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

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LIST OF ACRONYMS

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

PFM	Public Financial Management
RAI	Regional Anti-corruption Initiative
RCC	Regional Cooperation Council
REC	Regional Environmental Centre for Central and Eastern Europe
ReSPA	Regional School of Public Administration
SDC	Swiss Development Cooperation
SEECEL	South East European Centre for Entrepreneurial Learning
SEECP	South East Europe Cooperation Process
SEEHN	South East European Health Network
SEETO	South East Europe Transport Organisation
SEIO	Serbia European Integration Office
SIDA	Swedish International Development Assistance
TA	Technical Assistance
TFCS	Task Force on Culture and Society
UNDP	United National Development Programme
UNICEF	United National Children's Emergency Fund
UNHCR	United Nations High Commissioner of Refugees
USAID	United States Aid
WBIF	Western Balkans Investment Framework
WISE	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 Enlargement countries have fallen, along with inflows of private finance. The main reason has been reduced inflows of non-concessional 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[1], while they are relatively low and declining in The former Yugoslav Republic of Macedonia.

Inflows of Official Development Assistance (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 or this may be the relative isolation of these countries from strong political supporters overseas.

In contrast, inflows of non-concessional financial (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 (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 European Consensus, and contribute to the ‘sector approach’ to be introduced in planning the 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 to set up a regional donor.

[1] 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 than two sectors, suggesting that there may be many opportunities for specialisation of donor effort, which would increase the effectiveness of international assistance.

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 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, 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. Therefore the extension of an effective regulatory arrangement such as the Community Energy Treaty that would encompass also non-EU suppliers 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 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. The risk is currently low, as the scale of the interventions by new donors in limited. However, efforts should be made to involve the new donors in the existing donor coordination mechanisms and also to adopt a 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 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 involving discussion on improving 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 results.

EXECUTIVE SUMMARY

Over the last twenty years, the countries of the Western Balkans have benefited from large inflows of international assistance in the form of both bilateral and multilateral donor funds. Yet, 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 reducing 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 has continued in the early part of 2014 and is 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 a recipient of EU assistance, while also being a donor to the region in its own right. This fall in private finance to the Western Balkans poses problems for future economic growth and social development and further challenges for 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[2] 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

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[2] For the purposes of this report, the Western Balkans includes Albania, Bosnia and Herzegovina, Kosovo*, The former Yugoslav Republic of Macedonia, Montenegro, and Serbia.

Turkey in the three-year period from 2010-2012 compiled within the OECD/DAC database on 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 insulted from these developments, as were Kosovo 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 official finance, 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 countries. ODA flows per capita are 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 "other official finance" (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 Private Sector Development, 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 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) will be 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 strategy for achieving harmonisation, by 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 European Consensus, 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 harmonization 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 nevertheless 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 social 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 under the auspices of the RCC in Sarajevo. This latter change would enable a concentration of resources that would enable 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 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[3]. 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.

[3] 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 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[4]. 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 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,

[4] See "EU Enlargement Strategy 2013-2014", Brussels, 16.10.2013, COM(2013) 700 final

fewer instances of duplication, an improved articulation of sector interventions and modalities of intervention[5], 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 works and supplies are not always appropriately counterbalanced with objective prioritisation and selection, which need improvements in the near future.

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[5] 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.

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. While 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[6] 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

[6] For the purposes of this report, the Western Balkans includes Albania, Bosnia and Herzegovina, Kosovo**, The former Yugoslav Republic of Macedonia, Montenegro, and Serbia.

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 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 to these 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 to reducing poverty and improving living conditions in the beneficiary countries, strengthening global public goods, to more self-interested calculations of donor country commercial interests and national strategic interests. Historical ties between the 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 in 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 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 (TA) 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. Not all analysts agree with the benefits of donor coordination, however. Several observers point to the problem of transactions costs which it is argued are higher in the case of donor proliferation and could be reduced through donor specialization (Kilby, 2011; Ashford and Biswas, 2010; Acharya et al., 2006).

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 tends and estimated that these transaction costs could be reduced by US$2.5 billion per year through greater recipient country specialisation. Kilby (2011) shows that donor fragmentation is associated with smaller aid projects, leading to more administrative work 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 the competition between donors for skilled personnel, the poaching of skilled personnel from government agencies and ministries, 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 pubic 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'Ariccia (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 does not make due allowance for the on-going maintenance costs of infrastructure projects (Arimoto and Komo, 2009).

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).

In further analysing the political economy of donor intervention and aid effectiveness and the potential for stronger synergies three theoretical approaches are 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 replicate each other may do better for their beneficiaries by competing to provide assistance programmes. For further analysis see Section 4.5 below.

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 and other official finance 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 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.

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 %
EU Institutions	2,589.2	..	7.2%	35%
United States	181.8	13.4%	9.6%	100%
Germany	180.0	26.6%	78.0%	98%
Japan	171.7	39.3%	9.4%	16%
France	93.2	46.2%	25.6%	36%
Switzerland	88.9	52.7%	42.0%	100%
Sweden	75.7	58.3%	47.9%	100%
Austria	74.6	63.8%	88.5%	100%
Turkey	56.5	67.9%	50.7%	100%
Norway	51.6	71.7%	14.5%	99%
OSCE	51.5	75.5%	0.0%	100%
World Bank	49.0	79.1%	5.2%	12%
Greece	46.4	82.5%	78.1%	100%
Italy	39.3	85.4%	4.1%	38%
Spain	29.5	87.6%	12.8%	16%
United Kingdom	25.2	89.5%	53.2%	98%
Korea	15.8	90.6%	2.9%	5%
UNHCR	15.1	91.7%	0.0%	100%

Netherlands	15.0	92.8%	15.9%	100%
Global Fund (GFATM)	14.8	93.9%	0.0%	100%
Luxembourg	12.9	94.9%	3.4%	100%
United Arab Emirates	12.7	95.8%	0.0%	11%
Finland	10.0	96.5%	59.7%	100%
TOTAL of above	*3,900.3*			
TOTAL of all bilateral donors	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 the EIB 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 €49.9m 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 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 the 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 Find 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). However, 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 centres 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). 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[7]. m

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

	Total Loan	Total Grant	Sum Loans	Grant	Leverage	No. of WBIF

[7] 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.

	Amount	Amount	and Grants	element	ratio	Projects
CEB	1,084.7	76.1	1,161	6.6%	14.3	44
EBRD	4,469.8	234.7	4,705	5.0%	19.0	110
EIB	5,898.7	119.5	6,018	2.0%	49.3	114
KfW	1,029.3	155.7	1,185	13.1%	6.6	104
WB	2,484.5	79.1	2,564	3.1%	31.4	73
Total	**14,967.1**	**665.2**	**15,632**	**4.3%**	**22.5**	**445**

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 to support the construction phase after loans are signed.

The four financiers listed in Table 3-2 reveal 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, and the ratio of grants to loans is inevitably higher[8]. 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 the 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[9]. There might be some advantage for the IPA II programmes to differentiate their '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 ration 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 loans. 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[10]. Moreover the mix of sectors differs between banks, 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.

According to Article 8.3 of the IPA Regulation 2007, "joint management" may be used under the transition assistance and institution building component, in particular for regional and horizontal

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[8] 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.

[9] 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

[10] See http://www.wbif.eu/leverage

programmes, for programmes involving international organisations in accordance with the provisions laid down in Articles 53(c) and 53d of Regulation (EC, Euratom) No 1605/2002[11]. Blending – combining EU grants with loans or equity from public and private financiers – is recognised as vehicle for leveraging additional financing and increasing the impact of EU aid. It is a method to overcome market failure in the financial sector[12]. 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[13]. The use of public grants through blending can reduce risk profiles and make projects more bankable and acceptable to private financiers. The majority of investments supported via blending have been public, but blending also has potential as a catalyser for private financing. Small business support is an example of an area in which blending leverages private financing to help businesses grow and create jobs.

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 is provided here further information 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

[11] Commission Regulation (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA)

[12] See http://eudevdays.eu/topics/blending-catalyser-private-financing

[13] Ibid.

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.

3.2 Mapping international assistance – the beneficiary perspective

International assistance is made either as Official Development Assistance (ODA) or in the form of Other Official Flows (OOF). ODA is either in grant form or in the form of concessional loans, while OOF reflects non-concessional loans. According to the OECD/DAC definition a flow is classed 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)[14]

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

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.

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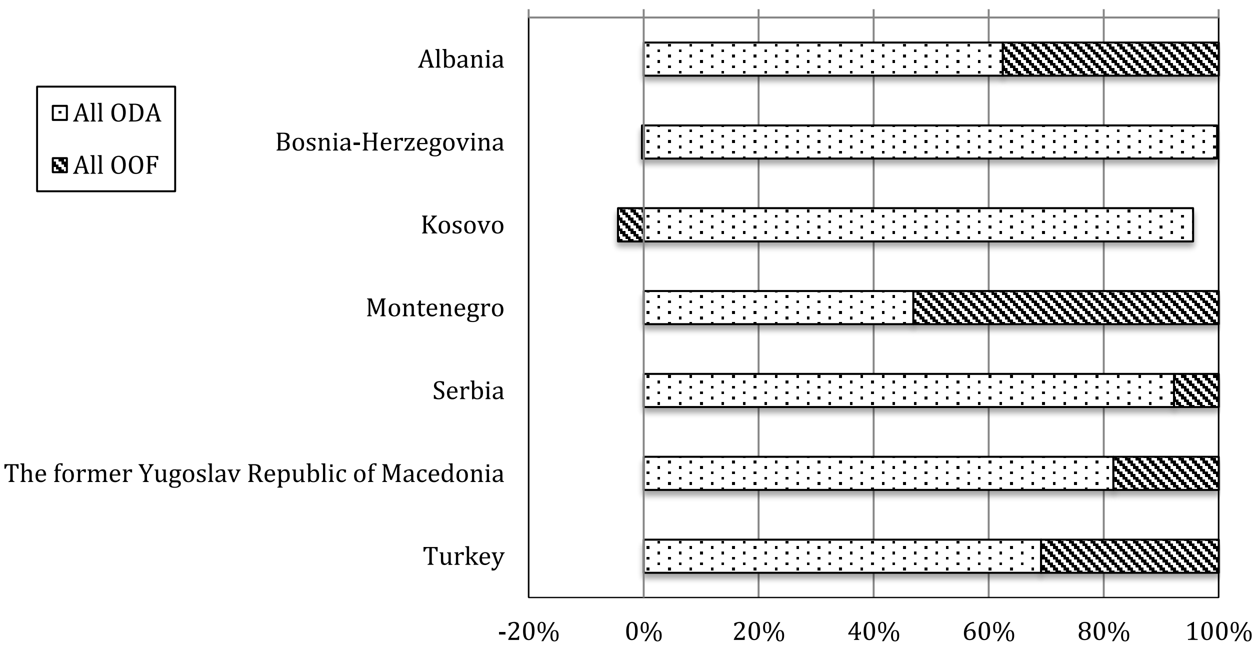
[14] Total official flows consists of Official Development Assistance (ODA) and Other Official Flows (OOF) given to countries on the DAC list of aid recipients, on which all the countries involved in this study appear. For definitions of ODA and OOF see Appendix.

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 non-concessional official inflows (Other Official Flows - OOF) fell from 66% of total flows in 2010 to 23% of total flows in 2012; in the Western Balkans, these flows fell from 37% to just 13% of total flows over the same period. In absolute amounts, total OOF fell by more than half, 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 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 Official Development Assistance (ODA), including both grants and concessional loans has 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 Official Development Assistance (ODA) and Other Official Assistance (OOF – i.e. non-concessional loans) is shown in Figure 3-1. In the cases of Bosnia and Herzegovina, all flows were in the form of ODA with even 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
Albania	81	79	84	18	43	50	99	122	134
BiH	100	117	116	42	-5	0	142	112	115
Kosovo	216	218	204	5	-6	-10	221	212	194
Montenegro	96	144	128	115	29	145	211	173	272
Serbia	68	135	115	90	62	10	158	197	125
The former Yugoslav Republic of Macedonia	69	68	57	52	26	13	121	94	69
Turkey	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.

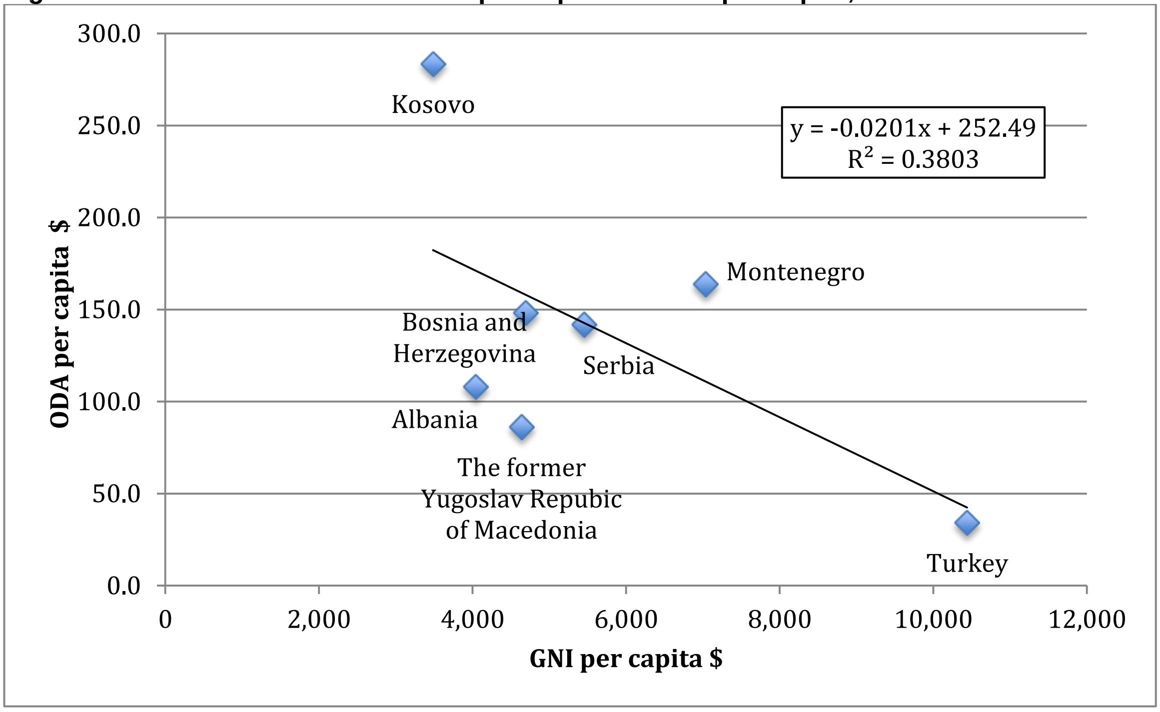
Table 3-4 shows the flows of international assistance in per capita terms. The data reveal significant differences in Total Official Flows per capita between beneficiaries. In 2012, the largest total per capita flows were to Montenegro (€272) and Kosovo (€194) and the lowest in The former Yugoslav Republic of Macedonia (€69) and Turkey (€48). Between 2010 and 2012, the total per capita flows to Bosnia and Herzegovina, Kosovo, The former Yugoslav Republic of Macedonia, Serbia and Turkey all fell, while per capita flows to Albania and Montenegro increased. The most spectacular fall occurred in the case of The former Yugoslav Republic of Macedonia, by about one half of the 2010 amount, to the smallest per capita flow in the Western Balkans, being 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[15], 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 one hundred euros per capita, Bosnia and Herzegovina, Montenegro and Serbia received more than one hundred euros per capita, and Kosovo more than two hundred euros per capita.

[15] 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 flow more to 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 1 shows that there is indeed an inverse relationship between per capita inflows on international assistance and the level of economic development measured by GNI per capita in the Western Balkan countries 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 receives 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
Albania	2.9	2.7	2.6
Bosnia-Herzegovina	3.0	3.4	3.3
Kosovo	10.9	9.9	8.9
Montenegro	2.0	2.9	2.5
Serbia	1.8	3.3	3.0
The former Yugoslav Republic of Macedonia	2.0	1.9	1.6
Turkey	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 gross national income (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
Albania	29.7	27.8	27.8
Bosnia-Herzegovina	27.1	18.6	17.9
Kosovo	44.3	50.1	43.2
Montenegro	36.4	11.9	11.4
Serbia	19.3	8.5	9.6
The former Yugoslav Republic of Macedonia	36.6	22.6	32.2
Turkey	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 or as it is more often called nowadays, Technical Cooperation. Table 3.6 shows the value of TA 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 TA (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 have 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**
Albania	180.3	151.4	146.2	57.2	48.0	46.2
Bosnia-Herzegovina	205.1	214.0	180.4	53.3	55.7	47.1
Kosovo	231.7	216.5	248.4	130.5	120.9	137.5
Montenegro	41.4	26.0	33.1	66.7	41.8	53.2
Serbia	244.4	200.1	139.2	33.5	27.6	19.3
The former Yugoslav Republic of Macedonia	94.7	59.9	71.1	45.0	28.5	33.8
Turkey	566.4	279.9	85.7	7.9	3.8	1.2
Total	**1,564.1**	**1,147.9**	**904.0**	..	..	..

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). There were particularly significant decreases in bilateral ODA to all countries 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
Albania	59.7	48.5	29.1
Bosnia-Herzegovina	34.9	60.4	17.3
Kosovo	0.0	0.1	0.1
Montenegro	9.3	2.8	6.2
Serbia	66.4	66.8	38.0
The former Yugoslav Republic of Macedonia	19.3	14.1	22.6
Turkey	698.8	414.8	232.9
Grand Total	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[16]. 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
Albania	58.6	135.4	159.9	118.0
Bosnia-Herzegovina	160.8	-17.9	-1.3	47.2
Kosovo	11.2	-13.2	-20.7	-7.6
Montenegro	72.4	18.4	90.9	60.6

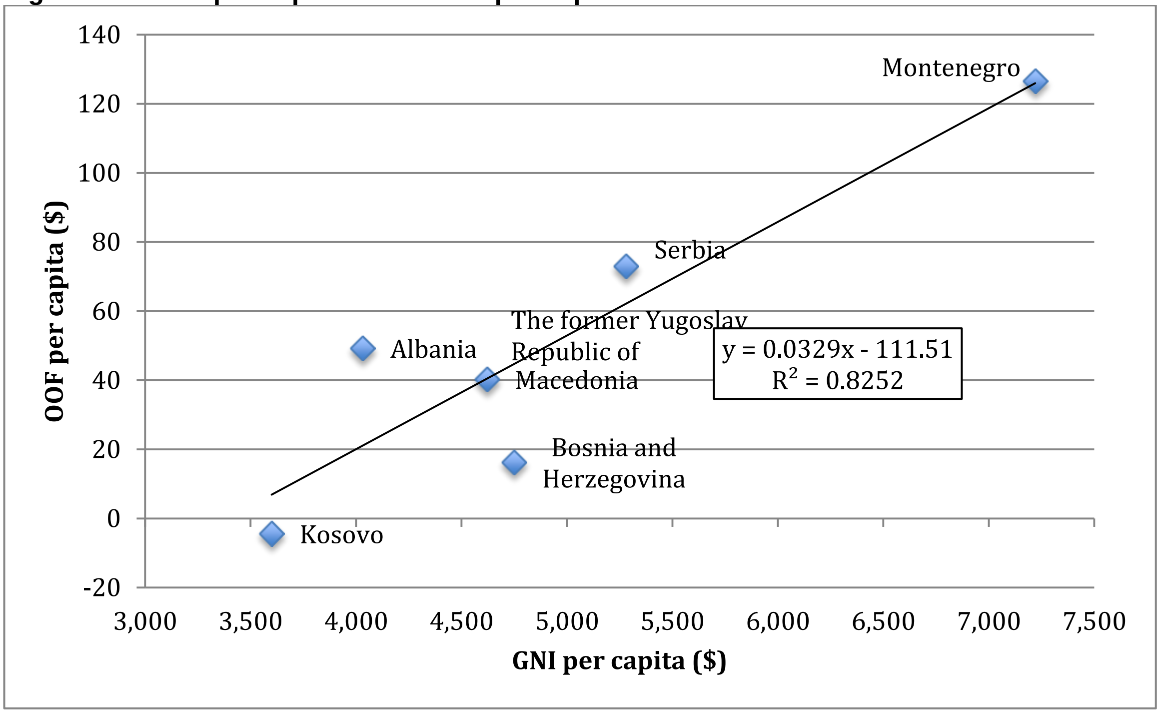
[16] China provides trainings and study trips to China to visit major infrastructure for Albanian public officials, in addition to those from Bosnia and Herzegovina, The former Yugoslav Republic of Macedonia Montenegro and Serbia.

Serbia	660.1	459.1	71.5	396.9
The former Yugoslav Republic of Macedonia	107.3	52.9	26.0	62.1
Turkey	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

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 €2.2m. 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 both institutions). 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[17]. 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 form Figure 3-3, the relationship between OOF flows 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

[17] 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.

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 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, which 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
Albania	930.2	258.4	117.9	375.7	28%	13%	40%
BiH	315.3	426.3	46.5	473.5	135%	15%	150%
Kosovo	331.3	461.0	-7.5	453.5	139%	-2%	137%
Montenegro	482.9	77.2	59.7	136.6	16%	12%	28%
Serbia	1,098.3	781.8	401.2	1,183.0	71%	37%	108%
The former Yugoslav Republic of Macedonia	269.5	132.7	62.2	194.9	49%	23%	72%
Turkey	9,394.6	1,816.1	2,177.2	3,993.3	19%	23%	43%
Total	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 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 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 countries. 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[18]. Other donors have a focus on just one country, 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
EU Institutions	99.3	242.6	42.4	156.4	38.2	688.5	2,268.5	3,535.9
USA	17.0	30.0	13.1	77.5	6.1	32.4	10.9	186.9
Germany	20.1	33.4	26.3	22.1	4.7	40.9	22.5	170.1
Switzerland	8.8	14.6	5.3	50.1	0.1	16.0	1.2	96.0
Austria	6.9	21.6	2.2	8.8	0.7	8.8	30.8	79.9
Sweden	9.5	23.0	2.6	17.8	0.5	14.7	9.6	77.5
Turkey	6.1	16.6	9.4	15.6	2.1	4.7	..	54.5
Norway	1.2	15.1	3.8	11.5	2.7	11.9	1.7	47.9
Japan	-0.5	2.1	1.5	6.2	0.9	5.2	26.1	41.3
Greece	30.5	0.3	0.4	0.2	0.2	0.8	2.0	34.5
UK	0.8	2.8	1.7	12.7	0.6	4.0	10.6	33.3
Italy	24.9	2.9	-0.3	0.4	2.0	-1.9	-2.4	25.6
UAE	13.9	0.4	..	..	5.5	..	-1.6	18.3
Luxembourg	0.1	..	..	11.3	4.2	2.1	0.1	17.9
Netherlands	..	6.1	0.0	3.5	..	0.0	0.2	9.9
Finland	0.3	0.6	0.1	2.8	..	4.9	0.2	8.8
Russia	0.1	0.0	..	..	0.0	7.4	0.4	7.9
Czech R.	0.3	2.5	0.1	1.8	0.1	1.9	0.1	6.7
France	3.3	2.1	2.1	0.5	0.5	8.4	-16.6	0.2
Poland	0.1	1.3	0.0	..	-0.7	-2.6	0.0	-1.8
Spain	-1.2	-3.0	..	0.4	..	-2.2	1.2	-4.8
Kuwait	1.3	-3.1	..	..	..	..	-11.0	-12.8
Denmark	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.

[18] 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.

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. Bosnia and Herzegovina, and Kosovo seem to have attracted much 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
United States	12%	18%	20%	**33%**	**20%**	**23%**	10%	21%
Germany	14%	**21%**	**40%**	9%	15%	**29%**	20%	19%
Switzerland	6%	9%	8%	**21%**	0%	11%	1%	11%
Austria	5%	13%	3%	4%	2%	6%	**28%**	9%
Sweden	7%	14%	4%	8%	2%	11%	9%	9%
Turkey	4%	10%	14%	7%	7%	3%	0%	6%
Norway	1%	9%	6%	5%	9%	9%	2%	5%
Japan	0%	1%	2%	3%	3%	4%	**23%**	5%
Greece	**22%**	0%	1%	0%	1%	1%	2%	4%
United Kingdom	1%	2%	3%	5%	2%	3%	10%	4%
Italy	18%	2%	0%	0%	7%	-1%	-2%	3%
United Arab Emirates	10%	0%	0%	0%	18%	0%	-1%	2%
Luxembourg	0%	0%	0%	5%	14%	2%	0%	2%
Total	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 flow to each beneficiary (the Table excludes the EU Institutions)[19]. 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

[19] 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.

presence in all the countries, contributing 10% or more of bilateral aid to 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 USA 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 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[20], which recommends that donors should designate a limited number of countries 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[21]), 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).

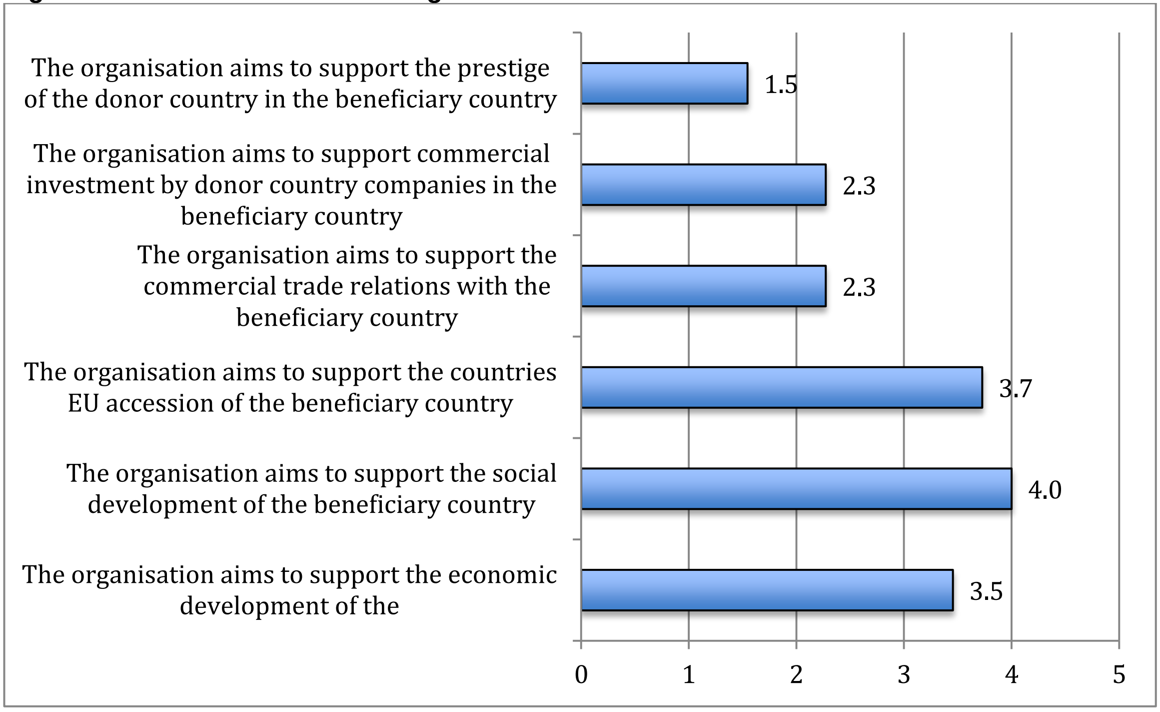
3.4 Interests and drivers of donor interventions

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 to the 11 donor organisations that replied to the questionnaire revealed a range of motivations of donor organisations.

[20] 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

[21] 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[22]. 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).

[22] 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[23] 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[24]. 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[25].

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

[23] "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/

[24] See also Annexes 7 & 8 for a more complete description and summary of the donor coordination mechanisms in each of the Enlargement countries.

[25] 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 (conditionality), while beneficiary countries should strengthen their capacities in strategic management and budget planning.

Through the "European Consensus 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. "National ownership, donor coordination and harmonisation, starting at field level, alignment to recipient country systems and results orientation are core principles in this respect"; 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%"[26].

The implementation of the Paris Declaration is regularly monitored,[27]. This applies to aid provided by the European Commission, which is monitored against specific targets agreed internationally through the Paris Declaration (2005) and the Accra Agenda for Action (2008).[28]

In relation to the IPA programme the European Consensus 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." (European Consensus, 2005, para 6.2).

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 really have much relevance to enlargement policies, as the key objectives and strategic orientation is inevitably set by the donor (the EU and other donors who align behind the enlargement strategy) rather than the recipient (the beneficiary country). The

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[26] "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.

[27] This monitoring exercise provides an assessment of progress made against the quantitative indicators provided by the OECD/DAC Survey on Monitoring the Paris Declaration, drawing on data provided by both governments and donors, the OECD and the World Bank, as well as on qualitative evidence submitted to the OECD by the governments (which typically incorporate feedback from donors and other stakeholders).

[28] *http://ec.europa.eu/europeaid/what/delivering-aid/aid-effectiveness/*

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 the IPA II programme, the adherence to the European Consensus and the Paris Declaration is in no sense mandatory or even an integral part of the enlargement policy. 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.

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.[29]

However, a recent study of the implementation of the Paris Declaration by donors from around the world has cast doubt on the effectiveness with which these principles have been 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 4 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 been put in place in these countries, and assess their strengths and weaknesses from an institutional point of view.

[29] 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

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 (EU CoC DoL)[30]. 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.[31]

The Code of Conduct is supported by the "Fast Track Initiative for the Division of Labour" (FTI DoL) in 31 partner countries to help implement the EU Code of Conduct. 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 FTI DoL list. Progress has been monitored on a regular basis, most recently in February 2011[32]. 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 FTI DoL has been signed between the Albania and participating donors (Austria, EU Delegation, Germany, Italy, Sweden, and Switzerland) on 31 May 2010.

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

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[30] "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].

[31] "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}

[32] Albania and Serbia were among the counties that responded; The former Yugoslav Republic of Macedonia was requested but failed to respond.

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[33]. 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 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

[33] See "2012 Annual Report on Financial Assistance fro Enlargement", Brussels: Directorate General for Enlargement, pp. 8-9

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 and projects are in line with the countries' own development strategies, and to secure broad consensus on the strategies to be put in place by 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 strategy 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 (FTI DoL) in a number of countries, including three of the IPA beneficiaries: Albania, Serbia and The former Yugoslav Republic of Macedonia. The FTI DoL aims at reducing the number of donors in overcrowded sectors and increasing support for "orphan" sectors, making use of the donors' comparative advantages[34], thereby complementing donor coordination in order to deal with the situation of too many donors working in the same country and 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 European Consensus and could complement the FTI DoL 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"[35].

4.2.1 Ownership

Both IPA II and the European Consensus on Development emphasise a "country-owned" approach to international assistance. Ownership concerns a country's ability to carry out two inter-linked activities:

a) Exercising leadership over development policies and strategies

b) Coordinating the efforts of donors working in the country.

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[34] "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}

[35] "*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.

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

4.2.2 Alignment

Pre-accession assistance envisages aligning the Country Strategy Papers behind the objectives set out in the beneficiary countries' national planning documents. Similarly, the European Consensus on Development and Paris Declaration envision donors basing their support fully 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, and use them for the delivery of their assistance. Having a national policy for economic growth and EU integration which provides a strategic framework with established priorities is an important basis for the alignment of aid to development priorities.

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

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

Nevertheless, we find out that this has not happened. The public financial management systems were 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 a country's public financial management system (PFM) depends on whether PFM systems meet broadly accepted good practices or whether credible reform programmes are already 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 predictable way; and timely and accurate accounting and fiscal reporting, including timely and audited public accounts with effective arrangements for follow up.

Donor use of a partner country's established institutions and systems increases aid effectiveness by strengthening the government's long-term capacity to develop, implement and account for its policies to both its citizens and its parliament. The Paris Declaration commits donors to increase their use of country systems that are of sufficient quality, and to work with partner countries to strengthen systems that are currently weak. In section 4 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". [36] Before turning to that we present

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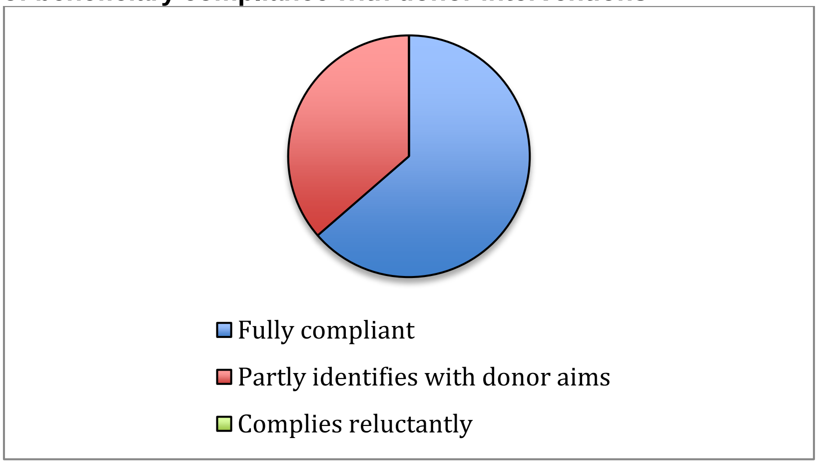
[36] "*Aid Effectiveness 2011 - Progress in Implementing the Paris Declaration*", OECD, 04 March 2013. It assesses progress against the quantitative indicators provided by the Survey on Monitoring the Paris Declaration, drawing on data provided by the government and donors, the OECD and the World Bank. In addition to this, it draws on qualitative

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 the beneficiary to cooperate with the donors through an effective reform process. Cooperation by the 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 "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.

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

evidence submitted to the OECD by the national government, which incorporates feedback from donors and other stakeholders.

interventions. In all, 11 donors responded to the survey[37]. 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[38], 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 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

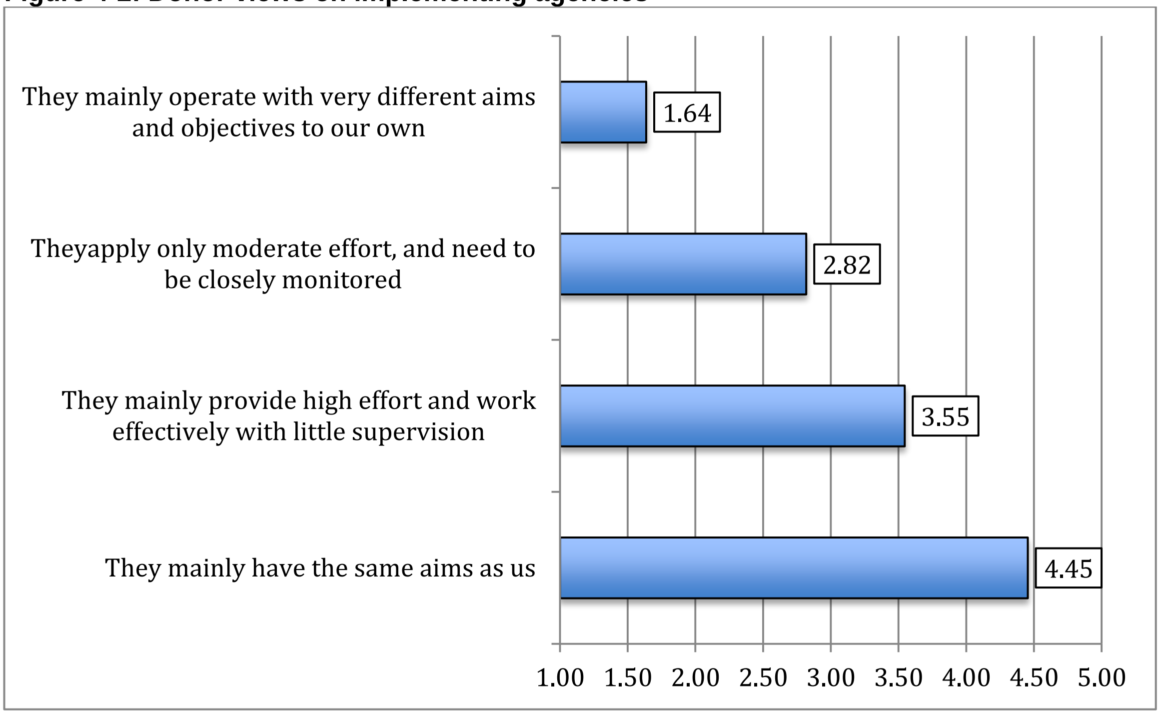
[37] The project involved a combination of desk research, qualitative interviews, and three separate but related questionnaire surveys of Donors, Financiers and Implementing agencies. Unfortunately too few Financiers and Implementing agencies replied to the questionnaire to make meaningful analysis possible (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.

[38] 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.

working in the recipient country[39]. 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.

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 though the UN organisations and it was thought that these were rather bureaucratic and did not respond well to the needs of the beneficiaries.

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[39] 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

4.5 Coordination between donors

This deals with the issue of coordination between agencies who are partly in a cooperative relationship and partly in a competitive relationship[40]. The 'co-opetition' model recognises the role of "complementers" alongside "competitors". Complementary organisations are those whose services are complementary to the donor and with whom cooperative relations are therefore beneficial. Donors have different interests and different priorities. They both complement and compete against each other.

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 service 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 in cases where donors complement each other 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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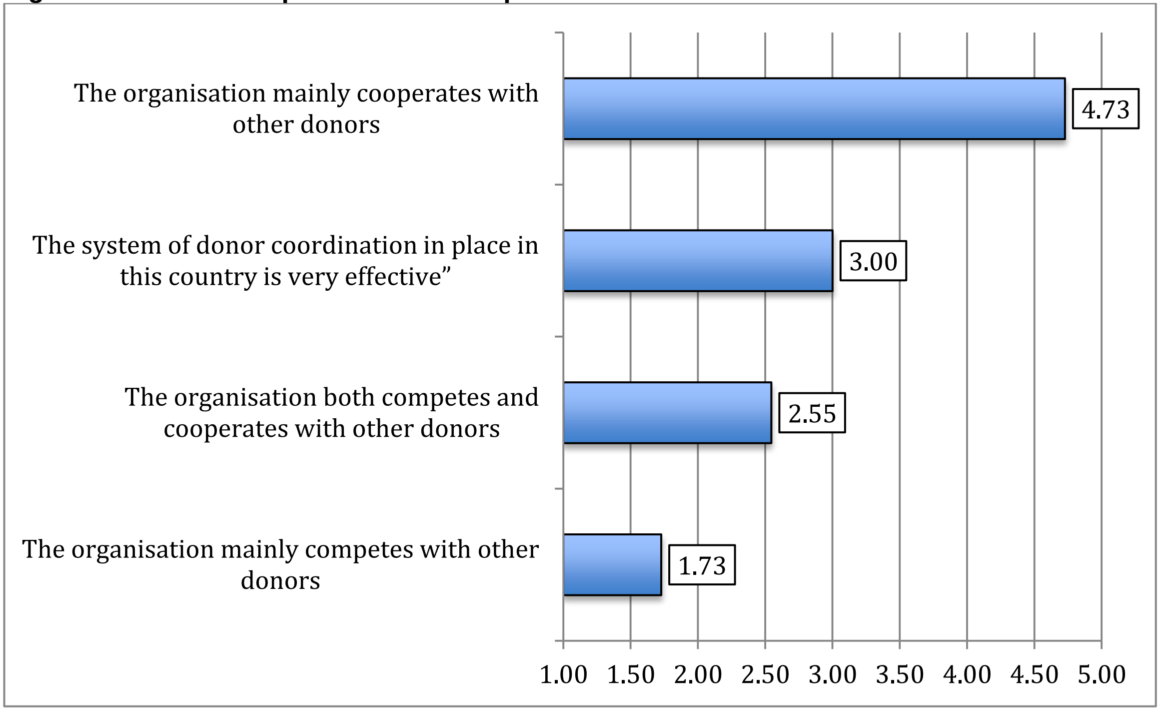
[40] See for example Bengtsson, M. and Kock, S. (2000) "Coopetition" in business networks – to cooperate and compete simultaneously, *Industrial Marketing Management*, 29: 411-426, and Brandenburger, A. and Nalebuff, B. (1996) *Co-opetition*, New York: Doubleday

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 aligned with the government policy to separate the production and transmission of water and the SWG was paralysed.

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 diagram presented in Appendix 9.05. This analysis reveals more weaknesses than strengths, but also some significant opportunities for improvement and greater effectiveness of donor coordination mechanisms and associated databases in the region. Of particular note are the problems with existing databases that fail to provide comprehensive information on the full range of donor activities, and that are not easy to use even by the technically astute. Given the cost of maintaining such systems, their usefulness seems rather dubious. Moreover there is a great variety of systems in use that are 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 provide a service by dedicated information management professionals to interested parties. It might also be useful to establish a joint database at a regional level to provide comprehensive information or 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 beneficiary countries, and identifies the distribution of donor interventions by sector for each country. The first part of the analysis identifies the flows of international assistance from each donor to the Western Balkans and Turkey that took place between 2010-2012 (the latest years in which consistent data are available). We first examine the sector distribution of international ODA assistance per year and by annual average. This enables us to rank the sectors within each country by the amount of assistance received, and gives an impression of the overall importance attached to each sector by the donor community in each country. 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[41].

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 in 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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[41] 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[42]. 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 shareholders 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

[42] 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
Total	**281.4**	**288.6**	**298.1**	**289.4**

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 JHA 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[43]. 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 systems 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 systems and there has been up to now a widespread lack of trust in their effectiveness.

Improvements to procurement processes in Albania were made following the adoption of a public procurement law (PPL) in 2007 and subsequent amendments that benefited the current public procurement system. The law authorises electronic procurement, increasing transparency in

[43] PEFA Assessment Report http://www.pefa.org/en/assessment/al-jan12-pfmpr-public-en

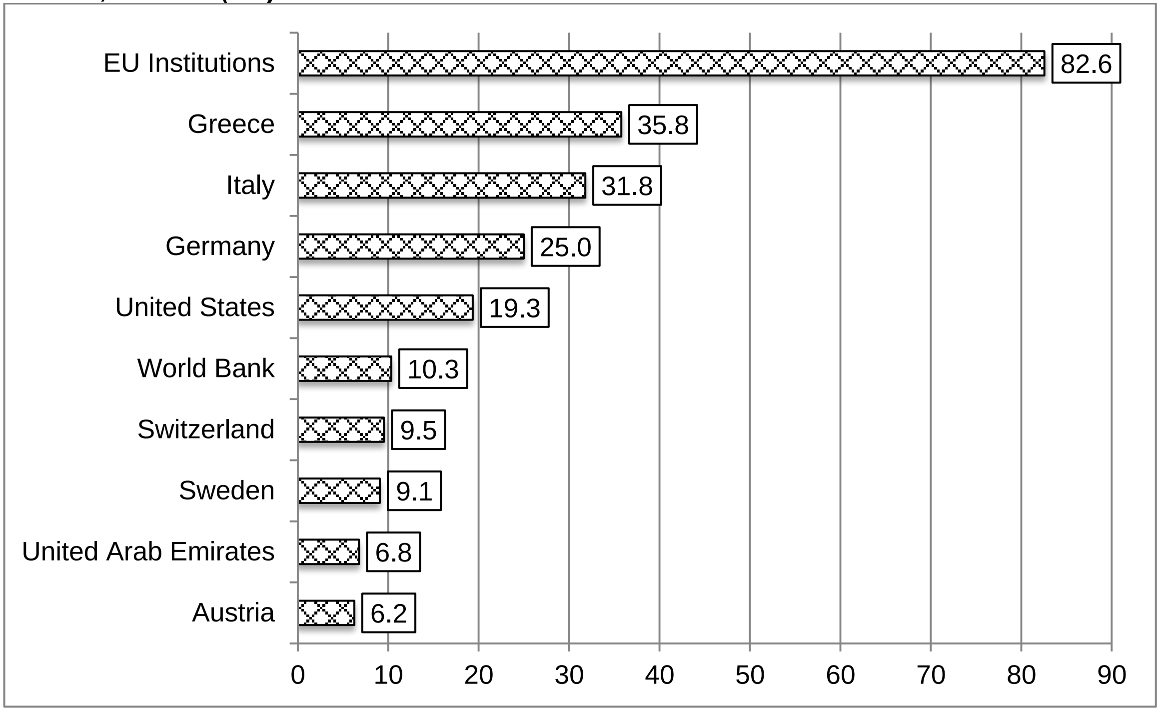
procurement. Albania was the first country to develop an obligatory electronic procurement system for all public sector procurements above a threshold of €3,000.

In recent years there has been an uncoordinated growth in investment projects that risk not being completed on time and add to pubic 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 pants 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, JICA 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 of capacity to wok with this coordinated approach. This appears to be changing with the impetus provided by a change of government, the new IPA II emphasis on sector approach, and the support for donors such as EUD 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 EU Institutions, Greece, Italy, Germany and the USA were the five largest donors. While the EU increased its disbursements, those of the three main bi-lateral donors decreased. Altogether there were 37 donors 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: Sectoral distribution of ODA by main donor organisations in Albania, 2010-12

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

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

Table 5-2 shows the proportion of disbursements that the main donors devoted to different sectors over the period 2010-2012, and the number of sectors in which each donor was active. 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), EU is 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 to large need for 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 the 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 structures of sector working groups. The sector approach requires a single framework aligned with the specific procedures of each donor. Some donors have signed a MoU 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%
Grand Total	289.4	100.0%

Source: Table 5-1

Table 5-4 reproduces the data from Table 5-1 in accordance with the IPA II definition of sectors[44]. 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 Polices, 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, while 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 that all actors can get behind, a clear strategy and an associated financing plan. At the same time, all donors should be supporting the same results framework. Without these elements in place a system may be set up to fail. It may be advisable to try out the sector approach in a pilot sector such as Transport or Water to identify possible problems.

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

[44] This list of sectors was provided to the authors by DG Enlargement.

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 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)

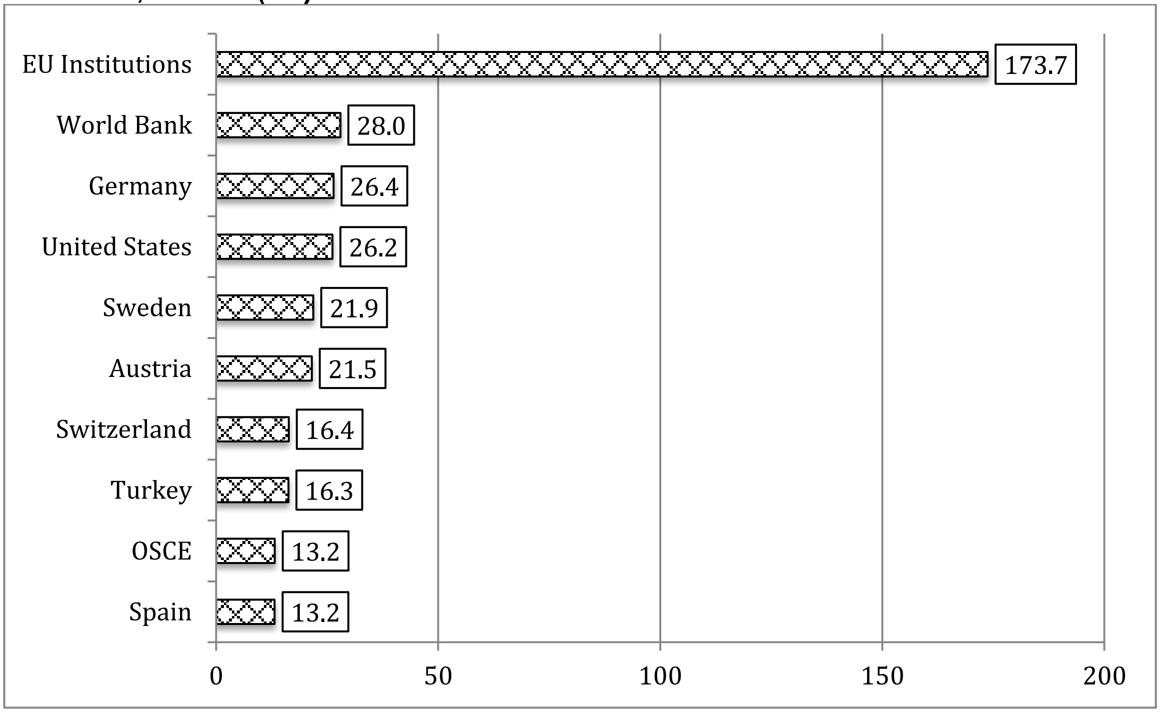
	2010	2011	2012	Annual average
Transport	38.2	108.7	76.1	74.3
Private sector development	20.9	73.5	104.9	66.4
Security and migration	50.4	40.0	35.3	41.9
Energy	20.1	24.6	44.3	29.7
Environment	26.0	26.1	36.0	29.4
Justice and home affairs	27.2	26.0	31.3	28.2
Education	26.7	25.0	29.0	26.9
Public administration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

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 pubic 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: Sectoral distribution of ODA by main donor organisations in Bosnia and Herzegovina, 2010-12

	EU	World Bank	US	DE	SE	AT	CH	ES
Number of active sectors	12	10	10	11	10	8	12	4
Memo: Donor share in all ODA	*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 lest 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%
Total	**433.6**	..

Source: Table 5-5

Table 5-8 reproduces the data from Table 5-5 in accordance with the IPA II definition of sectors[45]. 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

[45] This list of sectors was provided to the authors by DG Enlargement.

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 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
Security and migration	182.7	202.5	60.2	148.5
Justice and Home Affairs	35.6	34.9	133.9	68.1
Private sector development	18.2	32.8	25.1	25.4
Education	22.9	24.1	26.5	24.5
Public Administration Reform	19.3	19.3	34.0	24.2
Multisector	22.2	20.3	22.2	21.6
Environment	12.2	20.4	27.6	20.1
Agriculture and rural development	10.2	14.2	22.4	15.6

Energy	13.1	13.9	19.4	15.5
Public Finance Management	25.7	8.6	10.7	15.0
Other	10.1	20.1	13.1	14.5
Human rights and minorities	12.2	13.3	13.1	12.9
Social policies	31.3	0.0	1.0	10.4
Health	11.0	11.8	8.3	7.2
Transport	7.9	6.1	7.7	2.7
General budget support	*3.2*	*3.3*	*1.5*	*10.8*
Grand Total	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[46]. 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.[47] 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.[48]

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".[49] 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

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[46] 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

[47] MIPD Kosovo* 2011-13, p. 14

[48] MIPD Kosovo* 2011-13, p. 19

[49] 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

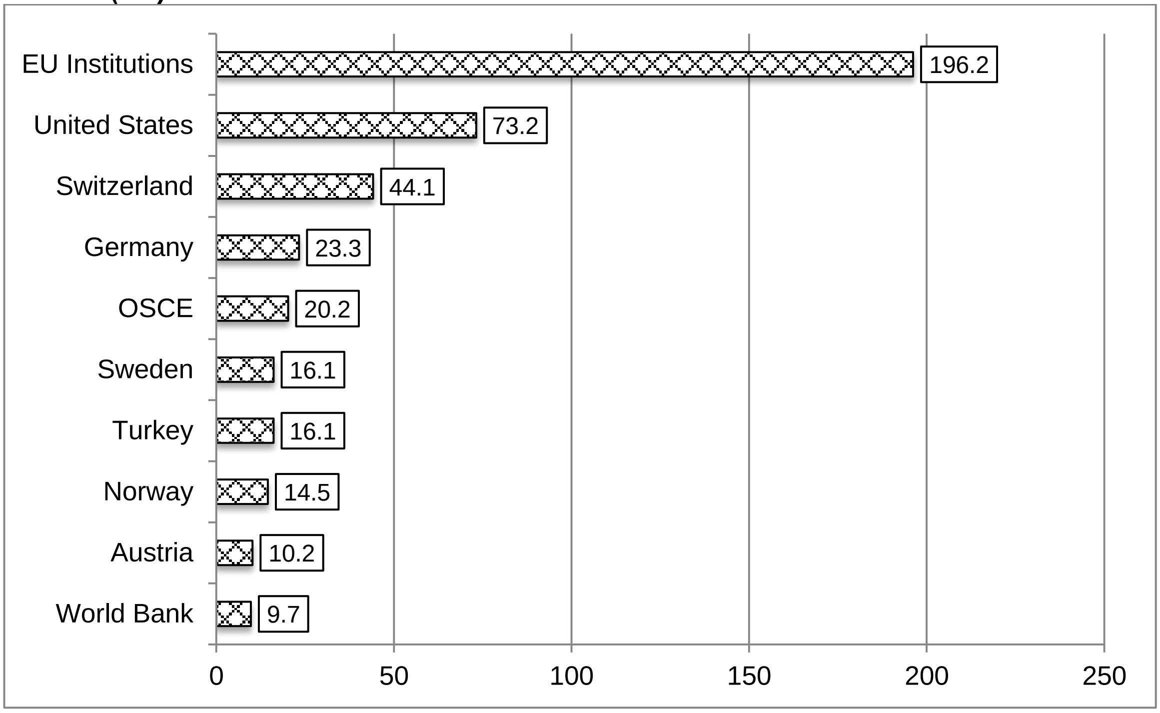
developments in 11 thematic areas. The main advantages of the existing PFM system are focused on the successful implementation of Financial Management Information Systems, budget control, execution and reporting, and meeting the management needs for effective decision-making. Good practices have been identified in audit and internal control, and capacity building for effective implementation is underway.

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 US$13.5 million (€10m).

Table 5-10: Sectoral distribution of ODA by main donor organisations in Kosovo, 2010-12

	EU	US	CH	DE	OSCE	NO	SE	AT
Number of active sectors	16	14	13	13	4	11	10	10
Memo: Donor share in all ODA	*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[50]. This suggests that

[50] 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.

donors should give some more consideration to balancing and coordinating their areas of specialisation. In addition, many donors a very 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%
Total	437.0	

Source: Table 5-9

Table 5-12 reproduces the data from Table 5-9 in accordance with the IPA II definition of sectors[51]. 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

[51] This list of sectors was provided to the authors by DG Enlargement.

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
Grand Total	118.3	163.6	158.6	146.9

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. [52]

5.4 Montenegro

Montenegro prioritises six sectors in its national development plan (Science and Education; SMEs; Labour Market; Spatial Planning; Transport; Efficient Government)[53]. However only one of these appears in the list of top six sectors by value supported by the donor community (Pubic 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

[52] 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.

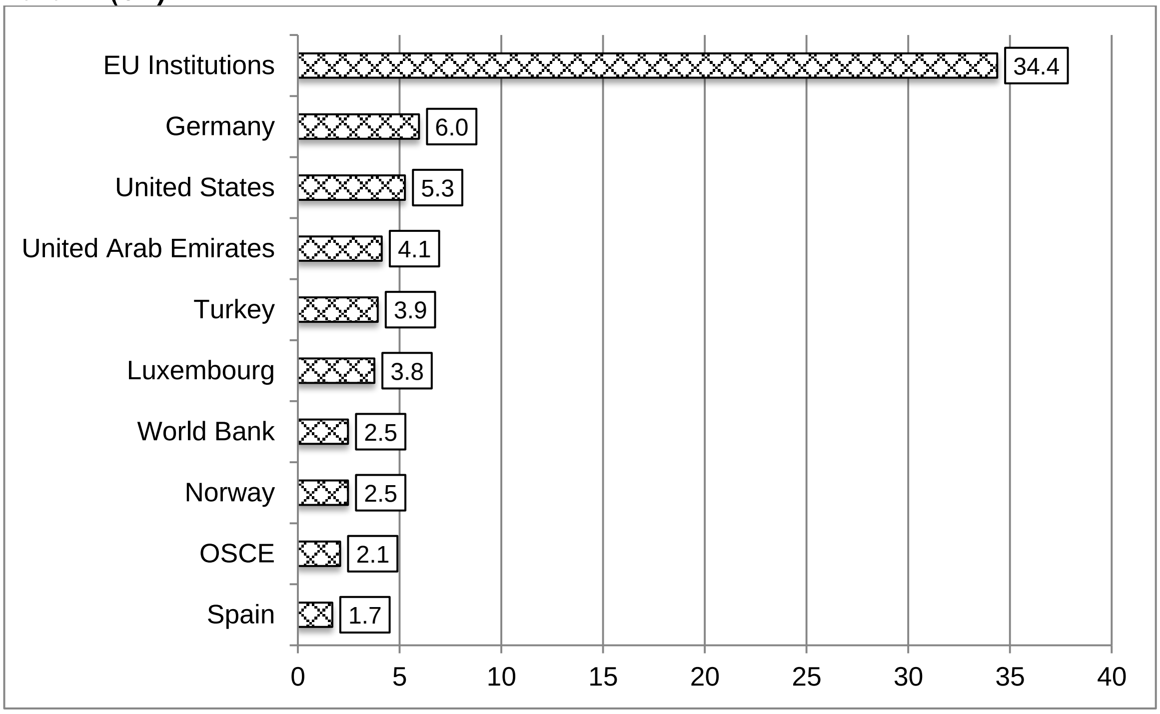
[53] The national development plan is called “Montenegrin Development Directions for 2013-2016”. It should be noted that there are additional referential documents targeting future donor assistance at the sector level.

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
Total	**52.4**	**91.2**	**86.7**	**76.8**

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.

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: Sectoral distribution of ODA by main donor organisations in Montenegro, 2010-12

	EU	DE	US	LU	IDA	UAE
Number of active sectors per donor	14	8	7	10	3	2
Memo: Donor share in all ODA	*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[54], 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

[54] Although new funding for German bilateral financial cooperation is restricted to only one sector, Energy.

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 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%
Total	**76.8**	**100.0%**

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[55]. 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,

[55] This list of sectors was provided to the authors by DG Enlargement.

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[56].

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 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.[57]

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

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

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.

[56] 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

[57] Interview, EU Delegation, Belgrade, 21/2/2014

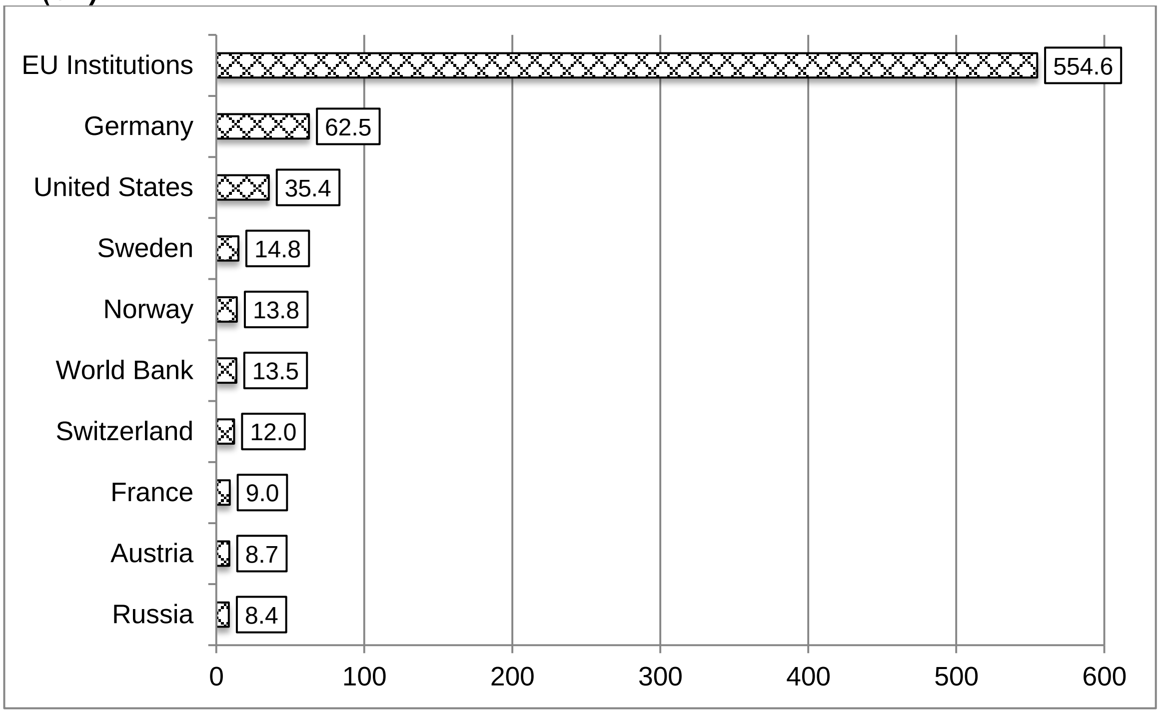
Table 5-19: Average annual net disbursements by IPA II sectors, Serbia, 2010-2012, €m

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

Source: Table 5-22

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: Sectoral disbursement of ODA 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
Memo: Donor share in all ODA reported to ISDACON	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)

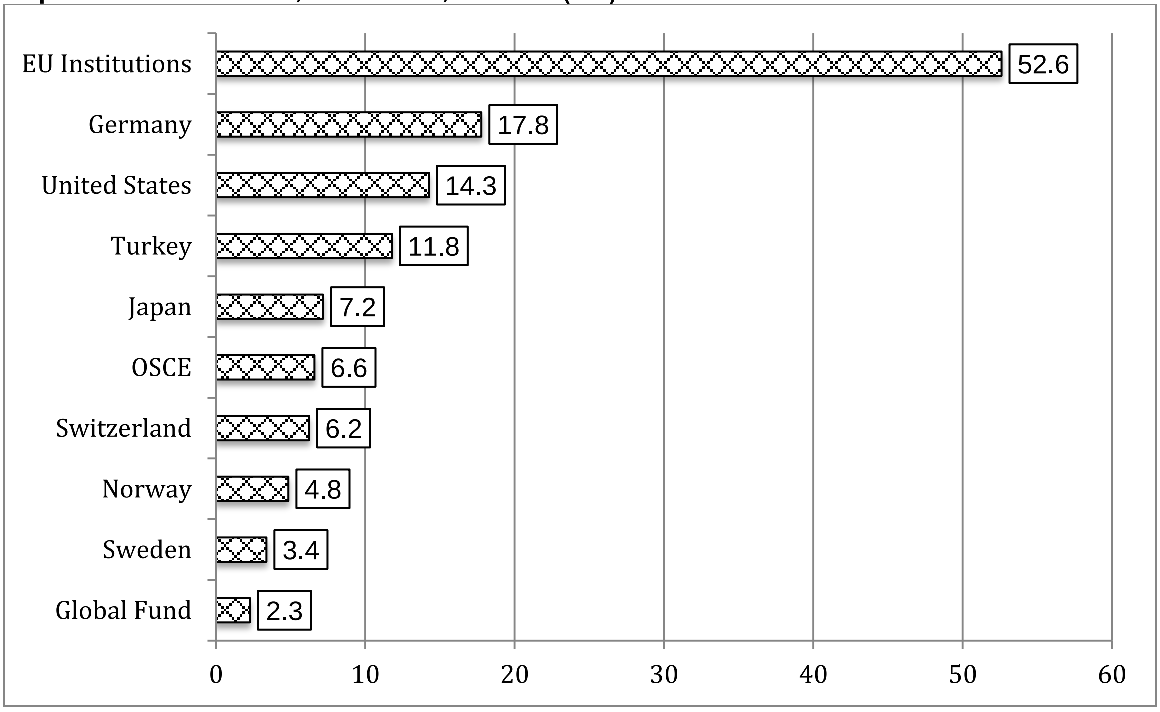
	2010	2011	2012	Annual average
Private sector development	8.2	49.3	32.1	29.8
Multisector	26.7	25.9	32.2	28.2
Environment	31.1	14.7	16.0	20.6
Education	16.0	11.3	12.7	13.3
Public administration reform	12.0	14.2	8.7	11.6
Justice and home affairs	12.4	10.2	9.1	10.6
Agriculture and rural development	7.7	11.3	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

Total	**127.6**	**164.3**	**148.7**	**146.9**

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 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.[58]

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

[58] 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.

	EU	DE	US	JP	OSCE	CH	NO	SE
Number of active sectors per donor	12	7	8	5	2	6	9	9
Memo: Donor share in all ODA	*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 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)
Agriculture and Rural Dev.	EU (71%) SE (15%)	5
Education	DE (29%) US (19%) EU (13%) AT (13%)	11
Energy	DE (81%)	5
Environment	JP (47%) EU (15%) CH (11%)	8

Health	GF (65%)	9
Human Rights and Minorities	EU (57%) NL (23%)	9
JHA	OSCE (29%) US (27%) EU (17%) DE (14%)	7
Multisector	EU (72%) OSCE (12%)	4
Other	UNHCR (22%) CH (20%) FR (20%) EU (18%)	9
PAR	EU (46%) CH (23%)	8
PFM	EU (87%)	6
Private Sector Development	EU (70%) US (15%) DE (12%)	4
Security and Migration	EU (52%) US (18%) NO (10%)	8
Social policies	EU (58%)	9
Transport	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%
Grand Total	**146.8**	**100.0%**

Source: Table 5-14

Table 5-17 reproduces the data from Table 5-14 in accordance with the IPA II definition of sectors[59]. 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.

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

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

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.

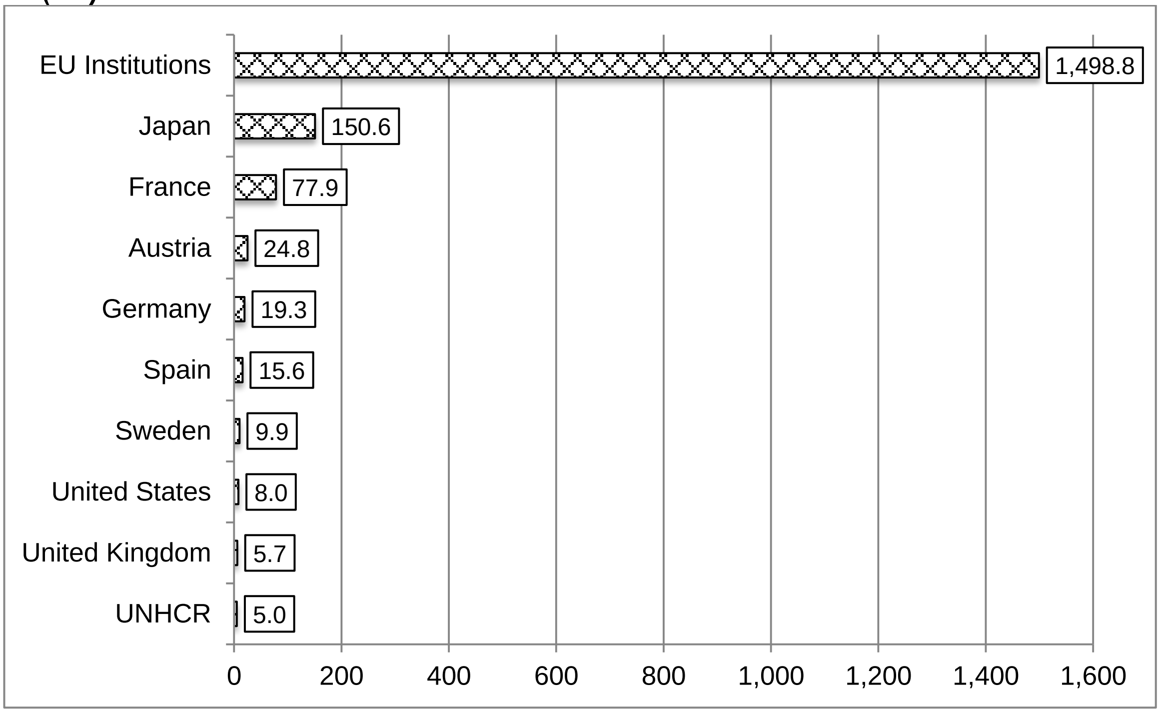
[59] This list of sectors was provided to the authors by DG Enlargement.

Relatively few donors are active with substantial amounts of funding. The main source if 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 Bosporus;

- 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: Sectoral distribution of ODA 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% of 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
Competitiveness and innovation	623.7	28.7%
Transport	611.7	28.1%
Energy	259.8	11.9%
Environment	182.2	8.4%
Territorial cooperation and regional cooperation	158.0	7.3%
Education, employment and social policies	126.5	5.8%
Agriculture and rural development	79.6	3.7%
Rule of law and fundamental rights	62.7	2.9%
Other	44.9	2.1%
Democracy and governance	27.4	1.3%
Grand Total	**2,176.5**	**100.0%**

Source: Table 5-25

Table 5-28 reproduces the data from Table 5-25 in accordance with the IPA II definition of sectors[60]. Looked at this way, the data reveal that the three main sectors of in receipt of official

[60] This list of sectors was provided to the authors by DG Enlargement.

development assistance in the period 2010-2012 were Competitiveness and innovation, Transport, and Energy, while the sector Democracy and Governance was relatively neglected.

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. 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 adopted in 2013 a new Strategy and Work Programme, which provides for much more focus and synergy in RCC work, with SEE 2020 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 countries in the region of South East Europe, 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, and which increased the share of EC in the overall funding of the Council. The RCC will focus 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 assistance is being programmed[61]. 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 and in Albania for example the Ministry of Economy has created a national action plan for each Dimension that is integrated into the national strategy[62]. 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
Integrated Growth	A: Free Trade area	CEFTA, SEEIC
	B: Competitive Economic Environment	CEFTA
	C: Integration into global economy	CEFTA, SEEIC

[61] *South East Europe 2020 Strategy – Jobs and Prosperity in a European Perspective*, Sarajevo: Regional Cooperation Council, 2013

[62] Information provided at an interview at the EU Delegation, Tirana, 19/2/2014

Smart growth	D: Education and competences	ERI-SEE, SEECEL, RCC
	E: R&D and innovation	WISE
	F: Digital society	eSEE
	G: Culture and creative sectors	RCC TFCS, RCC
Sustainable growth	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, SEECEL, WBIF/EDIF, World Bank, OECD, RCC
Inclusive growth	L: Employment	RCC
	M: Health	SEEHN
Governance for Growth	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
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

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

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 just half a million euros or less each in resources 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
EU	7,556.1	2,691.8	6,398.5	6,271.5	327.2	23,245.1
SDC	236.8	302.0	297.9	323.5	243.9	1,404.1
UN Agencies	268.2	196.6	294.9	190.7	0	950.5
Open Regional Fund	24.9		110.0	452.5	315.4	902.8
GIZ	334.4	180.0	206.3	111.6	50.0	882.3
SIDA		200.0	200.0	200.0		600.0
Croatia	96.3	98.4	98.4	98.4		391.4
Swiss DEZA					300.0	300.0
USA	47.9	54.1	54.1			156.1
FES		40.0	60.0		40.0	140.0
KulturKontakt	35.3	26.2	30.0	30.0		121.5
World Bank			8.2	105.8		114.0
Moldova	24.0	29.4	29.4	29.4		112.2
The former Yugoslav Republic of Macedonia	31.2	3.6	71.8			106.6
Serbia		48.0	24.0	24.0		96.0

Albania	24.0	24.0	24.0	24.0		96.0
Montenegro	24.0	24.0	24.0	24.0		95.9
BiH	24.0	31.2	31.2	7.2		93.6
Romania	24.0	24.0	24.0			72.0
Bulgaria	23.9	24.0	24.0			71.9
RCC			30.0		30.0	60.0
EVD		30.0	30.0			60.0
OSI LG Initiative	24.9					24.9
Other Donor	4,174.6	9,337.4	6,190.9	3,822.0		23,525.0
Other Orgs	646.1	187.5	618.1	1,209.3		2,661.0
Grand Total	13,620.8	13,552.2	14,879.6	12,923.8	1,306.5	56,282.9

Source: Pohl Consultants Survey of regional initiatives, February 2014

Table 6-4 above shows the annual amounts the 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 €1 million each over the four year period: SDC, Open Regional Fund, GIZ, SIDA and UNDP.

6.2 Regional structures participating in SEE 2020

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 5.3-1), having just 4 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 Table 5.3-2). 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

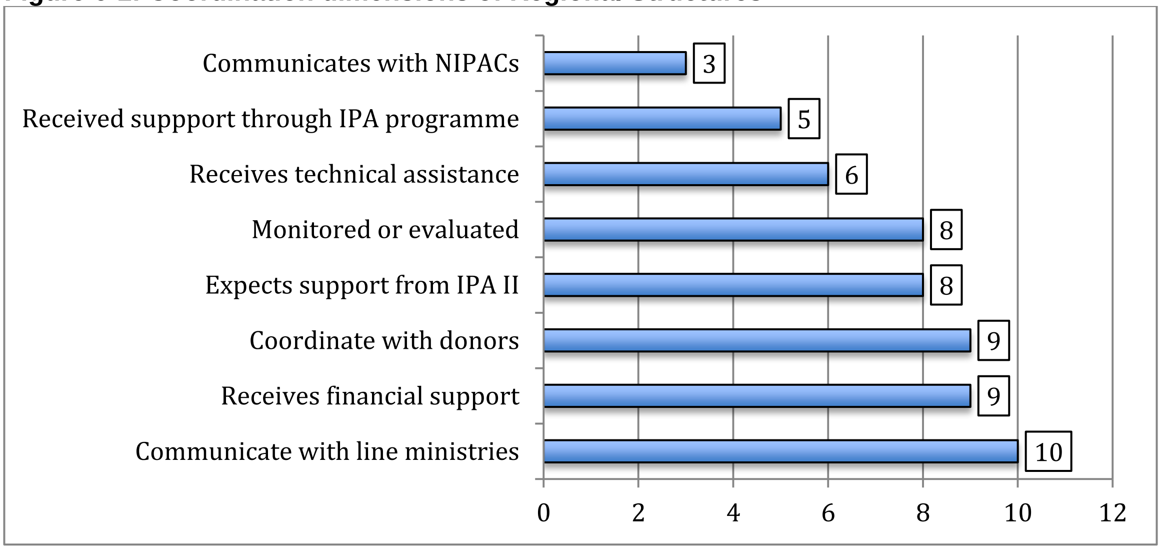
	Full time staff 2013	Part time staff 2013	Budget 2013
REC	71	108	€ 11,900,000
ReSPA	13	0	€ 3,069,263
NALAS	8	13	€ 1,306,580
SEECEL	5	0	€ 566,000
SEETO	7	0	€ 380,000
RCC TFCS	3	0	€ 275,000
SEEHN	4	0	€ 257,000
ERI SEE	2.8	0	€ 167,541

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, 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[63]. 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[64]. The PFG screens and assesses applications to verify eligibility, bankability[65], sustainability, technical viability, and consistency with transition impact and EU pre-accession policies, and passes selected proposals to the WBIF Steering Committee[66]. 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[67]. 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 November 2013 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[68].

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[63] See http://ec.europa.eu/enlargement/instruments/donor-coordination/index_en.htm

[64] The identification of projects for submission is also sometimes done by partner IFIs in coordination with NIPACs and Donor Coordination Offices within beneficiary countries.

[65] Screening for "bankability" means that projects should be shown to yield a sufficient rate if return to be eligible for bank funding

[66] The EBRD representatives in the PFG screen projects for their transition impact, while the EC representative screen projects for compatibility with EU accession aims.

[67] See http://www.wbif.eu/About+WBIF

[68] 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

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 required 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[69]. The Infrastructure Project Facilities (IPF), financed by the EU Institutions, support the preparation[70] 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[71].

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"[72]. 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 have 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 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). 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 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

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addition, project cancellations might not have been taken into account. Hence the reported values should be treated with caution.

[69] See http://www.wbif.eu/Details+of+WBIF+Projects

[70] 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.

[71] See http://www.wbif-ipf.eu/index.php?page_id=321

[72] See http://www.wbif-ipf.eu/index.php?page_id=309

with little real social benefit. This seems to have been especially problematic in Albania, which now faces sharp cutbacks to investment programmes. Some unsuitable 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 pubic-private partnerships (PPP) to leverage private sector finance might be an alternative option[73]. 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 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 (SEETO, ECS, ReREP).

Four IPFs have been established, each managed by a different institution. The European Commission through DG Enlargement manages IPF 1, IPF 2 and IPF 3; the EIB manages IPF 4. The Steering Committee for IPF 1 meets every six months, and every EU MS has the right to be present. When IPA accepts a proposal for TA, the IPF appoints a team of consultants to carry out the work. The typical team size is around 10 experts. A typical project may receive a €20m loan, a €10 IPA grant and funding of €5m from the government. About one quarter of projects are 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

[73] 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.

project preparation. There is a high success rate, as a bank is normally already lined up behind the project and is ready to provide the money once the feasibility study and project preparation has been carried out. 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 preparing a list of priority projects. They also coordinate with potential financiers ahead of submission since the project fiche, or PGAF, must quote a lead financial institution even when 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 they work with the line ministries, 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 KfW. However, when KfW checked on progress with construction, it was discovered that three municipalities had also received a grant from the EUD 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 with donors in financing a wastewater treatment plant could potentially reduce project costs improve affordability for consumers through lower water bills.

Social sector projects such as hospitals, schools and prisons are the most important investments in these countries where infrastructure investment has been neglected for years[74]. A problematic issue is that there is no link between WBIF and multilateral organisations such as OSCE and UN, apart from UNHCR. Improved links 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. It is coordinated by the European Investment Fund (EIF). The WB EDIF Platform Advisory Group (PAG) is responsible for the governance of the WB EDIF. It consists of members from the relevant IFIs, bilateral donors and Governments of the Western Balkans states, in capacities of both voting members as well as observers. The PAG convenes at least twice per calendar year. 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
- Building up a local venture capital market
- Widening the scope for SME finance,

[74] 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.

- 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 to SMEs in the region and to create 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 the early 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 Q1 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 in the Western Balkans and Turkey, including actors such as China, Korea, Russia and the United Arab Emirates to name a few. Even Turkey is itself a large donor in the region. 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 that many of these donors are not entirely “new” in the sense that they have only just begun to provide aid. China and Russia have provided aid around the world in various forms for decades. China, for example, has been involved in providing 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 Balkan countries is rather new at least in recent years. However, 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 heave 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).

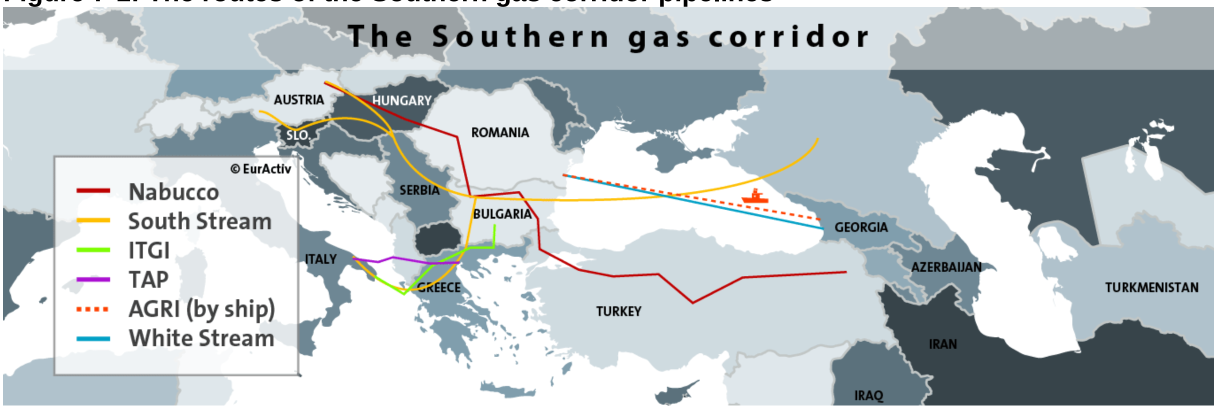
Despite concerns about the impact of the emerging donors on the continuing assistance programme of the established donor community, and in the Western Balkan countries and Turkey the potential adverse impact on the enlargement process, the emerging donors do not overtly try to overturn the existing rules 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 are having a potential effect on the bargaining position of EU and other established donors and providing a potential threat 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 tow 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 Shah Deniz gas field operators of Azerbaijan in December 2013.

While the US-backed Nabucco project failed, the Russian company Gazprom has signed contracts for the South Stream pipeline that will 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 eliminating 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 has begun on 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 has been signed for the South Stream and the Banatski Dvor UGS facility projects. In parallel, Gazprom has taken a controlling stake in state-owned Naftna Industrija Srbije (NIS). Construction of South Stream will create many new jobs in Serbia and will 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, cross Greece and Albania and the Adriatic Sea, before coming ashore in Southern Italy. TAP's routing will take gas to Albania, Bosnia and Herzegovina, Montenegro among others. TAP shareholders are BP (UK), SOCAR (Azerbaijan), Fluxys (Belgium), Total (France), Statoil (Norway) and 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 an MoU with Montenegro to extend the pipeline there, 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 the countries of the region that 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. Russia and Azerbaijan have made some donor interventions in the region but at a low scale, and have mainly concentrated on commercial contracts. 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.

7.2 Geopolitics of the transport sector

The Western Balkans and Turkey are strategically positioned as intersection for three continents. Europe, Asia and Africa (North). Transport infrastructure development is key to connecting these continents. Six out of ten European transport corridors have branches crossing South East Europe. 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 creates 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.

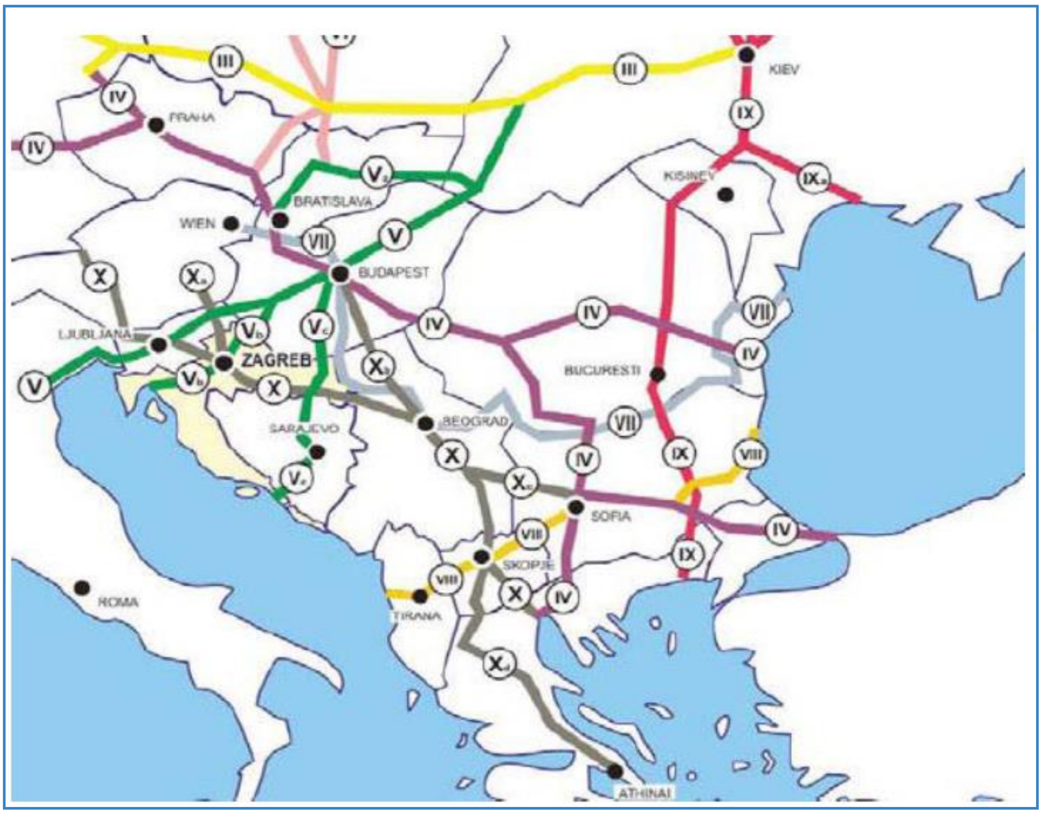
Furthermore, COSCO is bidding to operate the port of Thessaloniki, linked by rail to the rest of the Balkan Peninsula into Central Europe. The Chinese government is also vying to buy shares of the struggling state-owned Hellenic Railways Organization (OSE), scheduled to go up for privatization in the 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"[75].

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

[75] 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 in the Western Balkan countries

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[76] 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.

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[76] 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 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 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[77]. 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 creating projects to 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 inked 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 inter-donor coordination systems.

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[77] Such as adherence to the principals of fundamental rights, or take actions that would consolidate the democratic process in the country

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 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 Consensus on Complementarity and the Division of Labour in Development Policy urge donors to specialise in a few key sectors (according to the Consensus 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 are no explicit national strategies 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 mechanisms as well as 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 the two 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. These 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 is 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 and 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, 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 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 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 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 bias to overinvestment associated with the decisions taken by beneficiaries that have been observed in some circumstances. The decision to channel the applications for funding through local EU Delegations and local 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.

Secondly, the sector approach offers great 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 specialisation and focusing of activities in particular bottleneck sectors. However, it should be recognised that this 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 interest and operating procedures of different donors so that they cooperate in a harmonious way in a specific sector. 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 is 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 from the beneficiary side, 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 recommended to adopt a cautious approach to maximise the chances of overall success. Sector budget support, with the necessary safeguards, indicators and monitoring can provide a useful way to encourage beneficiary buy-in and avoid donor fragmentation.

Thirdly, 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.

Fourthly, 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 however 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. 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 system, that could of course also be integrated into the proposed regional donor coordination system if desired.

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