitoring tool for IPA funded projects, and if it becomes used for recording of development aid at municipal level.

## Donor Coordination Architecture – Serbia



The Needs Assessment Document (NAD)<sup>30</sup> is updated annually and indicates policy priorities and measures to be supported by international assistance in the coming three-year period. It is a detailed, carefully elaborated tool, and there is significant room for its increased use in the planning processes of different donors, as well as for its own improvement in terms of introducing a mechanism to monitor progress and measure results against objectives and relevant indicators defined in NAD.

The Action Plan for Programming of International Assistance<sup>31</sup>, defined to ensure synchronisation of aid programming and specific donor calendars with the national planning and budgeting processes. It is a useful tool that intends to synchronise development aid planning with the national planning and budgeting processes – however the planning of

<sup>30</sup> 'National Priorities for International Assistance in the Republic of Serbia 2014-17, with projections until 2020', DACU, ([http://www.evropa.gov.rs/Documents/Home/DACU/12/74/NAD%202014-2017%20with%20projections%20until%202020%20\(english\).pdf](http://www.evropa.gov.rs/Documents/Home/DACU/12/74/NAD%202014-2017%20with%20projections%20until%202020%20(english).pdf)) of Jan. 2014 - replacing the previous "Needs of the Republic of Serbia for International Assistance In the Period 2011-2013", DACU, 2011 (<http://www.evropa.gov.rs/Documents/Home/DACU/12/74/NAD%20final%20eng.pdf>).

<sup>31</sup> 'Action Plan for Programming and Reporting on EU Funds and Development Assistance to the Republic of Serbia', DACU, January 2013 (<http://www.evropa.gov.rs/Documents/Home/DACU/12/78/Action%20Plan%20for%20Programming%20and%20Reporting%20on%20EU%20Funds%20and%20Development%20Assistance%20to%20the%20Republic%20of%20Serbia%202012.pdf>)

international assistance is not yet synchronized with the calendar for national budget planning.

Finally, the DACU/SEIO issues regularly (13 issues to date at 2 -3 month intervals, last in December 2013) the “Aid Matters - Newsletter on Development Assistance in Serbia”<sup>32</sup> obviously addressing the need to disseminate information to the wider public.

## **5.8 Fast-Tracking of the implementation of the EU Code of Conduct on Complementarity and Division of Labour**

As we have seen, the purpose of the FTI DoL is to help implement the EU Code of Conduct on the Division of Labour of May 2007, by establishing systematic collaboration among EU member states in order to increase the coherence of the EU assistance and to reduce overlap and transaction costs. In 2011, the third monitoring round of the FTI DoL included Serbia for the first time<sup>33</sup>. However, Serbia reported limited DoL implementation. In addition, the response from Serbia considers the DoL Agenda less relevant for the country, which has a decreasing number of donors due to its upper middle-income country status.

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<sup>32</sup> “Aid Matters - Newsletter on Development Assistance in Serbia”, DACU, December 2013  
<http://www.evropa.gov.rs/Documents/Home/DACU/12/78/102/Aid%20Matters%20NewsletterDecember%202013.pdf>

<sup>33</sup> “Commission Staff Working Document - *EU Accountability Report 2011 on Financing for Development; Review of progress of the EU and its Member States*”, Brussels, 19.4.2011 - SEC(2011) 502 final. Accompanying document to the “Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Enhancing EU Accountability on Financing for Development towards the EU Official Development Assistance Peer Review - VOL III” {COM(2011) 218 final}.



## 6 THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

The former Yugoslav Republic of Macedonia is not listed among the countries subscribing to the Paris Declaration and Accra Agenda for Action and the country's government has not endorsed the Busan Partnership for Effective Development Cooperation. As a consequence, The former Yugoslav Republic of Macedonia was not included in any of the baseline Surveys on Monitoring the Paris Declaration performed after 2006. Nevertheless, since 2009 The former Yugoslav Republic of Macedonia does possess a donor coordination mechanism based on the implementation of the Programme Based Approach (PBA). On the government's side, under the National System for Coordination of Foreign Assistance, the Secretariat of European Affairs (SEA) is responsible for overall donor coordination, reporting to the Deputy Prime Minister responsible for European Integration (and National Aid Coordinator). The same Deputy Prime Minister also chairs the Committee of Ministers for Coordination of Foreign Assistance (CMCFA), which includes the Ministers of Finance, Foreign Affairs and Economy, Interior, and Education and Science. The supporting structure also includes a Coordinative Technical Group and the Sector for Coordination of Foreign Assistance within the Secretariat for European Affairs.

### 6.1 Historical perspective of aid coordination efforts

Due to the post-conflict state of affairs in the country that coincided with its declaration of independence an early unsuccessful attempt to organise coordination meetings occurred in early 2000, when the European Agency for Reconstruction (EAR) invited major bilateral and multilateral donors to exchange views on the matter. The discussions were held in a climate of political confusion and inter-ethnic division. A working group of international donors submitted a proposal to the Deputy Prime Minister at the end of March 2008 that set out guiding principles to improve coordination and effectiveness of international assistance. The main objective was to strengthen the government-led coordination mechanism, focusing on critical sectors for development with the commitment of external partners to align their support with country policies, strategies and results frameworks, with targeted efforts to strengthen institutional capacity for results-based-sector strategy implementation and coordination of external assistance, and with increased focus on better external assistance, reducing the administrative burden on the country. The guiding principles of the proposal were as follows:

- Government ownership and leadership
- Focus coordination efforts on a few critical sectors and implement a pragmatic sector-wide approach, including strengthening of national implementation capacity. Criteria for selection of sectors include readiness of the sector, Government commitment, and management capacity.
- Focus on results using a single results framework.
- Mutually agree a coordination mechanism for the selected sectors, laid down formally to define operational modalities (focal point in line ministry, decision making processes, joint visits of international partners, engagement of national actors in the coordination effort and an effective monitoring system).
- Aim for single coordination structure in the selected sectors, avoiding parallel structures.
- Build on national and international good practice.
- Utilise the strengths of international partners (e.g. complementarity concerning focus, timing, speed and flexibility, synergies of different modes of delivery of external assistance.)

In December 2008, a new Joint Working Group was established, composed of selected donor representatives and key government representatives led by SEA, followed by a series of ‘high level meetings’ on improving aid effectiveness. In January 2009, the Joint Working Group was tasked with preparation of an action plan on introducing the “Programme-Based Approach” (PBA), which reflects the definitions by the OECD/DAC and the elements of the Paris Declaration on Aid Effectiveness and ensures that its implementation reflects, complements and enhances the beneficiary's effort to join the EU<sup>34</sup>. Government and donors jointly endorsed their action plan in March 2009. In the absence of a single definition of a PBA<sup>35</sup>, PBAs are sometimes used interchangeably with other terms, most notably a sector-wide approach (SWAp). In spring 2009 the government identified five priority development areas in which progress was urgently needed and passed a decree to introduce the PBA concept in these five programme areas. It established initial structures, headed by SEA, including a lead ministry and forming joint Government-Donor working groups for each of the priority areas.

**Figure 1 : Priority programme areas, strategies and supporting donors**

Priority Programme Areas, Strategies and supporting Donors			
Priority area	# of Sectors Included	# of Strategies Included	# of Donors/IFIs
1. Business Environment	5	14	17
2. Human Capital	3	16	23
3. Agriculture	3	6	12
4. Environment	2	15	13
5. Governance	4	11	14

The adoption of the PBA represented a significant boost to the government’s leadership of its development policy agenda. Donors appeared willing to work through the implications of the PBA, and to manage expectations at donor headquarters, each with different mandates and different degrees of flexibility in use of country systems.

## 6.2 Current government-donor coordination mechanism

Since 2009, the Secretariat for European Affairs leads a government-donor coordination mechanism established to support the activities of the PBA concept. It consists of regular meetings of a High Level Donor Coordination Forum and the Senior Government – International Partners Working Group; Ministers responsible for each selected Programme Area; Designated focal points in the lead ministries (and some donor agencies) and PBA Sectoral Working groups operating in the seven priority programme areas: Business Environment; Competitiveness and Innovation; Human Capital Development; Agriculture; Environment; Local Governance and Decentralization; Public Administration; Rule of Law. The PBA Working Groups prepare detailed needs assessments, work on the alignment of national priorities with donor strategies at the specific programme and sector levels. Despite decreasing donor assistance to the country over the last years, there is broad donor support for the PBA initiative, at least in principle, with key donors adequately represented in the joint Working Groups. In addition, the EU Delegation organises regular donor coordination

<sup>34</sup> In the Accra Agenda for Action adopted in September 2008, all OECD DAC donors, many multilaterals, and a significant number of bilateral donors “reaffirm[ed] their Paris Declaration commitment to provide 66% of aid as program-based approaches”.

<sup>35</sup> Perhaps the one most commonly used is that adopted by the OECD DAC, which describes a PBA as “a way of engaging in development cooperation based on the principle of coordinated support for a locally owned program of development.”

meetings in the context of the annual IPA programming exercise, as well as ad hoc donor coordination meetings involving EU Member States, IFIs and international organisations, other donors, civil society and other relevant stakeholders.

The major driver supporting the PBA approach in the country is a widely shared national goal – accession to the EU – that guides national policies and strategies and renewed leadership of donor coordination by the authorities including high level coordination of all donor activities, including EU activities, by the State Secretariat for European Affairs (SEA). There is also a good “back office” function, capable of tracking and analysing external assistance inflows, in the Ministry of Finance. The EU plays a strong leadership role, including among donors, with increasing financial and technical support. The main constraints are the serious difficulties in implementing PBAs in government, ranging from insufficient staff resources and capacities within the SEA and line ministries. There is also a less than full commitment among sector ministries and agencies that were faced with loss of control over their favourite programmes and projects or lacked the capacity to adapt. Given the need to move across a broad front, the SEA is inadequately resourced. Despite intense coordination work it lacks both the staff and the financial resources to support the working groups. Designated focal points in the lead ministries and other working group members do not have sufficient support to play a leadership role - a potential disconnect between the Government’s stated high priority and the perception within line ministries that this function can be part of ‘business as usual’. Another hurdle is the habit of working on a project approach supported by a donor-financed portfolio that is itself highly fragmented.

Moreover, some important parts of the necessary PBA architecture have yet to be put in place. These include a results monitoring framework for each PBA to which the government and the respective PBA donors can subscribe; strengthening capacity and performance of key government institutions and systems; and a medium-term expenditure framework which needs to be strengthened and better linked to the strategic priorities process. While all donors are supportive in principle of PBAs, the larger donors might face practical implementation difficulties in the next years, including possible rigidities related to IPA funding.

### **6.3 National System for Coordination of Foreign Assistance**

Horizontal coordination is carried out by the SEA, attached to the office of the Deputy Prime Minister in charge of EU Affairs, also known as NIPAC (National IPA Coordinator) as well as with the Committee of Ministers for Coordination of Foreign Assistance (CMFCA). The Prime Minister determines the strategies, decides on the policy, gives directions through different sector documents for meeting the donors’ and decides on questions of national interest. The NIPAC is responsible for the co-ordination, synchronisation and complementary of the assistance that the country receives, chairs the CMFCA, monitors the implementation of the decisions reached, and establishes contact with donor headquarters.

The CMCFCA, created in 2005, provides the political and strategic directions of foreign assistance taking into consideration the sector priorities, and is responsible for inter-sector coordination of the assistance. It is chaired by the NIPAC, and includes the Deputy Prime Minister in charge of Implementation of the Framework Agreement and the Ministers of Foreign Affairs, Interior, Finance, Economy, Education and Science. Depending on the topic or the subject being discussed, Ministers responsible for other specific sector(s) are invited to participate in the work of the Committee. It has a Coordinative Technical Group composed of representatives of the Ministers who are members of the CMCFCA. Supported by the SEA, it is responsible for the operational functioning of the National System for Coordination of Foreign Assistance including preparation of the agenda of the CMCFCA, overview of projects from

different donors, coordination of opinions before they enter the agenda of CMCFA, preparation of draft conclusions, recommendations and decisions and follow-up of conclusions, recommendations and decisions. The SEA/SCFA serves as both the operational arm of the NIPAC and the permanent Secretariat of the CMCFA, as well as the link for transfer of data, information and communication between the donors' initiatives and the needs and priorities of the government, as defined by the CMCFA. It manages the Central Donor Assistance Database (CDAD) and has direct communication with the Ministry of Finance.

## **6.4 Ministry of Finance**

The Ministry of Finance is responsible for the registration (in connection with the Central Donor Assistance Database) of all projects that are prepared for implementation. It ensures that projects are compliant with the country's budget and settles the procedures concerning the import, customs, and VAT. It also oversees and monitors the use of aid funds and ensures that procurement procedures are abided by.

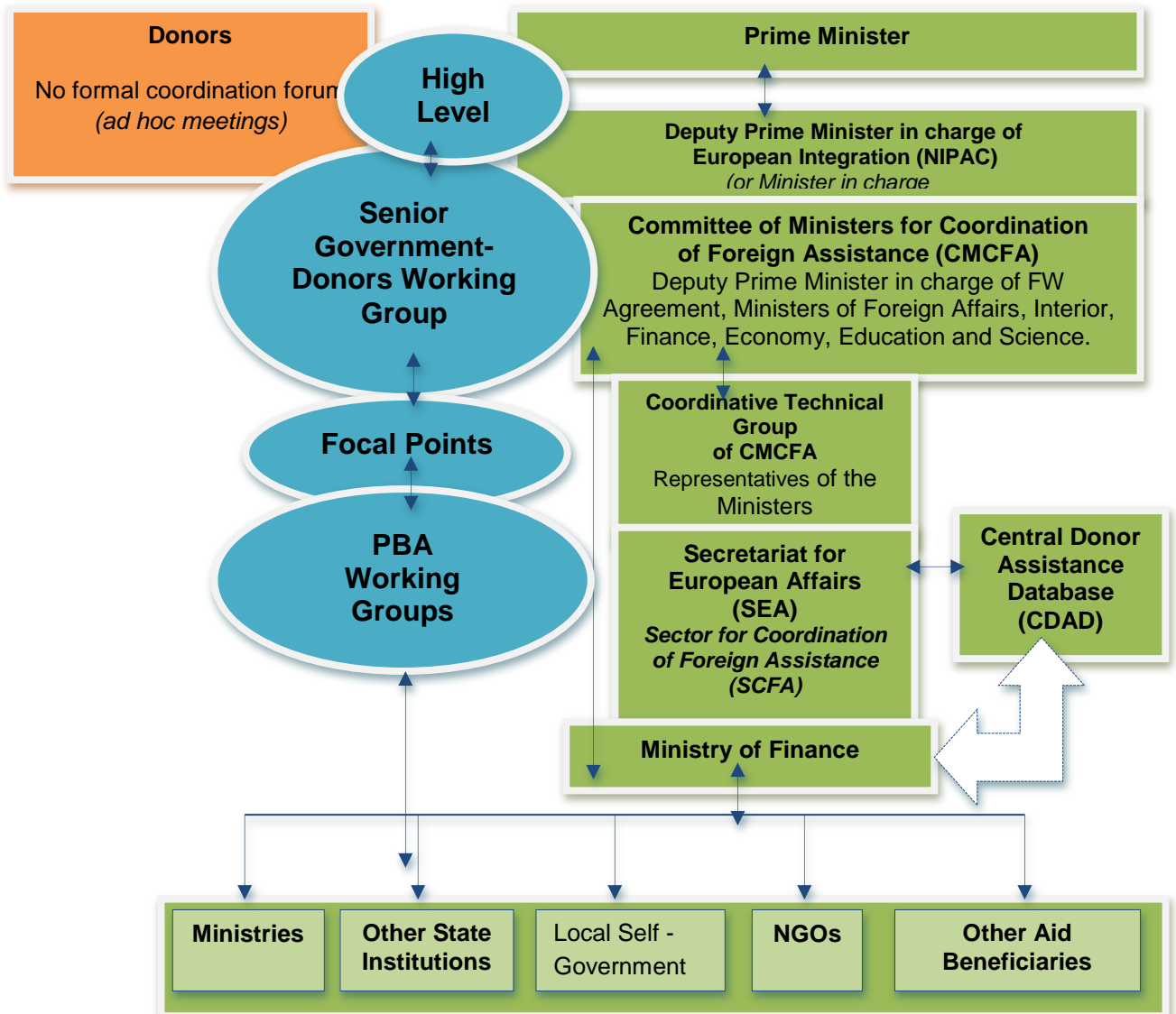
## **6.5 Ministries and Other Institutions/Organisations**

The respective line Ministries are responsible for the preparation of sectoral strategies; point out sector priorities and coordinate the implementation of projects within their competence. The Central Donor Assistance Database (CDAD)<sup>36</sup> was designed in 2003 by the UNDP and has been gradually upgraded to include project disbursements. The database provides comprehensive and up-to-date project data by donor, type of assistance and implementing/beneficiary institution, location, policy and sector and provides an overview of the sectors receiving aid from both bilateral and multilateral donors. In this framework, the CDAD provides a snapshot of the priority sectors, ensures that overlapping of assistance can be avoided. It represents a basis for policy design, decision-making, and negotiation with donors as well as for the production of analytical reports and dissemination of information. By law, all beneficiaries of any type of external aid must submit a monthly report to the MoF giving actual disbursement, progress made and quarterly projections to a web-based system designed by the MoF so that beneficiaries will be able to enter their data on line.

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<sup>36</sup> See <http://www.cdad.sep.gov.mk/>

**Donor Coordination Architecture – The former Yugoslav Republic of Macedonia**



## 7 TURKEY

Turkey does not have a donor coordination system. Despite receiving large amounts of pre-accession funding and being the largest recipient of EIB financing outside the EU, Turkey considers itself a donor rather than an aid recipient country, and stands firm on examining any external financing arrangement with any foreign financing source – whether a donor, an IFI or a commercial lender – on a stand-alone, project by project basis and on its own terms and conditions.

In July 2000, the Turkish Government created the Secretariat-General for EU Affairs (EUSG) “for providing, in accordance with plans and programmes, the internal coordination and harmonisation between public institutions ... within the framework of the activities to be carried out for the purpose of preparing Turkey to European Union membership”. Initially attached to the Ministry of Foreign Affairs, the EUSG was later transferred to the Prime Ministry and attached to the State Minister - Turkey’s Chief Negotiator with the EU, also carrying out the function of the Secretariat to the National Aid Coordinator (NIPAC).

After the last general elections of June 2011 the EUSG was transformed to a new **Ministry of EU Affairs**, taking over all functions related to Turkey’s pre-accession agenda. The new governmental structure assigns responsibility for the accession negotiations to the Minister of EU Affairs as Chief Negotiator and Head of the Negotiation Delegation. Significantly, the first Minister for EU Affairs stated that the “government’s decision to transform the decade-old Secretariat General for the EU Affairs into a fully-fledged Ministry, which will continue reporting directly to the Prime Minister, is a significant message to the EU that Turkey keeps up the impetus in its determined drive towards EU membership despite all political obstacles on its negotiation process.”

However, Turkey’s legal framework regulates all types of foreign economic relationships under the sole responsibility and supervision of the Minister of Finance / Undersecretary of Treasury. More precisely, all kinds of foreign Economic Relationships in Turkey are regulated by the ‘Law on Regulating Public Finance and Debt Management’ (Law No. 4749 of 28.3.2002) and the subsequent Regulations:

- Regulation on the Procedures and Principles for Obtaining Foreign Finance within the Scope of Law no. 4749.
- Regulation on the Procedures and Principles for the Registration of Foreign Project Loans with the Foreign Debt Log.

Article 2 of the law applies to most of the institutions considered as Implementing Bodies or Beneficiaries of IPA assistance: It covers the institutions and establishments under the central government, metropolitan municipalities, municipalities and establishments affiliated to municipalities, other local government agencies, the establishments whose payment obligations have been guaranteed by the Undersecretariat of Treasury (such as build-operate-transfer, build-operate, transfer of operational rights and similar financing models) and non-governmental organisations limited with grants.<sup>37</sup>

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<sup>37</sup> Public-Private Partnerships are also covered by the same provisions, as regulated by the Law on Commissioning Certain Investments and Services within the Framework of the Build-Operate-Transfer Model (Law no. 3996).

In this framework, Turkey does not have an ‘umbrella’ coordination mechanism or forum – at either policy or operational level – that would bring donors together in order to discuss with the government institutions each other’s concepts and strategies and to coordinate their implementation as partners. Due to the lack of a government-led donor coordination mechanism, the EU Delegation in Turkey has undertaken a number of activities to improve coordination between the donors and the European Commission services. These include an attempt to map the activities of different providers of external assistance to Turkey; the creation of seven Sector Coordination Groups made up of representatives of the EC, IFIs, UN Agencies and bilateral donors; holding of sectoral meetings and ad hoc meetings in order to maintain regular contact with individual IFIs as feasible.

## **7.1 EU Delegation coordination meetings**

The EU Delegation has been holding monthly coordination meetings to disseminate information to EU member states on the EC activities in Turkey. These meetings represented a regular constructive dialogue rather than formal donor coordination meetings; such meetings would at least a precise agenda and prior information on the priorities of each donor (which is mostly missing). In March 2010, the EUD initiated the creation of seven Sector Coordination Groups in the sectors of Governance, Democracy and Human Rights, Migration, Economic Governance, Regional Development, Employment and Social Policies, Environment, Energy and Climate Change, and Transport.





	DONOR COORDINATION	DATABASE & HOST	DONOR COORDINATION MECHANISM / STRUCTURES						INFORMATION & DISSEMINATION	FT of DoL	NIPAC
	conditions for loans / credits										
BH	Sector for Co-ordination of Int'l Aid (SCIA) <i>within Min. of Finance &amp; Treasury (MoFT)</i>  Leads (+UNDP) monitoring process for OECD/DAC Paris Declaration Surveys	DCF Donor Mapping Database (DMD)  Sector for Coordination of Int'l Aid (SCIA)	Donor Co-ordination Forum (DCF) (20 Donors)  <i>Quarterly meetings chaired by Minister of Finance &amp; Treasury</i>	Donor Co-ordination Forum Secretariat <i>Within Sector for Coordination of Int'l Aid (SCIA)</i>				-	Annual Donor Mapping Exercise  Biannual Donor Mapping Reports (DMR)		Director of Directorate for European Integration (DEI)  <i>Under BiH Council of Ministers</i>
MK	Secretariat for European Affairs (SEA) <i>attached to NIPAC</i>  No participation to monitoring process for OECD/DAC Paris Declaration Surveys for monitoring aid effectiveness	Central Donor Assistance Database (CDAD) SEA Sector for Co-ordination of Foreign Assistance (SCFA) MoF	High Level Forum	Senior Government – Donors Working Group	Gov. only Committee of Ministers for Co-ordination of Foreign Assistance (CMCFA)	Gov. only Sector for Co-ordination of Foreign Assistance (SCFA)  withinSEA Operational arm of NIPAC + CMCFA Secretariat	Gov. only <i>Coordinative Technical Group of the CMCFA</i>	Ministers per Programme Area  + Focal Points  + 7 PBA (Sector) Working Groups	-		Deputy PM for EU Affairs
XK	Dept. of Development Assistance <i>Within Ministry of</i>	Aid Management Platform (AMP)	High Level Forum on Aid Effectiveness (HLF)			Secretariat for High Level Forums within MEI		8 Sector Working Groups +	Annual Report on Donor Activities		Secretary-General, Ministry of European

	DONOR COORDINATION	DATABASE & HOST	DONOR COORDINATION MECHANISM / STRUCTURES					INFORMATION & DISSEMINATION	FT of DoL	NIPAC	
	<u>European Integration (MEI)</u>  <i>Also acting as NIPAC support structure</i>  Leads monitoring process for OECD/DAC Paris Declaration Surveys	Dept. of Development Assistance within MEI						Sub-Sector Working Groups  SWGs Secretariat in MEI		Integration	
RS	Department for Planning, Programming, Monitoring and Reporting on EU Funds and Development Assistance <u>Within the Serbian European Integration Office (SEIO)</u>	ISDA CON IS Website – Database  Inter Sector Development & Aid Coordination Network (ISDA CON)	Overall Donor Coordination Meetings  <i>With all donors</i>  <i>Twice a year</i>	Informal Donor Coordination Meetings  <i>With 10 most active donors</i>  <i>Quarterly + ad hoc</i>	17 Informal Sector & Cross-Sector Donor Coordination Groups	<b>GoS only:</b> Commission for Programming & Management of EU Funds & Development Assistance ( <i>Deputy PM, 9 Ministers, SEIO Director</i> )	<b>GoS only:</b> “Needs Assessment Doc. 2011-2013” (NAD) - 8 sectors (GoS, SEIO) ----- --- <i>Multi Annual Planning Doc. “Needs of RoS for Int’l Assistance (SEIO)</i> ----- --- <i>Annual Action Plan for Programming &amp; Reporting on Int’l Assistance</i>	<b>GoS:</b> 8 Sectoral Working Groups	Annual Reports on International Assistance to the Republic of Serbia	√	Director of Serbian European Integration Office (SEIO)

	DONOR COORDINATION	DATABASE & HOST	DONOR COORDINATION MECHANISM / STRUCTURES						INFORMATION & DISSEMINATION	FT of DoL	NIPAC
M E	Directorate General for Economic Diplomacy and Cultural Cooperation under the Ministry of Foreign Affairs and European integration (MFAEI)	-	The donor coordination system in Montenegro has been legally re-established by the Act on Systematisation adopted in June 2013.	-	-	-	-	Informal, run by individual Ministries	-	-	Ministry of Foreign Affairs & European Integration
T R	No formal donor coordination mechanism	-	Regular EU Delegation meetings to disseminate information to EU Member States	-	-	Seven informal EUD - Donor Sector Coordination Groups: <ul style="list-style-type: none"> <li>• Governance, democracy &amp; human rights</li> <li>• Migration</li> <li>• Economic governance</li> <li>• Regional development</li> <li>• Employment-social policies</li> <li>• Environment, energy, climate change</li> <li>• Transport</li> </ul>	Additional coordination activities by IFIs / IFI Coordination Office on EU, IFIs, bilateral donors' activities in: <ul style="list-style-type: none"> <li>• Energy</li> <li>• Environment</li> <li>• Transport</li> <li>• Private sector development</li> </ul>	-	-	-	Secretary General of EU Affairs



# Annex 9: SWOT analysis of donor coordination mechanisms

<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>➤ Formal donor coordination systems and mechanisms as well as aid coordination information platforms (databases) are in place in Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia. A government-donor coordination framework is also in place in The former Yugoslav Republic of Macedonia, together with a donor database, to support the 'Programme Based Approach'.</li> <li>➤ The databases provide a broad overview of foreign aid committed to each country. They incorporate a large volume of data, and are on the whole user friendly. However, there is much scope for methodological and functional improvements.</li> <li>➤ Stakeholders and the general public have easy access to a mass of detailed data through these aid management platforms. However, the way in which the data is provided do not allow these stakeholders to draw clear conclusions about much aid is being provided, what it is being spent on, or what it aims to achieve, and hence fails to make a contribution to transparency and accountability.</li> <li>➤ Donor coordination mechanisms and information platforms can in theory play a role in increasing a country's ownership of the accession process and a gradual alignment of donor interventions, although in practice this rarely happens.</li> <li>➤ In terms of alignment, donor coordination mechanisms can also in theory be instrumental in communicating national priorities and mediating needs for support with donors, and in conveying progress made in areas such as planning, financial management and procurement; however, they cannot substitute for lack of confidence in in-country systems and their insufficient use for the delivery and management of aid.</li> </ul>	<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>➤ Absence of donor coordination systems and mechanisms or aid coordination information platforms in Montenegro and Turkey.</li> <li>➤ Noticeable differences in the architecture of donor coordination systems and the design of databases make data derived from them not easily comparable.</li> <li>➤ Data often cannot be downloaded in simple, easily accessible formats.</li> <li>➤ Not all databases real-time information, several are less regularly updated.</li> <li>➤ Web based data sharing platforms fail to enable govts. and donors to track and share information on aid-funded activities, to deliver the degree of data accuracy and sector/geographical coherence and consistency needed to enable coordination of aid-funded activities.</li> <li>➤ They fail to effectively inform analysis and decision-making in relation to the programming of assistance.</li> <li>➤ Some databases are by design passive "inventories" of projects that only record, but do not track aid flows occurring in the country.</li> <li>➤ In BiH the primary responsibility for entering and updating project information in the DMD falls with the donor agencies themselves.</li> <li>➤ On its own, an aid management platform cannot make up for shortcomings in political engagement and leadership, and consensus within and initiatives of governments as prime driving forces in strengthening ownership (e.g. lack of national/sectoral development strategies, missing links between national priorities, sector strategies and budget).</li> <li>➤ Weaknesses reflect (a) limited resources allocated to both the infrastructure and design of the customised web-based applications, (b) low capacities (staff, budget) and insufficient support to host institutions for meeting the systems' operational needs and management requirements.</li> </ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>➤ Various forms of direct coordination with donors in some sectors by line ministries in MNE and TR; several experiences that can be built upon.</li> <li>➤ Active role of EU Delegations in MNE and TR in donor coordination: Donor contribution to IPA programming; inter-donor coordination groups and MoU with IFIs in TR, publicly available database of EU funded projects in MNE.</li> <li>➤ Stated interest by Government in MNE to take over leadership in contributing to efforts for achieving aid effectiveness and transparency and strengthening its partnership with donors.</li> <li>➤ Encouraging signs of Government officials in TR: Deputy DG of Undersecretariat of Treasury consent to 'Joint Initiatives'; Ministry for EU Affairs' coordination efforts for sector approach in IPA 2012-2013</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>➤ Phasing out of many donors' presence in MNE, with most of remaining operations run without local presence may make a formal donor coordination mechanism inoperable.</li> <li>➤ Not conducive legal framework in TR, regulating all types of foreign economic relationships under the sole responsibility and supervision of Minister of Finance / Undersecretary of Treasury.</li> <li>➤ If unsupported, both in terms of recognition of their actual significance as tools and in terms of resources allocated and capacity building, they may fall victim to 'business as usual' perception of a secondary, unimportant function – in particular under current conditions of resource shortages and institutional capacity already stretched thin.</li> <li>➤ Opportunity to coordinate regional donor database</li> </ul>

programming.

- With three of the countries where donor coordination mechanisms and aid coordination information platforms are in place – Albania, The former Yugoslav Republic of Macedonia and Serbia – currently on the FTI DoL list, these can also be of help in DoL implementation, through identification of overcrowded sectors and increasing support for “orphan” sectors, making use of donors’ comparative advantages and ensuring complementarity of their contributions.
- Improved data sharing can lead to better decision making by allowing donors to take the work of others into account when developing their assistance plans and recipients to hold donors accountable and plan their own development programmes with greater foresight (ownership and alignment).

and aid management platform through RCC also to support SEE 2020.



# Annex 10: Table of sectoral correspondences

IPA II Policy Area	IPA II Indicative sector	New IPA II sectors 2014	ToR sectors	Sectors used in this report	DAC code
<b>Reforms in preparation for Union membership and related institution- and capacity-building</b>	Public Administration Reform (PAR)	Democracy and governance	PAR & PFM	PAR	<b>15110</b> <b>15112</b> <b>15113 &amp; [33110-33210]</b>
	Public Finance Management (PFM)			PFM	<b>15111</b>
		Rule of law and fundamental rights	Security, migration Democracy, Human rights & rule of law	Security and migration	[15210-15250]
	Justice and Home Affairs (JHA)			JHA	<b>[15130-15153]</b>
	Human Rights and Minorities			Human rights and minorities	<b>15160</b> <b>15170</b>
<b>Socio-economic and regional development</b>	Transport	Transport	Transport	Transport	[21010-22040]
	Energy	Energy	Energy, environment, climate change	Energy	<b>[23010-13065]</b>
	Environment	Environment		Environment	<b>[14010-14081]</b> <b>&amp; [41010-41081]</b>
	Private sector development	Competitiveness and innovation	SME & Private sector development	Private sector development	[24010-25010] & [32110-32310]
	Competitiveness and innovation				
			Regional development	--	--
<b>Employment, social policies, education, promotion of gender equity, and human resource development</b>	Education and HRD	Education, Employment and Social Policies	Employment and social policies	Education	<b>[11110-11430]</b>
	Labour market and employment			Social policy	<b>[16010-16062]</b>
	Social policies				
<b>Agriculture and rural development</b>	Agriculture	Agriculture and Rural Development	Agriculture and rural development	Agriculture and rural development	[31110-31320] & 43040
	Rural development				
<b>Regional and territorial cooperation</b>	Regional cooperation in the above sectors	Territorial Cooperation and Regional Cooperation	--	--	--
	Territorial cooperation		--	--	--
--	--		--	Health	[12110-13040]
--	--		--	General budget support	51010

--	--		--	Multisector (e.g. Urban development)	43010 43030
				Other (e.g. refugees)	72010- 99820

Source: "Guidance on sector approach I IPA II" - Ref. Ares(2013)65573 - 18/01/2013; Regulation (EU) No 231/2014 of the European Parliament and of the Council on 11<sup>th</sup> March 2014 establishing an Instrument for Pre-accession assistance (IPA II); and communication from DG Enlargement for "new IPA II sectors 2014",

# Annex 11: Perspectives Tables

## 1.1.1 IFIs

Financier name	Ethical perspectives	Economic determinants of donor intervention	Geo-political perspectives
<b>EIB</b>	Implements EU objectives. Accountable to EU member states. Alignment with countries' strategies is only indirect via EU alignment, no individual Country development cooperation strategy. The EIB loans are sovereign dept secured through the national / sovereign guarantees. Conditionality linked to EU conditions. Adheres to Busan Declaration..	The EIB is "Europe's Development Bank". Its economic rationale is twofold: (a) to support the convergence of less developed regions and (b) to support large-scale cross-border infrastructure projects within the EU. More recently its mandate has extended to the Western Balkans. It aims to provide low-cost concessional infrastructure investment to support economic growth and convergence in the region as well as cross-border infrastructure in transport and other sectors. The EIB is the largest international financier in the Western Balkans and has been active in the region since 1977. Over the past 10 years, the Bank has financed projects totalling EUR 6.6bn. In 2013 the EIB signed financing contracts amounting to EUR 656m in the Western Balkans, stable compared to 2012 (EUR 671m). Total disbursements were EUR 719m, close to the record level reached in 2011 (EUR 859m). Within the overall envelope of the Joint IFI Action Plan, the EIB Group has made a commitment to provide financing of at least EUR 20 billion over the two-year period. This assistance is aimed at supporting full convergence of the new EU member states and candidate countries in the region to the standards of the European Union	Implementing EU policies. EIB commitment in the region is aimed at improving living conditions and economic standards of the population. EIB supports EU macro-economic strategy for the Danube region (including BiH, Montenegro, Serbia)
<b>World Bank</b>	Conditionality linked to strong IMF conditions. Increasingly uses countries' structures and PFM and transfer ownership, good alignment with countries' strategies through Country Partnership	The World Bank Group has set two goals for the world to achieve by 2030: (i) End extreme poverty by decreasing the percentage of people living on less than \$1.25 a day to no more than 3%. (ii)	The World Bank fully supports the EU integration of Western Balkans countries. The Western Balkans Financial Sector Outlook will continue to provide an analysis of key vulnerabilities in the financial

	<p>strategies. Providing finances to the public sector requires a sovereign guarantee. Transparency: Publisher in IATI, Member of DAC, send data to CRS</p>	<p>Promote shared prosperity by fostering the income growth of the bottom 40% for every country. Albania Country Partnership Strategy (CPS) for 2011–14 IBRD has increased the financing envelope initially set at around US\$300 million, to US\$575 million with an increased focus on supporting growth, competitiveness, and energy sector development. Serbia: The lending envelope for the on-going Country Partnership Strategy (CPS) for FY12–153 could reach US\$800 million, plus the allocation of an additional US\$200 million for budget support. Turkey: CPS FY12–15 envisages financing levels of up to US\$4.45 billion and the increased provision of analytical and advisory services. The World Bank Group’s financing commitment to the region is about EUR 6.0 billion (the Joint IFI Action Plan for Growth in SEE and Central Europe)</p>	<p>sectors in the region, and recommend actions to address them. It supports the Western Balkans Regional R&amp;D Strategy for Innovation and will provide Technical Assistance for the Action Plan.</p>
<b>EBRD</b>	<p>Political conditionality applied. Has specific objective to encourage the transition of its countries of operations to open market economies. In deciding on its investments the EBRD takes into account the economic transition impact of its loans as well as the political impact on democratic transition including the issues of political accountability, civil society and political participation, the rule of law including the control of corruption and civil and political rights. Providing finances to public utility companies requires a sovereign guarantee. High alignment with countries’ strategies through Country strategies. The EBRD started reporting to DAC on their GEF implementation.</p>	<p>The EBRD’s strategic priority is to support and sustain the continuing recovery in the region in the aftermath of the global financial crisis, fostering and strengthening local currency and capital markets, tackling energy security and energy efficiency as key challenges of the transition region. No data on individual country financial plans The EBRD has committed itself to provide financing to the region of EUR 4 billion over the next two-year period. (The Joint IFI Action Plan for Growth in SEE and Central Europe).</p>	<p>The Agreement Establishing the EBRD includes a significant political element in that it specifies that the Bank may conduct its operations in countries of central and eastern Europe, which not only are proceeding in their transition towards market-oriented economies, but also are applying principles of multiparty democracy and pluralism. Soon after the Bank became operational its Board of Directors approved procedures to implement the political aspects of the Bank’s mandate in ways that recognise the critical link between the political and economic aspects of the Agreement.</p>
<b>CEB</b>	<p>Conditionality includes political and democratic aspects. Contributes to the implementation of socially oriented investment projects in favour of social cohesion. Western Balkans countries and Turkey are among “target countries” for CEB with increased support because of a significant increase</p>	<p>Economic rationale is linked to significant increase in unemployment resulting in greater vulnerability, both economic and social, of the emerging countries of Central, Eastern and South-Eastern Europe that were already weakened by the drought in financing supply in the aftermath of the financial</p>	<p>Western Balkans countries and Turkey are among target countries for CEB with increased support in the period 2010-2014.</p>

	<p>in unemployment resulting in greater vulnerability, both economic and social. CEB loans are secured by national guarantees. The CEB performs an in-depth evaluation of the debt sustainability of the borrower and, where necessary, of the guarantor.</p>	<p>crisis. To alleviate the consequences of the crisis in the public social sectors and to facilitate further investments and reform programmes, the CEB will develop new, innovative, instruments that provide flexible financing to public agencies. These new types of Programme Loans, to be called Public Sector Financing Facilities (PSFF). CEB will continue to innovate on its current activities. The main lines of innovation that could be followed to increase the added value of CEB financing would be: cooperation with the private sector (public-private partnerships, equity participation, etc.), risk sharing mechanisms (especially in support of micro-credit) and improving the non-lending offer.</p>	
<b>IDB</b>	<p>Focus is on the economic and social development of the member countries. Specific conditions linked to Islamic financing rules. Adherence to high ethical standards. DAC Reporting on CRS purpose codes and long descriptions were provided for the first time in 2012.</p>	<p>The purpose of the Bank is to foster the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of Shari'ah i.e., Islamic Law. The Bank is also required to establish and operate special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries</p>	<p>IDB has three major strategic objectives' (i) Promotion of Islamic financial industry and institutions (ii) Poverty alleviation (iii) Promotion of cooperation among member countries. Albania and Turkey are member states, but the Bank supports Islamic communities in non-member states as well (such as in Bosnia and Herzegovina).</p>
<b>EFSE</b>	<p>PPP that operates through financial intermediaries in the region. Supports micro, small and medium enterprises' access to finance. Accountable to investors / shareholders only. No country specific strategies or alignment with countries' strategies. No conditionality officially introduced, but investors are mixed and some have conditions when approve aid. The EFSE has defined a broad range of eligibility criteria that a Partner Lending Institution must fulfil if it is to receive funding.</p>	<p>EFSE provides sustainable funding to entrepreneurs and private households in Southeast Europe, helping small businesses to grow and generate additional income, and to create as well as to sustain employment. In addition, it assists low-income families in the improvement of their housing conditions. The first stakeholder survey was conducted in the target regions throughout March and April 2012. One notable finding was that commercial banks as well as microfinance organisations in the SEE region perceive client over-indebtedness as a major risk. It identified two main drivers for growth: the capacity of IT/technology innovations to create new markets and distribution channels, and the ability of SMEs to generate employment and bolster consumer demand. More than a quarter of all financial</p>	<p>Implementing EU policy. The EFSE aims to foster economic development and prosperity in the Southeast Europe region, including the European Eastern Neighbourhood Region, through the sustainable provision of additional development finance. Central banks and financial sector authorities collaborated on the studies on over-indebtedness carried out in Bosnia and Herzegovina, and Kosovo.</p>

		institution respondents expected increased activity in rural lending, followed by energy efficiency/renewable energy funding, and SME financing. On the topic of local currency lending, EFSE explored ways to scale up so that more micro and small businesses that supply local markets can avoid the risk linked to foreign-denominated loans.	
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## 1.1.2 Bilateral Donors

Donor name	Ethical perspectives	Economic determinants of donor intervention	Geo-political perspectives
<b>Austria</b>	High level of alignment with national strategies. Aid is mainly untied, no conditionality applied. Aid is predictable through strategies and budget framework on multi-year basis. ADC follows the EU Code of Conduct for Complementarity and Division of Labour and concentrates in its priority countries of operation on no more than three sectors, focusing on themes where Austria has long-standing experience and extensive expertise. Focus on education and economic development. Transparency of aid flows: (i) Forward spending data to OECD/DAC, (ii) Forward spending data to partner countries as requested, (iii) Participation in partner countries' aid management systems/platforms, (iv) Website contains a list of all funding contracts concluded by ADA, (v) Annual business reports published on website. Mutual accountability arrangements account for 25-50% of Austria priority countries.	Austrian companies are major providers of FDI in the Western Balkans and Austrian banks have a strong presence in the region. Austria has strong traditional ties with the region, especially Bosnia and Herzegovina. Austrian aid therefore has a focus on rural development, employment, vocational education and training, and Higher Education as foundations for economic and social development of the region. In the period 2010-2012 Austrian FDI in SEE was \$1,565m, and in Turkey \$6,067m Austrian ODA has been decreasing for several years and fell to EUR 796 million in 2011, representing 0.27% of its GNI. The Danube/Western Balkans region is in a state of transition. Considerable success has already been achieved in the course of democratisation and economic sustainability, but much still remains to be done. The political climate is still not stable everywhere, unemployment, exclusion and poverty are prevalent in many places and there is a large potential for conflict.	The prime goal of Austrian foreign policy is to support the transformation of the Western Balkans into a zone of stability and involving the entire region in the process of European integration. Austrian Development Cooperation (ADC) forms part of Austrian foreign policy. Its strategic alignment thus falls under the purview of the Federal Ministry for Europe, Integration and Foreign Affairs (MFA). In dialogue with the partner countries and the Austrian Development Agency, the operational unit of the ADC, the Foreign Ministry frames programmes and sets out Austrian development-policy positions in the Three-Year Programme (current 2011-2013). Member of RCC
<b>Germany (Implemented by GIZ)</b>	Unconditional grants, untied aid. Loans are backed with sovereign guarantees. Strong political and economic interest in the region. Main focus on	As a major investor in the region, Germany has an interest in economic stability and growth of the regional market. Economic focus of German aid is	As a federal enterprise, GIZ supports the German Government in achieving its objectives in the field of international cooperation for sustainable

	<p>economic development. Increasingly uses national structures and develop partnership with stakeholders. No country strategies; but priority sectors are selected – high alignment with national strategies. Mutual accountability arrangements account for 25-50% of Germany's priority countries. Transparency policy. Follows Paris declaration – data in OECD DAC, IATI</p>	<p>on: sustainable economic development, structural reforms for employment growth, energy and water sector reforms, and agricultural and rural development. German FDI in SEE region in period 2010-2012 was \$519 m (all in Serbia), and FDI to Turkey was \$2,747 m. German ODA has steadily increased over several years and reached €10.452 million in 2011, representing 0.4% of its GNI. On behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), GIZ has provided assistance to the region of Western Balkans through bilateral projects for the last 20 years. Since 2007, BMZ has enhanced the effectiveness of this cooperation with the Open Regional Funds (ORF), implemented by GIZ.. Open Regional Funds for South-East Europe, a flexible instrument developed by BMZ, which focus on legal reform, foreign trade promotion, modernization of municipal services, energy efficiency and renewable energies. All projects must support the implementation of the relevant Stabilisation and Association Agreements with the EU or promote compliance with the <i>acquis communautaire</i>. Projects must include 2 or more countries. No funding plans data available on country-by-country data.</p>	<p>development. Focus on peace and stability, EU integration process, NATO accession. Since September 2010, the GIZ office in Sarajevo has also been the base for regional activities, including the Open Regional Funds developed by German Ministry of Economy (BMZ), implemented by GIZ. Growing geopolitical importance of Turkey. Member of RCC</p>
<p><b>Germany (implemented by KfW)</b></p>	<p>An agreement reached between the government of a partner country and the German Government during intergovernmental negotiations (held about every two years) serves as the basis for bilateral cooperation. The partner countries themselves propose projects and programmes within the framework of these agreements and are responsible for their preparation and implementation. Loans are backed with sovereign guarantees</p>	<p>Germany's leading development bank and an integral part of KfW Bankengruppe. KfW supports companies with global investments, export projects and imports. KfW activities in emerging market and transition countries begin long before German companies start to invest. As part of its financial development cooperation work, it supports the establishment of a favourable political and economic framework and the right infrastructure to go along with it. These activities allow KfW not only to combat poverty and protect the environment, but also to lay the foundation for investment, exports and German imports.</p>	<p>Helps the Federal Government to implement its goals in international cooperation with developing and emerging countries and gear its operations to their needs and those of their populations. KfW acts in the interests of Germany in several ways, because the programmes and projects of Financial Cooperation do not just help to solve specific problems and overcome poverty; they also give rise to diverse personal and economic relations and partnerships that go beyond the confines of development cooperation. KfW has offices in all Western Balkans countries and Turkey.</p>



<b>Greece</b>	Strong economic interest. Focus is on implementing large-scale infrastructure projects, strengthening private initiative and bolstering cooperation between the countries of the region. No conditionality applied. Aid is implemented directly by Greek government via Embassies.	Greece has a large interest in the economic development of the region as a market for Greek products and as a destination for Greek investment. Greek banks have a substantial presence in the region and during the economic crisis have retained profitability there. Moreover, Greek firms employ many migrant workers from Albania. Greece has drawn up the Hellenic Plan for the Economic Reconstruction of the Balkans - HiPERB for 2002-2006-2011, with overall budget of which is 550 million Euros, aims at implementing large-scale infrastructure projects, strengthening private initiative and boosting economic cooperation between the countries of our region. FDI flow from the region and Turkey was negative in period 2010-2012. Due to difficult economic situation, Greece's ODA has been decreasing for several years, and fell to EUR 238 million in 2011, representing 0.11% of its GNI. Greece provides subsidies to private investments in the framework of implementation of the HiPERB	Greece's regional policy for the Balkans revolves around the following axes: Regional development through optimum use of existing regional platforms as well as EU mechanisms. Greece contributes to regional growth via RCC, the Regional Cooperation Council and various bi- and tri-lateral cooperation platforms
<b>Italy</b>	Strong political and economic interest for the region. Italian development cooperation focuses on the sectors of infrastructure, energy, the environment, health, education, public administration, support for the private sector. No individual country cooperation strategy. Mostly tied and unconditional aid. Italy adheres to the "Creditor Reporting System ++" and IATI,	Italian companies invest heavily in the Western Balkans and Italy has traditional economic links with the Adriatic coastal area. Italian banks have a strong presence in the Western Balkans. Italy has an interest in maintaining economic stability and growth especially in Albania to stem the flow of migration. Italian flow of FDI in 2010-2012 was significant. In SEE countries it reached \$3,237m (mostly to Albania), and \$2,796 to Turkey. Italian Cooperation in Western Balkans is concentrated in the sectors of infrastructure, energy, the environment, health, education, public administration, support for the private sector (SMEs in particular). Italy's ODA level has fluctuated over the years due to significant debt relief operations, and has increased again in 2011 to € 3.050 million, representing 0.19% of its GNI. Italy used the following tools: Grants, Soft	The Western Balkans is a political and security priority for Italy. Geographic proximity, interdependence with regard to security and migration and common interest in redefining the map of cooperation, are all reasons underlying South Eastern Europe's crucial importance for Italy. Although the region's peace process has made substantial progress over recent years, a lasting commitment is necessary to ensure that the progress to date is irreversible. Italy's strategic goals include closer association between the Western Balkans and Euro-Atlantic structures. Gradual integration into NATO will certainly advance that region's reform and modernisation process, promoting the development of the democratisation process and the area's further stabilisation. Italy supports the region's approach to the European Union because this will allow

		Loans, Microfinance, Private public partnerships, Export Credit Insurance; Investment Financial Guarantees; Political Risk Insurance, Equity Investments; Venture Capital Fund Management; Support to export credit through Interest Make Up (IMU Programme)	realisation of strategic goals.
<b>Sweden</b>	Sweden has a strong ethical interest in social equality and promotion of gender mainstreaming. Sida considers that it has a comparative advantage in support for gender equality issues, which is a central concept in its interventions in the region. Mutual accountability arrangements account for 10-25% of Sweden's priority countries. Aid is mainly untied, no conditionality applied. Aid is predictable through strategies and budget framework on multi-year basis. High alignment since Country development cooperation strategies follow national development strategies. Aid is mainly untied, no conditionality applied.	Swedish companies do not have a great involvement in the region through investment or trade. Nevertheless, Sida fosters local and regional economic development, market development in targeted sectors, innovation and competitiveness. Swedish FDI flow to Western Balkans and Turkey in period 2010-2012 was not significant, 22 m\$ and 47 m\$. Sweden has constantly exceeded the international ODA target of 0.7% of GNI. In 2011, Swedish ODA increased slightly to EUR 4.032 million, representing 1.02% of its GNI. Swedish aid to Albania in 2009–2012 approximately SEK 90 million per annum. Aid to BiH 2011-2014 approximately SEK 170 million per year. Serbia approximately SEK 130 million per year in 2010–2012. Turkey: For the period 2010–2013, through Sida and the Consulate-General in Istanbul will amount to approximately SEK 73 million and SEK 14 million per year respectively.	The Swedish Government has adopted a new results strategy for Swedish development assistance to the countries of Eastern Europe and the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, Serbia and The former Yugoslav Republic of Macedonia) and to Turkey. The strategy will apply during 2014-2020 and will replace bilateral cooperation strategies. Harmonization with the EU is a priority for Swedish support. Member of RCC
<b>Non EU MS:</b>			
<b>China</b>	Tied aid, 53% of the loans for equipment and works supplies of Chinese origin. Through its banks and companies, the Chinese government facilitates the export and import of Chinese mechanical and electronic products, equipment and high-tech products. Strong focus on infrastructure and energy development in the region to support Chinese trade	China has an interest in expanding the market for its products in the region and in gaining access to the region's large natural mineral resources. China's foreign aid projects are oriented to agriculture, industry, economic infrastructure, public facilities, education, and medical and health care. Since 2004, China's financial resource for foreign aid has increased rapidly, averaging 29.4% from 2004 to 2009. By the end of 2009, China aid 161 countries and more than 30 international and regional organizations, including 123 developing countries that receive aid from China regularly (of	Beijing was a strong opponent of the 1999 NATO bombing campaign against Serbia, and against Kosovo's declaration of independence. Over the past decade, the People's Liberation Army (PLA) has also stepped up military cooperation throughout the region. The PLA deepened ties with Albania and Croatia in 2005, Serbia and Bosnia-Herzegovina in 2008, Montenegro and The former Yugoslav Republic of Macedonia in 2010, since the onset of the global economic crisis, China's increased bilateral ties with SEE countries have served as a means to advance its goal in the

		which 12 in Eastern Europe). China's FDI flow to Turkey (2010-2012) was 131 m\$, and only 4 m\$ in SEE countries.	EU. Although China's ties remain mainly limited to Serbia and Greece, a region-wide movement appealing for deeper economic and political cooperation could increase Chinese leverage in the Balkan Peninsula and create a relation of dependency with countries expected to join the EU within the next 10 to 15 years. Down the road, Beijing could manage to create a favourable environment within the EU, with possible consequences for European policy-making.
<b>Japan</b>	Japan has a large aid programme around the world and the Western Balkans is one of the regions to which the aid programme is delivered. Partially tied and unconditional aid. Japan aims to realize balanced, sustainable growth of the world economy through development cooperation as "investment in the future" to secure the development and prosperity of the world as a whole including Japan. Transparency: Member of OECD DAC, annually reports to CRS (Creditor Reporting System) and FSS, aid predictability (forward-looking information).	JICA focuses on three sectors where Japan has comparative advantages namely; (1) Environmental protection, (2) Peace consolidation and (3) Private sector development. In so doing, consideration is given to the close relationship between Eastern European countries and the EU, as well as to the prospect that these countries would graduate from ODA when they eventually join the EU. Japan contributed approximately US\$6,876.7 million (approximately ¥548.9 billion) in bilateral ODA in 2012.	Japan has an impressive history as a leading international donor. The philosophy behind Japanese development co-operation is grounded in the country's own development experience. Japan's ODA Charter and Medium Term Policy clearly set out the priorities and principles for Japanese development co-operation. These include supporting partner countries' "self-help" efforts; the importance of economic growth and market-orientated economies; avoiding the use of development co-operation for military purposes; and avoiding interfering in partners' political affairs. JICA has regional office for Balkans in Serbia. JICA has provided assistance to foster coexistence and thus encouraging these countries to achieve EU membership. JICA recognizes Turkey as a mutual global partner and strengthens that partnership by extending ODA Loans and Technical Cooperation. JICA also carries out triangular cooperation projects with the Turkish Cooperation and Coordination Agency (TIKA) to disseminate Japanese expertise to Turkey and its neighbouring countries.
<b>Norway</b>	Norway has a large aid programme around the world and the Western Balkans is one of the regions to which the aid programme is delivered.	In 2012, Norway's net ODA amounted to USD 4.75 billion, placing it as the tenth largest DAC donor. After two years of declining net ODA, Norway's ODA saw a 0.4% growth in real terms between 2011 and 2012. Kosovo: Norway's aid to Kosovo is extensive. The annual aid is around 90	Norway focuses on global issues that are important for the country and for the international role it plays, such as peace building, climate change and global health. Slow pace of the reform processes is making it necessary to keep a long-term perspective for the Norwegian assistance.

		<p>million NOK. Strengthening the rule of law, developing the economic sector and capacity building in central institutions are the main priority areas. Norway has been giving aid to Bosnia-Herzegovina since 1991, in total more than three billion NOK. Since year 2000 assistance has been given for democratisation and work for fulfilling conditions for seeking membership in NATO and the EU. Priority areas: Good governance, Strengthening the rule of law, Defence and security sector reform, Economic development, Support to the civil society organizations. Since 2011 the Norwegian embassy in Sarajevo has been receiving funding to support the civil society in Bosnia and Herzegovina, 8 million NOK in 2012 and 8 million NOK in 2013. Norway and Serbia have close political and economic relations. Aid to Serbia in 2012 amounted to 89 million NOK. For 2013, 70 million NOK have been set aside for Serbia.</p>	<p>Nevertheless, assistance to the West Balkans is to be gradually reduced in the coming years. In total the countries in the West Balkans have received over ten billion NOK in assistance from 1991 to 2008. Despite some criticism the general conclusion is that assistance to the West Balkans has been successful. According to an evaluation report by Norad the assistance has been relevant, largely due to good political work. Norway is of the opinion that it is necessary to maintain extensive assistance to Kosovo but a minor reduction from the level of assistance in the recent years may be appropriate. Kosovo points out, however, that it is difficult to see highly specific results of the support for peace and reconciliation measures. Norway gives assistance to Serbia since Serbia is a key country for stability in the region. Norway's positive reputation and good political relations with the country make it possible to make a difference. This is the main reason for Norway's continued work in the country.</p>
<p><b>Russia</b></p>	<p>Tied aid. Loans for infrastructure tied 100% to supplies of equipment and spare parts. 20% of loans are for budget support. Sovereign loan guarantee covers loans. The Russian Federation began reporting its ODA to the OECD for the first time in 2011 (on 2010 flows), becoming the first "BRICS" (Brazil, Russia, India, China, and South Africa) country to do so. Not IATI publisher</p>	<p>Russia's focus in the region is on energy sector infrastructure development. It has a strong interest in promoting the stability of the Western Balkans as a route for the South Stream gas pipeline, which is a major investment in the region passing through Serbia (from Bulgaria and on to Hungary, Austria and Italy). FDI flows to SEE in period 2010-2012 was 1,456 m\$ (mostly to Serbia), and to Turkey was 6,933. In 2010, the Russian Federation's total net ODA disbursements were USD 472.4 million, down from USD 785 million in 2009, as reported by the Russian Ministry of Finance. Two-thirds of the Russian Federation's ODA is delivered bilaterally, with the remainder as core contributions to various UN agencies, the Global Fund and the World Bank.</p>	<p>Russia has more often been the West's adversary than ally in the Western Balkans in the course of the last two decades since the disintegration of Yugoslavia started. In particular, the Kosovo crises and NATO's war against Serbia in the year 1999 caused deep rifts in Russia's relationship with the West. Russia is striving to limit US influence in the Western Balkans and to increase its own leverage. Russia's two main means to achieve this goal is to continue supporting Serbia's struggle to preserve its legal claim over Kosovo and to build the large gas pipeline "South Stream" which will further increase Russia's importance for Europe's energy security. Regular Russia-EU expert-level consultations on the Western Balkans (COWEB) and on the EU enlargement (COELA) take place within the framework of the Russia – EU Political Dialogue.</p>

<p><b>Switzerland</b></p>	<p>Increasingly uses countries' structures for project implementation. High alignment since Country development cooperation strategies follow national development strategies. SDC is accountable to Swiss government. Aid is mainly untied, no conditionality applied. Aid is predictable through strategies and budget framework on multi-year basis. Reports to DAC, member of IATI, high aid predictability</p>	<p>A driver of assistance from Switzerland is a concern to create jobs locally to provide an alternative to migration to Switzerland. SDC is therefore focused on local economic development. Swiss firms are involved in many projects. In SEE - facilitates the access of Swiss companies to these markets and improves their chances of success in international tenders. Switzerland has export surpluses with these countries running into one billion Swiss francs. No FDI flow to SEE region recorded from 2010-2012. FDI to Turkey was 260 m\$. In 2012, Switzerland's net ODA amounted to USD 3.02 billion, a 4.5% increase in real terms compared to 2011. Switzerland is one of the few DAC members that have not recorded a contraction of ODA in both 2011 and 2012. These increases reflect Switzerland's efforts to scale up its development co-operation in order to reach the target of 0.5% of GNI by 2015. Financial support in 2013 in mil CHF: Albania 18,44, BiH 16,44, Serbia 16,26, Kosovo 64,82, The former Yugoslav Republic of Macedonia 12,08</p>	<p>Switzerland's foreign policy has an interest in political and economic stability and prosperity in the region of the Western Balkans. The Swiss Migration Partnership Strategy for the Western Balkans 2012-2015 aims to pursue Swiss interests in the partner states, while taking into consideration the interests of the partner states. Member of RCC</p>
<p><b>Turkey</b></p>	<p>High alignment with national strategies, since TIKKA functions on the basis of the concept of cooperation – focus is on the political priorities of partner countries, paving the way for sharing information and experiences. TIKKA is accountable to Turkish government. Grants are unconditional and mostly untied. Reports to DAC, Doesn't publish data on IATI</p>	<p>Turkey has an economic interest in promoting economic stability and growth in the Western Balkans as a market for Turkish products. Turkey's development assistance has increased continuously since 2002 before peaking in 2012. In 2012 Turkey's development assistance increased by 98.7% in one year. In this framework, Turkey is now defined as an "emerging donor". Albania, BiH, Kosovo, Serbia, The former Yugoslav Republic of Macedonia sector focus: Education, Health, Government and civil society, economic infrastructure and services, agriculture, Industry, tourism, water. FDI flows from Turkey to Western Balkans amounted 208 m\$ mostly to BiH.</p>	<p>The Balkans is a priority for Turkey not only from the political, economical and geographical perspectives, but also due to its historical, cultural and human ties with the region. The Balkans, being the geographical connection of Turkey with the rest of Europe, bears great importance. Turkey is a founding member of the Southeast European Cooperation Process (SEECP), and contributes substantially to the RCC budget. Trilateral consultation mechanisms are based on Turkish initiatives between Turkey-BiH-Serbia and Turkey-BiH-Croatia. Because of its balanced diplomatic ties with the United States, Europe, the Middle East, the Caucasus and the Central Asia, Turkey exerts a strong influence over the surrounding regions.</p>

<p><b>USA</b></p>	<p>Promoting tolerance and reconciliation in the western Balkans by helping countries reach their goal of Euro-Atlantic integration. Increasingly uses countries' structures for project implementation. High alignment since Country development cooperation strategies follow national development strategies. Aid is mostly tied, no conditionality applied. Implements USA's foreign policy and promotes US political and economic values</p>	<p>Europe and Eurasia is region of increasing economic importance to the USA. American investments help support American trade and investment. US companies have an economic interest in investment in Kosovo's energy resources. A former US Ambassador was also instrumental in the award of a major road building project from Pristina to Albania, and subsequently gained employment with the company. USAID aims to achieve increased investment and private sector employment, enhanced human capital, increased job-creating private sector growth in targeted sectors, local and regional economic development (decentralisation). No significant flow of FDI to Western Balkans in period 2010-2012.</p>	<p>The USA has a strong interest in the Western Balkans and Turkey mainly for geo-political reasons. The USA is a strong supporter of Kosovo especially and has a major military base there – Camp Bondsteel. This is a significant military foothold for the USA in the Europe region. The USA has supported the (failed) Nabucco oil pipeline as a competitor to Russia's South Stream pipeline. USA policy makers in Washington have been very concerned with competition for energy supply and transit in the region from a geopolitical perspective.</p>
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Sources: Donors' websites

EU MS Donor profiles [http://ec.europa.eu/europeaid/what/development-policies/financing\\_for\\_development/accountability\\_report\\_2013\\_en.htm#table](http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/accountability_report_2013_en.htm#table)

Non-EU MS Donor profiles : <http://www.oecd.org/dac/switzerland.htm>

<http://www.oecd.org/dac/peer-reviews/peerreviewsofdacmembers.htm>

<http://www.oecd.org/dac/aid-architecture/aidpredictability.htm> <http://www.oecd.org/dac/effectiveness/2011surveyonmonitoringtheparisdeclaration.htm>

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<http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>

# Annex 12: Evaluation Tables

## 1 INTERNATIONAL AND EUROPEAN FINANCIAL INSTITUTIONS

Donor name	Aid Transparency	Donor strategies	Supported National Strategies/Reform	Coordination mechanism and relations between donors, beneficiaries and implementing agencies
<b>EIB</b>	Yes, adheres to Busan Declaration.	EIB supports projects that make a significant contribution to growth and employment in Europe. Focus on four priority areas: Innovation and skills, Access to finance for smaller businesses, Climate Action, Strategic Infrastructure.	n/a	Member of WBIF, IFI coordination – Joint IFI Action plan for SEE
<b>World Bank</b>	Publisher in IATI, Member of DAC, send data to CRS	Albania Country partnership strategy (2011-2014), BiH Country partnership strategy 2012-2015; Kosovo Country partnership strategy 2012-2015; Montenegro Country partnership strategy 2011-2014; Serbia Country partnership strategy 2012-2015; The former Yugoslav Republic of Macedonia Country partnership strategy 2011-2014; Turkey Country partnership strategy 2012-2015.	Country Partnership Strategy (CPS) supports the Government's National Strategy / Reforms	WB is a member of the Western Balkan Investment Framework and in this respect coordinates with other IFIs who belong to WBIF. WB has its own resident representatives in the countries of the study. Member of Joint IFI Action Plan for SEE. Key Development Partners in BiH: SIDA, EC, and USAID. Together, Turkey and the World Bank are exploring avenues to collaborate on sharing Turkey's experiences abroad. Active in donor coordination (example: member of donor coordination forums in Albania and BiH)
<b>EBRD</b>	The EBRD started reporting to DAC	Strategy for Albania 2012; Strategy for Bosnia and Herzegovina 2014; Strategy for	The EBRD does not refer to the country National Strategies in its own strategic	EBRD is a member of the Western Balkan Investment Framework and in this respect



	on their GEF implementation.	Kosovo 2013; Strategy for Montenegro; Draft Strategy for Serbia 2014; Strategy for The Former Yugoslav Republic of Macedonia 2013; Strategy for Turkey 2012	documents. Its main priorities are for support of the private sector and for transition impact of its interventions. Its policy dialogues tend to be with regulatory bodies and private sector associations.	coordinates with other IFIs who belong to WBIF. EBRD has its own resident representatives in the countries of the study. The Bank closely cooperates with other donors (participate in donor coordination forums in BiH and Albania).  The Bank will coordinate, and if possible implement joint operations, with the European Investment Bank and the World Bank under the Joint IFI Action Plan for Growth in SEE.
<b>CEB</b>	No	No country-by-country strategies. Western Balkans countries and Turkey are among "target countries" for CEB with increased support in period 2010-2014. Strategic framework in a formal "CEB Development Plan" 2010-2014	The CEB does not refer to the country National Strategies in its own strategic documents. Its main priorities are: strengthening social integration, managing the environment means, Supporting the development of public infrastructure, Supporting Micro, Small and Medium Sized Enterprises.	The CEB will continue its support to EU accession countries and Neighbourhood Policies, country by country. Cooperation with specific EU instruments such as the WBIF will be continued and the creation of specific social instruments such as the Regional Housing Programme could be considered, depending on needs and available resources.
<b>IDB</b>	DAC Reporting on CRS purpose codes and long descriptions were provided for the first time in 2012.	Turkey Member country partnership strategy 2010-2013	General strategic objectives: Promotion of Islamic financial industry and institutions, Poverty alleviation, Promotion of cooperation among member countries.	Arab Coordination Group Institutions (ACGI) – Arab national and regional development institutions, IDB and OPEC OFID and OECD DAC have agreed to meet on a regular basis to discuss development issues, identify ways to better co-ordinate activities, learn from each other's experiences and become more effective in supporting developing countries' efforts coordination with beneficiaries. Participates in donor coordination in Albania.
<b>EFSE</b>	No	EFSE provides sustainable funding to entrepreneurs and private households in Southeast Europe, including the European Eastern Neighbourhood Region		Building and maintaining strong partnerships with central banks and financial sector authorities; Central bank representatives are also members of the EFSE Advisory Group which serves as a counselling platform to the Board of Directors Member of WBIF, Member of Joint IFI Action plan for SEE.

## 2 BILATERAL DONORS

Donor name	Aid Transparency	Donor strategies	Supported National Strategies / Reform	Coordination mechanism and relations between donors, beneficiaries and implementing agencies
<b>Austria</b>	Member of IATI	Albania Country strategy 2011-2013; BiH Country strategy 2011-2013; Kosovo Country Strategy 2013-2020;	Yes	Increasing use of programme-based approaches. In most cases funding agreements are concluded with partner country institutions and organisations. In addition, programmes and projects can also be implemented by project executing agencies. ADA participates in pooled funding with other bilateral or multilateral donors. Coordination with donors and close discussions with beneficiaries: member of donor coordination forum in Albania, BiH and Kosovo. Member of RCC. Joint projects with other donors.
<b>China</b>	China endorsed Paris Declaration and Accra Action plan. Not an IATI publisher	Investment projects in energy, industry, trade	N/a	The China-DAC Study Group was formed in 2009 to share knowledge and exchange experiences on promoting growth and reducing poverty in developing countries. Reporting to OECD DAC as non-member country.
<b>EU</b>	Member of IATI	Enlargement Strategy 2013	Yes	Formal and informal coordination with other donors (member of donor coordination forums in Albania and BiH). Coordination with beneficiaries in all phases of PCM.
<b>Germany (GIZ &amp; KfW)</b>	Follows Paris declaration – data in OECD DAC, IATI	No counties' strategies; sectors prioritized: economic development, infrastructure, public administration, agriculture, environment	Yes	Multilateral partners include the European Union, the World Bank, the OECD, regional development banks and United Nations specialist organizations. Coordination with donors and cooperation with beneficiaries. Participates actively in donor coordination Forums and sectoral Working groups.
<b>Italy</b>	Member of IATI	Italian Cooperation in Western Balkans is concentrated in the sectors of infrastructure, energy, the environment, health, education, public administration, support for the private sector (SMEs in particular)	Yes	Coordination with donors and beneficiaries: member of donor coordination forum in Albania and BiH. Member of RCC.

<b>Japan</b>	Member of OECD DAC, annually reports to CRS (Creditor Reporting System) and FSS, aid predictability (forward-looking information).	Country priority sectors defined on country-by-country basis. Main sectors in focus: environment, economic development, infrastructure, health	Yes	Coordination with donors and beneficiaries: member of donor coordination forum in Albania and BiH. Member of RCC
<b>Russia</b>	The Russian Federation began reporting its ODA to the OECD for the first time in 2011 (on 2010 flows), becoming the first "BRICS" (Brazil, Russia, India, China, and South Africa) country to do so. Not IATI publisher	Investment projects in energy sector	N/a	Adhering to Paris Declaration. Reporting to OECD DAC as non-member country
<b>Spain</b>	Member of IATI	No country strategies. The priorities of Spanish development cooperation are: Basic social needs (health, sanitation, education, food security, human resources development) , Education, research and cultural identity , Infrastructure and the producing sector (including private sector development); environmental issues, Social participation, development of institutional structures, good governance , Conflict prevention and the promotion of peace.	Yes	Coordination with donors and beneficiaries: member of donor coordination forum in Albania and BiH. Member of RCC
<b>Sweden</b>	Web-based information service Open Aid. Member of IATI	Results strategy for Sweden's reform cooperation with Eastern Europe, the Western Balkans and Turkey 2014 – 2020. (Replacing former bilateral strategies; Albania development cooperation strategy 2009-2012; BiH development cooperation strategy 2011-2014; Kosovo development cooperation strategy 2009-2012 Serbia development cooperation strategy 2009-2012; Turkey development cooperation	Yes	Harmonization with the EU is a priority in Swedish support. Many joint projects with other donors (USAID, SDC, UNDP). Member of donor coordination Forums and sectoral Working groups. Member of RCC.

		strategy 2010-2013.)		
<b>Switzerland</b>	Reports to DAC, member of IATI, high aid predictability	Cooperation Strategies: Albania 2014-2017; BiH 2013-2016; Kosovo 2013-2016; Serbia 2014-2017; The former Yugoslav Republic of Macedonia 2013-2016	Yes	Coordination with donors and beneficiaries: member of donor coordination forum in Albania and BiH
<b>Turkey</b>	Reports to DAC, Doesn't publish data on IATI	The projects focus on sectors: education, restoration, water and sanitation projects, e- government projects, projects in the field of institutionalization, agricultural development, combating poverty and increasing the employment of women	Yes	Turkey is a founding member of the Southeast European Cooperation Process (SEECF), and contributes substantially to RCC budget and plays an effective role in the joint regional projects. Trilateral consultation mechanisms founded upon Turkish initiative between Turkey-BiH-Serbia and Turkey-BiH-Croatia.
<b>USA</b>	Transparency: Financial data, consisting of over 50,000 records, is available on the Foreign Assistance Dashboard (FAD), which is managed by the Department of State and is the repository for all U.S. Government data on foreign aid. Member of IATI	Albania Country Development Cooperation strategy 2011-2015; BiH Country Development Cooperation strategy 2012-2016; Kosovo Country Development Cooperation strategy 2014-2018; Serbia Country Development Cooperation strategy 2013-2017; The former Yugoslav Republic of Macedonia Strategic Plan 2011-2015	Yes	Coordination with donors and beneficiaries: member of donor coordination forum in Albania and BiH. Joint projects with SIDA. Member of RCC

### 3 MULTILATERAL ORGANISATIONS

Donor name	Aid Transparency (IATI)	Donor strategies	Supported National Strategies/Reform	Coordination mechanism and relations between donors, beneficiaries and implementing agencies
<b>UNDP</b>	Yes	BiH United Nations Development Assistance Framework (UNDAF) for 2010-2014; Albania Program of Cooperation 2012-2016; Kosovo Common Development Plan 2011-2015; Serbia Country Partnership Strategy 2011-2015; Montenegro UN Program 2010-2016	Yes	Cooperates with OECD DAC - DAC-supported Working Party on Aid Effectiveness laid the foundations for a new inclusive partnership supported by the OECD and the UNDP. Participates in donor coordination forums. Mobilizes multilateral funds for its operations. Act as donor and implementing agency for other donors.
<b>OSCE</b>	No	Sectors: Community engagement, Education, Parliamentary support, Human rights, Rule of Law, Governance, Security cooperation	Yes	Key partner organizations, such as the United Nations, European Union, Council of Europe and NATO, regular patterns of co-operation and co-ordination have been developed, both at the level of headquarters and in the field.

## Annex 13: SEE 2020 Dimension Coordinators

Abbreviated name	Full name	Date of establishment	Legal status	Organisational form	Address	Contact person	Telephone	Email	Web addresses
ERI SEE	Education Reform Initiative of South Eastern Europe	2004	International organization	Secretariat	Svetozara Markovica 22, Belgrade, Serbia	Jasminka Cekic Markovic, CEP Direktor	+381 11 32301 05	<a href="mailto:cep@cep.edu.rs">cep@cep.edu.rs</a>	<a href="http://www.eri-see.org">www.eri-see.org</a>
eSEE	Electronic South Eastern Europe Initiative	2002	n/a	Inter-governmental organisation hosted by UNDP	UN House, Zmaja od Bosne bb, 71000 Sarajevo, Bosnia and Herzegovina	Nera Monir Divan, Head of eSEE Secretariat	+3876 23404 81 (cell)	<a href="mailto:nera.monir-divan@undp.org">nera.monir-divan@undp.org</a>	<a href="http://www.eeinitiative.org">www.eeinitiative.org</a>
NALAS	Network of Associations of Local Authorities of South East Europe	2005	Under law on associations of the French départements of Bas-Rhin, Haut-Rhin and Moselle,	Non-governmental organisation	Partizanski Odredi 42/7 1000, Skopje, Macedonia	Kelmend Zajazi	+389 2 30908 18	<a href="mailto:zajazi@nalas.eu">zajazi@nalas.eu</a>	<a href="http://www.nalas.eu">www.nalas.eu</a>
RAI	Regional Anti-corruption Initiative (Secretariat)	2000	Regional organisation with diplomatic status	Inter-governmental organisation	Tesanjaska 24a, 71000 Sarajevo, Bosnia and Herzegovina	Mr. Radu Cotici, Head of RAI Secretariat	+387 33 839 203	<a href="mailto:rcotici@rai-see.org">rcotici@rai-see.org</a>	<a href="http://www.rai-see.org">www.rai-see.org</a>
RCC TFCS	RCC Task Force on Culture and Society	2010	International Organisation	Group	Ministry of Culture of Montenegro, Njegoseva bb, 8250 Cetinje, Montenegro	Ivana Nakikj, Head of RCC TFCS Secretariat	+382 41 23 21 68	<a href="mailto:office@tfcs.rcc.int">office@tfcs.rcc.int</a>	<a href="http://tfcs.rcc.int/en/">http://tfcs.rcc.int/en/</a>
REC	Regional Environmental Centre for Central and Eastern Europe	1990	International Organisation	International Organisation	AdyEndre ut 9-11, 2000 Szentendre, Hungary		+36 26 504 000	<a href="mailto:edoffice@rec.org">edoffice@rec.org</a>	<a href="http://www.rec.org">www.rec.org</a>
ReSPA	Regional School of Public Administration	2010	International Organisation	Branelovica bb, Danilovgrad (Montenegro)		Goran Pastrovic	06717 9317	<a href="mailto:g.pastrovic@respaweb.eu">g.pastrovic@respaweb.eu</a>	<a href="http://www.respaweb.eu">www.respaweb.eu</a>
SEECCEL	South East European Centre for Entrepreneurial Learning	2009	Non-profit Institution	Matrix	Selska 217/IV, Zagreb, Croatia	Ms Efka Heder, Director	38513 04026 0	<a href="mailto:seecel@seecel.hr">seecel@seecel.hr</a>	<a href="http://www.seecel.eu">www.seecel.eu</a>

SEEHN	South East European Health Network	2012	Inter-governmental	International organisation	50 <sup>th</sup> Divison 6 Skopje Macedonia	Mrs Sanja Sazdovska	+389 75 26882 9	<a href="mailto:sanja.sazdovska@zdravstvo.gov.mk">sanja.sazdovska@zdravstvo.gov.mk</a>	<a href="http://www.moh.gov.mk">www.moh.gov.mk</a>
SEETO	South East Europe Transport Organisation		Ministerial Agreement	Inter-governmental organisation	Omladinskih brigada 1, 5th floor, P.O. Box 14, 11198 Belgrade, Serbia	Mate Gjorgjievski	+ 381 11 31317 99	<a href="mailto:office@seeto.int.org">office@seeto.int.org</a>	<a href="http://www.seeto.int.org">www.seeto.int.org</a>
Social Agenda	Western Balkans Social Agenda 2020 Working Group	2011	None	Network	RCC, Trg. BiH 1/V, Sarajevo, BiH	Nand Shani	38762 34560 2	<a href="mailto:nand.shani@rcc.int">nand.shani@rcc.int</a>	<a href="http://www.rc.c.int">www.rc.c.int</a>
WISE	Western Balkans Research and Innovation Strategy Exercise Facility	2014	MoU	Supervisory Board	Ministry of Science, Education and Sports, Donje Svetice 38, 10000 Zagreb, Croatia	Kristina Ferara Blašković	38514 59454 2	<a href="mailto:kristina.ferarablaskovic@mzos.hr">kristina.ferarablaskovic@mzos.hr</a>	



## Annex 9.14 List of Persons Met

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35	Christof Stock	Kosovo	EU Office in Kosovo	Head of Operations	xxx	xxx
36	Dardan Sadriu	Kosovo	EU Office in Kosovo	Task Manager	xxx	xxx
37	Philip Mellish	Kosovo	EU Office in Kosovo	Donor Coordination and Visibility	xxx	xxx
38	Henriette Sophie Koetter	Kosovo	German Embassy	Development Cooperation and Donor Coordination	xxx	xxx
39	Veronika Hofinger	Kosovo	GIZ	Head of Project, Economic Development Promotion Project	xxx	xxx
40	Wolff-Michael Mors	Kosovo	GIZ	GIZ project "Support for the European Integration process"	xxx	xxx
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