

**FORMER YUGOSLAV REPUBLIC OF MACEDONIA  
INTRODUCING PROGRAM-BASED APPROACHES  
IN AN EU ACCESSION COUNTRY<sup>1</sup>**

*Draft*

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## ***Introduction***

This case study was prepared for both the joint Government/donor aid effectiveness working group in FYR Macedonia and the World Bank's Aid Effectiveness Unit. The objective was to: 1) review recent global experience in introducing a Program Based Approach (PBA), including in middle income countries (MICs); 2) describe FYR Macedonia's emerging experience in introducing the concept and distill early lessons; and 3) provide recommendations for the program going forward, based on international and emerging experience in FYR Macedonia. The full terms of reference are provided in Annex A.

### ***1. Program-based Approach – what & why***

#### ***1.1 What - an approach rather than a blueprint***

There is no single definition of a PBA. Perhaps the one most commonly used is that adopted by the OECD DAC, which describes a PBA as *“a way of engaging in development cooperation based on the principle of coordinated support for a locally owned program of development. [It] includes four elements:*

- 1. leadership by the host country organization;*
- 2. a single program and budget framework;*
- 3. donor coordination and harmonization of procedures; and*
- 4. efforts to increase the use of local procedures over time with regard to program design and implementation, financial management, and monitoring and evaluation”.*<sup>2</sup>

PBAs are sometimes used interchangeably with other terms, most notably a sector-wide approach (SWAp). While avoiding a precise PBA definition allows for greater experimentation, it can also give rise to inconsistent understandings both between and within organizations. The following paragraphs summarize its main features.

**PBAs represent an approach rather than a blueprint or specific financing instrument, one characterized by *intent* and *directions* rather than *pre-requisites*** - the intent to expand beyond a very specific input focus, and to direct attention to a broad set of sector or thematic outputs and outcomes. A PBA's broad focus is expected to result in a scale-up of benefits, in the form of more rational and efficient resource allocation, and by exploiting synergies and exposing gaps, in enhanced development outcomes and impact.

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<sup>2</sup> This comes originally from the *CIDA Primer on Program-Based Approaches* (2003), Real Lavergne and Anneli Alba. It has since been widely drawn upon by others, including the OECD DAC and the World Bank. SIDA's recent report, *Guidance on Program-Based Approaches*, September 2008, has also provided helpful guidance.

**PBAs are characterized by adaptability to a changing environment.** They are expected to help move donors over time from financing specific expenditures and discrete projects to supporting an overall program. While this may involve pooling of donor with government financing, pooling is not a necessary PBA pre-condition.<sup>3</sup> Annex B provides further information on PBAs/SWAs, while Annex D contains a presentation on Global Experience with PBAs made at a Donor Coordination meeting in Skopje on June 2<sup>nd</sup>, 2009.

## ***1.2 PBAs – Why***

Before the mid 1990s, most development aid was channeled through project financing. During the 1990s it had become apparent that, because of a large and growing number of aid-funded projects created outside country institutions and systems, developing countries were finding it increasingly difficult to manage and coordinate their aid inflows, while the narrow project focus was unsuitable for addressing systematic inefficiencies in government financing, thus ineffective from the perspective of long-term poverty reduction.

PBAs were initially created in sectors with large numbers of donors and projects, such as health and education. It had become evident in those sectors that having scattered ‘project’ islands, each with its own rules and staffing, ended up draining the country’s relative scarce human and organizational capital and fiduciary oversight. **PBAs were thus expected to reduce the transaction costs of both government and donors, be more efficient in using country institutions, and be more supportive of country-led development.**

## ***1.3 Global Experience with PBAs, including in Middle Income Countries***

**Global experience in implementing PBAs is diverse.** In MICs, they have tended to be launched by the country authorities, with donors invited to join later in the design stage, or during implementation. In countries that have a lower donor footprint - whether measured by donor finance as a proportion of total development-related expenditures, or simply in terms of donor numbers - country leadership is easier and donor coordination costs are less. This is typically the case of MICs. Compared to low income countries, MICs also tend to have stronger institutions and systems, notably in the fiduciary area, which reduces the perceived risk to donors of reliance on country systems. In general MICs are thus better prepared to introduce PBAs than lower income countries, **as well as better placed**

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<sup>3</sup> Drawn from several sources, including *A Guide to Sector-Wide Approaches for Health Development* (Andrew Cassels, World Health Organization, 1997), *Inter-Agency Group on Sector-wide Approaches for Health Development: Seminar Handbook* (IHSD Ltd., 2001), *Guidelines for European Commission Support to Sector Program* (European Commission, February 2003), *Guidance on Program-Based Approaches*, SIDA, September 2008, and a range of publications on the World Bank OPCS internal website.

**to demand donor alignment and coordination, and to supply effective coordination among government agencies and with donors.**

PBAs have usually been preceded by many years of project financing. This helps establish relationships between key government and donor agencies as well as between individuals. In addition it provides valuable evidence of what parts of the policy and institutional system work well, and perhaps most important, a foundation of trust that facilitated donors willingness to 'let go' of project systems and institutions. Of course project financing often created its own champions for a project approach, who can be among the most resistant to a change.

**In most countries, the move to a PBA has been ad hoc**, usually one program at a time. Where more than one program or sector has been involved, each is normally allowed to grow somewhat organically from within, rather than responding to a prescribed template or timing of a central ministry or at the level of Cabinet. Mexico, for example, already had had success with its '*Opportunities*' Cash Transfer program before the government invited donors to cofinance.

Some of the more successful PBAs have not been sector specific, rather they have tackled key cross-cutting issues and innovations, for example in fiscal management, public sector reform and institutional modernization across 5 sectors (Brazil, Minas Gerais and Brazil, Ceara) – see Annex D for more examples.

In both MICs and LICs, donors can participate most easily in the following aspects of a PBA - in the sense of facing fewer legal, policy, and procedural obstacles:

- *Preparation of donor country strategies*, which provides donors the opportunity to coordinate with each other and with country authorities, in identifying their priorities, including in collaboration with other donors;
- *Formulation of sector strategies and priorities*, which follow a participative processes led by country authorities with donor engagement as appropriate;
- Agreement among interested donors with government, often in the form of a *Memorandum of Understanding (MOU) that details their respective responsibilities and defines broadly* how to work together in support of PBAs;
- *Analytical work*, either jointly or led by one or more donors on behalf of all those interested in supporting the sector;
- Division of labor in select areas where one or more donors undertake work and support the Government on behalf of all, such as *fiduciary diagnostics, results monitoring or capacity building activities* in the sector concerned; and
- *General budget support (GBS)*, where donor engagement tends to be agreed up-front in terms of program design and coordination of conditionality, and, once agreed, is typically followed by relatively smooth implementation.

PBAs with the following features are typically more complex, and thus more caution is needed before donors commit to programs:

- where there is *pooling of donor funds* with other donors' or government's - except for General Budget Support (GBS), where the rules are clearer up front;
- that are *procurement intensive*, especially where international competitive bidding is required by one or more donors;
- that present *significant social and /or environmental safeguard issues*.

#### **1.4 PBAs and Aid Effectiveness.**

PBAs are seen to have enormous potential to contribute to the global aid effectiveness agenda. For this reason they played a prominent role in the Rome (2003), Paris (2005) and Accra (2008) fora and related Aid Effectiveness declarations. All OECD DAC donors, many multilaterals, and a significant number of new bilaterals, have signed on to implement the commitments made at these fora, including on PBAs.

In the Accra Agenda for Action (AAA) adopted in September 2008, donors “reaffirm[ed] their Paris Declaration (PD) *commitment to provide 66% of aid as program-based approaches*. In addition, *donors will aim to channel 50% or more of government-to-government assistance through country fiduciary systems, including by increasing the percentage of assistance provided through program-based approaches.*”

Accra commitments are intended to be adapted to different country circumstances, including MICs, small states, and fragile states.<sup>4</sup> Recently, some donors, such as SIDA, have decided to adopt a ‘*program-based approach*’ for all of its development cooperation, motivated by a desire to operationalize the key principles of Accra and Paris, and be more effective in achieving development results.

**Paris Declaration and PBAs.** A 2007 Evaluation of PD implementation noted uneven progress in implementing commitments, including on many dimensions crucial for PBAs.<sup>5</sup> The main findings are noted below.

- **Ownership** had gained greater prominence, with considerable progress noted in several countries. However ownership remained narrow, heavily concentrated in central government, and varied significantly across sectors, with most donors’ political and administrative systems setting differing limits on their actual ability to support country ownership.
- Implementation of the various **alignment** components was highly uneven. Progress was noted in aligning aid strategies with national priorities, but less in aid allocation, in using and building country systems, in reducing parallel

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<sup>4</sup> See Accra Agenda for Action at <http://www.oecd.org/dataoecd/58/16/41202012.pdf>.

<sup>5</sup> See *Evaluation of the Implementation of the Paris Declaration*, July 2008, available at <http://www.oecd.org/dataoecd/19/9/40888983.pdf>.

Project Implementation Units, or in coordinating support to strengthen capacity. Among bilaterals, scant progress was seen in improving aid predictability and untying. Real and perceived risks and relative weaknesses of country systems remained serious obstacles to further progress.

- There was no discernable overall trend toward progress on **harmonization**, primarily a donor responsibility. It was seen as increasingly taking a back seat to the push for greater alignment with country systems.
- There was evidence of a relative lack of attention or progress in implementing commitments on **managing for results**, although this was acknowledged as being possibly the most challenging commitment.
- Joint processes for tracking progress and resolving problems fell short in terms of **mutual accountability**. Overall, the evaluation noted that Paris was a political agenda for action and not just a technical agreement, and most donors have not prepared their publics and adapted legislation - to allow for less emphasis on donor visibility and tying, accepting and managing risks in relying on country systems, agreeing to delegate greater decision-making to in-country staff, assuring more predictable flows, and finding ways to resolve political disputes.

## **2. FYR Macedonia – moving towards PBAs**

### **2.1 An EU accession country with significant inflow of aid**

The FYR Macedonia is a small open economy of over 2 million people, heavily dependent on exports and remittances. In 2007, per capita Gross National Income<sup>6</sup> was estimated at US\$3,480, with around a fifth of the population below the national poverty line. In both 2007 and 2008 GDP grew strongly, by an average of 5.4% in real terms. The 2008 fiscal deficit was about 1% of GDP, while the current account balances deteriorated significantly reaching 12.5% of GDP. Although official unemployment is high, at 33%, this is likely overestimated, because the officially unemployed have access to free health insurance. In 2009, GDP growth is expected to slow considerably and unemployment to rise, as the global economic crisis reduces growth, exports, FDI, and private transfers.

The EU continues to be FYR Macedonia's main trading partner, accounting for 60% of total imports and 47% of total exports, as well as for 75% of foreign direct investment. Neighboring Western Balkan countries are the second most important trade destination. Total trade amounts to 130% of GDP, with exports concentrated

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<sup>6</sup> GNI per capita Atlas method.

in textiles and steel. FYR Macedonia's location on a natural north-south/east-west Europe transport corridor provides opportunities for greater integration into the regional economy, helped by increased stability in the southern Balkans.

External donor support is high, particularly given its middle-income country status<sup>7</sup>, and also fragmented, with some 948 donor-funded projects under implementation according to OECD data. While aid levels are likely to remain high, the composition is changing from mainly bilateral to increasingly multilateral, structured more around EU institutions, IFIs, and a smaller number of bilaterals.

In December 2005, FYR Macedonia achieved candidate country status for EU membership, launching a pre-negotiations process requiring considerable effort from the authorities, in particular strengthening of the country's institutional capacity and legal framework. The EU negotiations timeframe depends on progress against a set of priority actions, assessed and reported on each year by the European Commission (EC). In part to prepare for EU negotiations, FYR Macedonia has a large number of sector strategies, including several under preparation, that further stretch the authorities' capacity to coordinate its development agenda. Many of these strategies are donor-financed, with mixed levels of government ownership.

## ***2.2 Aid Effectiveness in FYR Macedonia – recent progress***

The FYR Macedonia government elected in 2006 (and confirmed at early Parliament elections in 2008) made donor coordination and aid effectiveness a renewed priority, and got off to a promising start, with leadership by a handful of key government staff, supported by a UNDP-funded Aid Effectiveness project. The new initiative was supported within the donor group by a number of key factors, including:

- Support from EU representatives in Skopje;
- Support also from a few experienced bilateral heads of cooperation, such as Netherlands and Sweden, as well as the UN resident coordinator; and
- Arrival of a new World Bank country manager, with many years experience in promoting the Paris Agenda.

In December 2007, the EC/European Agency for Reconstruction (EAR) and the World Bank (WB) called on all donors to brainstorm on how to improve the effectiveness of aid, and by March 2008 all major donors had rallied behind the goal

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<sup>7</sup> According to OECD DAC's database, ODA to FYR Macedonia averaged \$214 million per annum between 2005 and 2007, around 3.5% of GDP, an average of \$107 per capita per annum, high for a MIC. The top ten donors provided 95% of ODA, with the top three (EU, US and Germany) accounting for almost two-thirds. The EU (through the Commission and member states) account for six of the top ten donors. Around 40% of ODA is currently noted as "program assistance". IFI financing, which does not count as ODA (World Bank, European Bank for Reconstruction and Development, European Investment Bank) provides substantial additional external support.

and a specific proposal to improve aid effectiveness. Due to parliamentary snap elections in June 2008, the dialogue with government on the aid effectiveness agenda was not taken up again until late autumn 2008. Meanwhile, a new deputy Prime Minister of the Secretariat for European Affairs (SEA), the government agency responsible for donor coordination, was appointed which gave an additional momentum to the effort.

In October 2008, a conference on donor coordination in the Western Balkans and Turkey was arranged in Brussels by the EC. This was seen by government and donors alike to advance the aid effectiveness agenda. It concluded that the PD spirit should guide EU-assistance and donor coordination not just in lower income countries, but also in pre-negotiation countries in the Western Balkans, and should include the key principles established in the EC Code of Conduct (see Annex C for outline of the EU Code of Conduct).

In December 2008, a new Joint Working Group was established, composed of selected donor representatives (EU member and non-member states, as well as multilateral organizations), and key Government representatives led by SEA. This was followed by a series of high level meetings on improving aid effectiveness. In January, 2009, the Joint Working Group was tasked with preparation of an action plan on introducing the PBA, and their action plan was endorsed jointly by government and donors in March 2009. Since then, the following key events have taken place:

- *2-3 April 2009* EC donor coordination conference on Western Balkans and Turkey in Tirana – FYR Macedonia presents its plans, which were very much welcomed by the EU and other donors.
- *Spring 2009* following a prolonged consultative process, authorities:
  - Identified five priority development areas in which progress was urgently needed: 1. Business Environment; 2. Human Capital; 3. Agriculture; 4. Environment; and 5. Governance – see table 1, below;
  - passed a decree to introduce PBA concept in these 5 program areas;
  - established initial structures, headed by SEA, together with a process to manage the transition to a PBA from a project by project approach - this includes identification of a lead ministry and forming of joint Government-Donor working groups for each of the priority areas; and
  - started to disseminate details of the new approach within line ministries.

**Table 1. Priority Program Areas, Strategies and supporting Donors**

<b>Priority area</b>	<b># of Sectors Included</b>	<b># of Strategies Included</b>	<b># of Donors/IFIs</b>
1. <i>Business Environment</i>	5	14	17
2. <i>Human Capital</i>	3	16	23
3. <i>Agriculture</i>	3	6	12
4. <i>Environment</i>	2	15	13
5. <i>Governance</i>	4	11	14

### ***2.3 Current Assessment on Ownership, Partnership and Results***

The FYR Macedonia's leadership of its development policy agenda has improved significantly in the past several months, according to interviews with key donors, supported by documentation prepared for the April 2009 Donor Coordination Conference in Tirana<sup>8</sup>.

A recent independent evaluation of aid effectiveness in FYR Macedonia assessed FYR Macedonia's **ownership** of its overall development strategy as *C*, or moderate, with the target being *B* (good) or *A* (excellent) by 2010.<sup>9</sup> The same evaluation noted that, although the country had developed a number of sector strategies, more work was needed to link them effectively to their National Development Plan. Performance of line ministries was seen as mixed both in preparing strategies and in planning for external assistance, whether because their capacity is stretched thin with so many new strategies being implemented or under preparation, or because so much of the development agenda is fixed by EC requirements.

During meetings with key donors, and from documents they provided, it is evident that collaboration and trust among donors is both good and strengthening, with many donors acknowledging the leadership role for the EU, with strong support from the WB, and strong UNDP support for the coordination process. This has provided an excellent starting point for donors to join in **partnership** on the PBA.

**Donors appear open to work through the implications of the PBA, both in terms of their willingness to adapt their work program in-country and to manage expectations at donor headquarters**, each with different mandates and different degrees of flexibility in use of country systems.

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<sup>8</sup> *Coordination of External Assistance in the Republic of Macedonia*, for Tirana April 2009 Conference.

<sup>9</sup> *Donor Coordination Ad Hoc Report*, Chapter 2 Coordination of External Assistance, prepared for April 2009 Tirana conference

**EU's strategic leadership role is well accepted among donors.** What this means for the PBA remains to be worked out. While the EU enlargement funds appear to lend themselves to being used flexibly by the authorities, different parts of the EC appear to have different degrees of flexibility, both in terms of financial resources and in terms of ability to follow the country's lead.

Most countries have had difficulty in articulating a meaningful and realistic **results** framework, well aligned to a Medium Term Expenditure Framework (MTEF). FYR Macedonia appears to be no exception – indeed this is likely to provide one of the greatest challenges in moving to a PBA, and, if significant progress can be made, an area of greatest return on investment.

## ***2.4 PBA Drivers and Constraints in FYR Macedonia***

*The main drivers working in support of a PBA approach in FYR Macedonia include:*

- ***a widely shared national goal*** - accession to the EU - that guides national development policies and strategies;
- ***renewed leadership of donor coordination by the authorities:***
  - high level coordination of all donor activities, including EU activities, by the State Secretariat for European Affairs (SEA); together with
  - the core of a good “back office” function, capable of tracking and analyzing external assistance inflows, in Ministry of Finance.
- ***EU willingness to play a strong leadership role***, including among donors, notably by hosting of international conferences to share experiences and best practices, and by committing to the PD principles at the Brussels conference in October 2008;
- ***increasing donor financial and technical support, notably from the EU***, with planned Instrument for Pre-Accession Assistance (IPA) financing expected to grow from Euro 59 million in 2007 to Euro 92 million in 2010;
- ***broad donor support for the PBA initiative***, at least in principle, with key donors that are adequately represented locally participating in the joint Working Groups – a few donors said their limited local presence limited their active participation;
- ***detailed diagnostic of public financial management systems in 2007***, providing a basis for donor risk assessment and capacity building<sup>10</sup>.

*The main constraints include:*

- The habit of working on a projectized approach - the existing donor-financed portfolio is highly fragmented, with 948 projects under implementation;
- Fragmentation can be expected to reduce only gradually over a number of years, as activities being financed represent joint commitments by government and

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<sup>10</sup> See *Former Yugoslav Republic of Macedonia – Country Fiduciary Assessment*, August 2007, World Bank Report no. 40888-MK.

donors, and thereby a significant continuing call on scarce national administrative capacity;

- Translating into action the move to PBAs in government will likely encounter serious difficulties, ranging from a lack of understanding among key actors to less than full commitment among sector ministries and agencies that may see themselves losing control over favourite programs and projects;
- Given the desire to move both quickly and across a broad front, the SEA, the central agency designated to manage the process, is inadequately resourced - while plans are afoot to reorganize and strengthen the Secretariat, the period of most intense coordination work is coming up and any strengthening will take time to be absorbed;
- Designated focal points in the lead ministries and other working group members do not appear to have sufficient support to play the leadership role expected over the coming months, a disconnect between the Government's stated high priority and perception within line ministries that this function can be part of '*business as usual*';
- Some important parts of the necessary PBA architecture have yet to be put in place. These include:
  - a results monitoring framework for each PBA to which the government and the respective PBA donors can subscribe;
  - strengthening capacity and performance of key government institutions and systems;
  - translation of the fiduciary review into risk-informed decisions;
  - a medium-term expenditure framework (although the current budget process does have elements of a medium-term framework, these need to be strengthened as well as better linked to the strategic priorities process);
  - While all donors are supportive in principle of PBAs, the larger donors might face practical implementation difficulties in the next few years, including possible rigidities related to IPA funding;
- Only a few donors (Netherlands, WB) have provided GBS to date, although Government is currently in discussion on a possible GBS for social protection. This could interest a number of donors, for example, EC, Netherlands, WB, with the social protection PBA Working Group providing the requisite prior actions. To the extent PBA financial support has to come from financial instruments normally associated with '*project*' interventions, this would be much more costly and time-consuming than GBS for both the authorities and the donors concerned.

See Table 2, below, for summary of key drivers and constraints to adopting a program based approach in FYR Macedonia.

**Table 2. A Program Based Approach to Accelerate FYR Macedonia's  
Development  
Key Drivers and Constraints**

<b>Key PBA elements</b>	<b>Government drivers/constraints</b>	<b>Donor drivers/constraints</b>
<i>Country Leadership</i>	<ul style="list-style-type: none"> <li>• EU accession is strong organizing principle, supported by govt. and main opposition parties</li> <li>• Ambitious EU accession and PBA agendas stretch leadership capacity</li> <li>• Recent key government changes require time for new officials to get up to speed on reform agenda</li> <li>• Fragmented development project portfolio strains government capacity, reducing space for investment in strategic priorities</li> </ul>	<ul style="list-style-type: none"> <li>• Different donor mandates influence how much donors cede leadership space to Macedonian authorities, particularly with some donors phasing out</li> <li>• EU flexibility needs to be explored, as currently the greatest scope appears to be in terms of its enlargement funds, rather than its structural funds</li> <li>• Different donor capacities in-country influence how country leadership can be supported in practice</li> </ul>
<i>Single program and budget framework</i>	<ul style="list-style-type: none"> <li>• Government has defined 5 broad strategic priorities</li> <li>• Elements of MTEF in place but need to be strengthened, with little costing done</li> <li>• Many sector strategies not always well linked, and link with overall national strategy weak – see Table 1</li> <li>• Sector/thematic strategies may need significant adjustment to comply with EU accession requirements.</li> <li>• PBA working groups will need to integrate strategies, stretching their already thin institutional capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Support for government strategies and programs avoids donors having: 1. to ‘sell’ government on something new; &amp; 2. to explain to donors reasons for disconnect w. government program</li> <li>• Donors are used to different way of doing business, with 948 separate projects under implementation</li> <li>• Given plethora of government strategies, donors tempted to impose their own way of rationalizing sector or thematic approaches, rather than support Government’s strategy...</li> </ul>
<i>Donor coordination and harmonization of procedures</i>	<ul style="list-style-type: none"> <li>• Govt. expectations of donors currently being developed</li> <li>• No obvious example of Govt. exerting strong role among donors in terms of insisting on their coordination and harmonization of procedures</li> </ul>	<ul style="list-style-type: none"> <li>• EU leadership critical and flexibility key</li> <li>• Donor commitment to coordinate clear, eg their strong involvement in PBA working groups</li> <li>• Donor capacity to coordinate mixed, partly due to lack of institutional capacity in-country of some donors</li> <li>• Donor legal mandate to coordinate, beyond GBS (Netherlands, WB) largely unproven</li> </ul>
<i>Use of country procedures...</i> 1. <i>Program design</i> 2. <i>Program impl.</i> 3. <i>Financial mgt.</i> 4. <i>Monitoring &amp;</i>	<ol style="list-style-type: none"> <li>1. Govt. could spend substantial time to resolve differing legal/other donor requirements. Experience from other countries will help clarify scope for flexibility and save time Government’s limited capacity to design projects will be stretched by ambitious development agenda</li> <li>2. Reduced transaction costs compared with dealing separately with multiple financiers</li> <li>3. Ditto</li> <li>4. Inability to provide a broad based results-focused M &amp; E framework</li> </ol>	<ol style="list-style-type: none"> <li>1. Donors could spend substantial time to resolve legal/other differences in donor requirements, (experience from other countries will help clarify scope for flexibility and save time)</li> <li>2. Reduce transaction costs. Some donors may wish to play more of leadership role than approach allows</li> <li>3. Ditto</li> <li>4. Impatience with Government led results focused M and E framework</li> </ol>

Key PBA elements	Government drivers/constraints	Donor drivers/constraints
<i>Evaluation (M&amp;E)</i>	may cause the authorities to chose temporary agendas and a variety of untested institutions	may tempt some donors to create their own results agenda

### **3. Recommendations for successful introduction of PBAs in FYR Macedonia.**

#### **3.1 Overview**

Introducing the PBA agenda in the FYR Macedonia is under an ambitious timetable. For this reason, recommendations are split into short, medium and longer term. These recommendations build on a large volume of excellent work that has already been done, including a requirement that, by September 2009, the following will be accomplished:

1. Decision taken about the scope of the program in each of the 5 priority areas;
2. Assessment of already existing strategies, priorities and program documents;
3. Initial assessment of institutional capacity, and identification of gaps;
4. Stocktaking of all donor-funded activities in that area;
5. Development of draft action plan to further implement the PBA concept in the program area.

In June, PBA working groups gave every indication that they would try to achieve the ambitious PBA goals mentioned above. It is worth signaling already that results by September are likely to be very mixed, because the work program is so ambitious, and because each of the thematic areas is different, with different starting levels of knowledge and capacity. The important thing is not to get disheartened if any of the above steps is still incomplete. Use the exercise to exchange experiences among the groups and to move forward opportunistically, as in other countries, with the programs that offer the most chances of early success. Such successes will help provide both the encouragement and the building blocks for a broader application of the PBA.

Current government processes, such as the strategic plans of ministries, and normal cabinet decision making, will need to take explicit account of the evolving demands from the PBA process. At the same time, the PBA working groups need to have a process for keeping government decision makers informed on a regular basis of progress and challenges as they move ahead.

In FYR Macedonia, there is no reason why PBAs cannot be applied in each of the 5 priority areas established by the authorities. Experience in other countries suggests that work can get underway relatively quickly in the areas of strategy formulation and analytical work. GBS is often seen as an effective way to support policy and institutional reforms, linked to a sound medium term macroeconomic framework.. PBAs that involve pooling of funds have mainly been seen in the social sectors (education, health and conditional cash transfers), especially in MICs. On the other hand it is usually relatively easy to accommodate projectized interventions for large, bulky, infrastructure investments, as long as they fall within or are clearly important for national and sector strategies.

### ***3.2 Recommendations to end-September, 2009***

- Encourage innovation and learning between PBA working groups. At this early stage, each Working Group may find a different approach works best, particularly as the topics differ greatly, ranging from Business Environment to Governance. Accordingly, it will be important for the SEA to facilitate learning by and between Groups.
- Celebrate successes, however small: no other country has tried to launch PBAs across such a broad and diverse set of topics at same time, to our knowledge. Because of this it will be important to judge success in terms of learning what works, and does not work so well, as even apparent '*failures*' represent real learning opportunities.
- Continue to be opportunistic – for example, the Agriculture Working Group is planning to use recent work by FAO to help with gap and priority analysis, while, given the overarching goal of EU-accession, the regular EU report could be used by the Working Groups to further define the scope of activities, gaps etc.
- As no PBA is likely to cover a whole thematic area, at least initially, choose no more than one theme to form a “program” in each of the five areas. For example, the Human Capital Working Group could move towards a PBA on social protection, that could build on ongoing work on strengthening social protection and implementing a Conditional Cash Transfer scheme. It would also help the Government to effectively use own and external resources to protect the most vulnerable from the impacts of the global crisis.
- Strengthen SEA with staff and financial resources as quickly as possible, so it can provide support to the working groups on the above areas.
- Provide additional support (staff, budget) to the line ministry focal points, thereby confirming the importance of the PBA.
- Reach agreement between government and donors on an action plan to put in place the “missing building blocks” to allow PBAs to proceed. The top four priorities should be: 1. a robust results-based monitoring and evaluation framework; 2. a clear understanding and agreement about implementation/coordination arrangements and capacity; 3. a Memorandum of Understanding between government and donors; and 4, in parallel, initiation of Medium Term Expenditure Framework (MTEF).
- Coupled with this, develop more fully an information and outreach program, so as to maintain good information flows: within and between Working Groups; with higher levels of Government; within key line ministries; with

parliament, public, media, and between donor representatives in-country and their headquarters, to manage expectations.

### ***3.3. Recommendations for October – December 2009***

- Continue to celebrate small successes, and avoid being over-prescriptive or over-ambitious, a lesson that emerges from experience in other countries.
- One would not expect more than one or two PBAs to show significant progress by end December, and those that do should be singled out for extra care and attention. As ‘nothing succeeds like success’, this is likely to provide the encouragement needed to retain the momentum of reform going forward. This is not to suggest that others be dropped or delayed, but simply to avoid holding up the one or two ready for immediate implementation, as many of them are likely to require considerable preparation time.
- In deciding which PBA to accelerate, choose one with at least some of the following:
  - Where there is identified Government champion
  - Where Government’s institutional capacity is relatively strong
  - Where one or more key donors are willing to follow Government lead
  - Where basic elements of a results framework are in place or could be fairly readily assembled, making it easier to agree on an explicit results-based M&E framework
  - Where the main financial costs can be calculated as input to the MTEF
  - Where results are likely within short timeframe.
- Agree on ‘light’ code of conduct, to assess how to:
  - respond if progress is not as planned; and
  - manage transition of key agencies and individuals, e.g., if key champions move either on Government or Donor side (e.g., EU, WB, Sweden...)
  - allow donors to move as fast as corporate mandate permits.
- While focusing on the 5 program areas, do not discourage other sectors or cross-sector themes from also being more ‘programmatic’... e.g., if any update is needed in the public expenditure management assessment, this could be done programmatically.
- Using the 2007 Country Fiduciary Assessment, review areas of strengths and weaknesses, and determine which ones require additional support, how, and how soon, to facilitate the PBA (elaborate, remove donor bottlenecks to use of country systems). In this context, there may be legislative changes required to create enabling environment for donors and line ministries to use national systems and move towards PBA (i.e. projects can not be undertaken if not reflected in the budget, projects

must be derived from a national strategic paper – sector/thematic strategy, areas for further development identified in EU progress report etc.).

- Efforts at donor harmonization should be replaced by a shared program to improve, and have donors make increased use of, national systems, as committed to in Paris and Accra. In practice, given FYR Macedonia's EU candidate status, this means using national systems that as quickly as possible **incorporate EU requirements**. Donors, to the extent possible, should help the authorities as they move to integrate EC procedures into national systems, as this will facilitate access to the increasing volumes of resources to be provided by the EU during the pre-accession phase.
- The 19-20 October 2009 EC/Swedish Presidency Donor coordination conference on Western Balkans and Turkey will be important milestone to report on progress, and seek advice on implementation challenges
- The EU is already recognized by other donors as having a particular and unique leadership role, and this allows donors to coalesce around EU leadership of the critical acquis actions.
- Process be put in place to help learn from lessons of experience, and incorporate these lessons into decisions to scale-up, broaden, or change course, as appropriate.

### ***3.4. Recommendations for 2010 and Beyond***

- Include all development financing sources, not just aid flows, into the Medium Term Expenditure Framework, and put national resources at center stage.
- Position the shift to PBA in a broader, medium-term context of how international financial assistance will evolve in the next few years within the priorities of the EU accession process.
- Work out which programs can without too much difficulty be restructured to support a more programmatic approach in the 5 areas.
- In this context, the authorities may wish to review the current status with donors, publish the baseline, and then set the annual progress targets they want to make to get to the Accra goal of two thirds programmatic aid.
- Accept that not all donors will be able to support a full PBA in practice, although, as all have signed up to the PD and AAA, they should all be able to support key elements.

- Government should insist that future investment follow the new approach, and any additional national resources for coordinating development programs *not* be dedicated to the currently fragmented set of donor projects.
- Donor-financed projects presently under implementation would normally continue as originally designed unless there is a compelling reason to retrofit. Although retrofitting is often time consuming and costly, some retrofitting should not be ruled out for projects critical to a particular PBA.

<b>Looking ahead ...</b>	
Country Leadership	<ul style="list-style-type: none"> <li>• Government ability to coordinate ambitious agenda needs strengthening</li> <li>• Donors willingness to coalesce around country leadership will face implementation difficulties , so that ability to resolve difficulties in real time needs to be created and facilitated</li> <li>• Aim for one or two successful PBAs by end 2010, to provide impetus for broader progress on aid effectiveness and development impact</li> </ul>
Single program and budget framework	<ul style="list-style-type: none"> <li>• Choose those PBAs that are most ready (clear strategy, strong champion, strong results focus...) to provide early evidence of progress and experience for others</li> <li>• While other PBAs can develop more slowly, learning from the leaders, and reducing institutional demands</li> <li>• Not all sector strategies need to be folded into PBAs, some may proceed in parallel</li> </ul>
Donor coordination and harmonization of procedures	<ul style="list-style-type: none"> <li>• PBA provides opportunity for government and donors to enhance coordination and harmonization of approaches</li> <li>• Clearly identifying priorities and promptly handling design and implementation difficulties will: <ul style="list-style-type: none"> <li>○ Facilitate learning</li> <li>○ Enhance chances for success</li> </ul> </li> </ul>
Use of Country Systems	<ul style="list-style-type: none"> <li>• Government and donors will gain most from full use of all country systems, but this will not be possible for all donors, at least at first. Inability to use <i>all</i> country systems should not discourage donors from use of <i>as many</i> as possible, and <i>as quickly</i> as possible, more and more over time.</li> <li>• Easiest is likely to be country's own strategic framework</li> <li>• Less easy, but critically important, is to identify up front a results and monitoring and evaluation framework</li> <li>• Also important, but depending on donor mandates, may prove more challenging, to integrate program into <ul style="list-style-type: none"> <li>○ MTEF</li> <li>○ national budget</li> <li>○ Revenue &amp; Appropriations bill approved by Parliament</li> </ul> </li> <li>• Disburse funds through government treasury systems (not</li> </ul>

	<p>possible for some donors, e.g. USAID)</p> <ul style="list-style-type: none"><li>• Subject donor funds exclusively to national audit requirements, with no different standards imposed by donors (GTZ new requirement that GTZ funds be separately audited)</li><li>• External financing included in ex post reports by government</li><li>• Externally financed procurement follows standard Government procedures (difficult for some donors, for example WB)</li></ul>
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## ***Annex A – TOR: FYR Macedonia Case Study: Introducing the PBA Concept***

**Context:** Striving toward the accession to the European Union, the Macedonian Government and its main development partners agreed in 2008 to improve the focus and coordination of aid. They established a working group to develop a set of guiding principles and an action plan. This initial work has been completed, adopted by the government and supported by all of FYR Macedonia's major development partners. It aims to introduce program based approaches (PBAs) in five priority sector/thematic areas: business environment, human capital, agriculture, environment, and governance. The government and development partners have established teams to drive the implementation of each of the PBAs consistent with the guiding principles. The teams consist of senior government representatives from the line ministries involved and key development partners active in the respective program areas. The teams are taking stock of country priorities, development partner support (ongoing and planned), and implementation capacity and structures in each of the five program areas. They will also draft work plans for each of these areas to introduce the PBA concept. The work is expected to be completed by September 2009 and will be discussed at a high level meeting organized by the Government in late September.

**Objective:** The objective of the assignment is to prepare a case study that: 1) describes FYR Macedonia's emerging experience in introducing the PBA concept and distills early lessons, and 2) provides recommendations for the FYR Macedonia program going forward based on international experience and lessons learned. It is envisioned that the case-study will be presented at a high level EC donor coordination meeting on the Western Balkans and Turkey to be held in October 2009 in Brussels.

**Methodology and Outputs:** The case study will be based on: 1) cutting edge thinking and experience/lessons learned from PBA support internationally, 2) a review of key documents related to the introduction of the PBA concept in FYR Macedonia, and 3) in-country interviews with the government and development partners in close collaboration with the joint Government/donor working group, the EC delegation and the World Bank's Country Manager in FYR Macedonia.

The case-study should describe what has been accomplished to date and how (success factors, enabling environment); the hurdles overcome in forging agreement between the government and its partners; and the challenges and opportunities going forward.

The study will:

1) describe FYR Macedonia's progress in developing the introducing the PBA concept, in the context of its EU accession. To this end, it will relate the FYR Macedonia experience to the broad objectives of the PBA concept:

- country ownership of a sector/thematic strategy and public expenditure framework,
- government leadership of aid coordination,
- alignment of aid resources with the strategy and expenditure framework,
- strengthening and use of country systems.

2) identify the success factors and challenges of the process, highlighting the unique features of this situation, notably coordinating aid in a lower middle-income MIC-EU accession context with the EC as a major donor

3) compare the FYR Macedonia situation with that of other countries where multiple donors have provided sector programmatic support/PBAs drawing on a range of examples/situations which affect key decisions in the development of the PBA concept:

- funding sources and partners--EU (enlargement and development), bilateral donors, multilateral donors, global funds,
- strength of government leadership in aid coordination,
- budget support or other mechanism,
- extent of use of country systems,
- pooled/non-pooled funding to support the PBA,
- disbursement triggers (outcomes or expenditures)

The case study will explain how these examples are relevant to PBAs in different country contexts in general and specifically how they relate to the Macedonian context.

4) make recommendations based on cutting edge thinking and international experience for the government, development partners as a group and for the World Bank on how to move forward in a pragmatic manner during the next phases of the introduction of the PBA concept in FYR Macedonia and the World Bank program in FYR Macedonia.

The consultants will produce a final report of no more than 20 pages.

**Assignment details:** The assignment will be undertaken by two senior consultants who will work 15 days each between May 17 and June 30, 2009, including a mission in FYR Macedonia of approximately 5 days. It will be financed by OPCS. The consultants will report to OPCAE supported by Markus Repnik.

## ***Annex B – The OECD DAC on Program-based Approaches***

The OECD DAC (Development Assistance Committee) defines PBAs as a “way of engaging in development cooperation based on the principle of coordinated support for a locally owned program of development, such as a national poverty reduction strategy, a sector program, a thematic program or a program of a specific organization. PBAs share the following features:

- a) leadership by host country or organization
- b) a single comprehensive program and budget framework
- c) a formalized process for donor co-ordination and harmonization of donor procedures for reporting, budgeting financial management and procurement, and
- d) efforts to increase the use of local systems for program design and implementation, financial management, monitoring and evaluation.”

The DAC also offers good practices for both general budget support and SWAps.<sup>11</sup>

The DAC describes budget support as a “method of financing a partner country’s budget through a transfer of resources from an external financing agency to the partner government’s national treasury. The funds thus transferred are managed in accordance with the recipient’s budgetary procedures.” Apart from being particularly well-suited for macro-economic stabilisation needs and for supporting poverty reduction and growth, budget support is seen as offering the prospect of reducing transaction costs, facilitating donor coordination, and enhancing the predictability of aid flows.

Budget support also constitutes a potentially effective tool to improve the allocation of funds in partner countries’ public spending, and strengthen their policy ownership. Finally, by channeling aid resources through the partner country’s budget it fosters institutional building and increases accountability by underscoring the budget’s role as the statement and tool of government policy. It also sees potential downsides—possible increase in aid volatility, costly fiscal adjustments, extensive and intrusive conditionality, and heavy reporting requirements. It articulates guiding principles (with suggested good practices in parentheses):

- reinforce country ownership (budget support should not attempt to leverage action where political commitment does not exist, refrain from targeting, reflect country priorities, focus on results),
- help to enhance performance and accountability of country PFM systems (follow DAC good practices in PFM diagnostic work, support development of PFM systems, avoid undermining country systems),
- minimize transaction costs (streamline conditionality, rationalize fiduciary assessments, align process, tap the potential of joint donor frameworks, time disbursements to facilitate smooth budget execution),

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<sup>11</sup> This annex is largely drawn from Harmonising Donor Practices for Effective Aid Delivery, Volume 2, OECD DAC, 2006. See <http://www.oecd.org/dataoecd/53/7/34583142.pdf>

- deliver in a way that enhances predictability and reduces volatility (multi-year programming, align with country budget cycles, design conditionality to enhance predictability, time disbursements in a predictable manner, avoid stop-and-go cycles and allow for graduated responses, build public support).

The DAC defines a sector-wide approach as a PBA operating at the level of an entire sector. A sector development program, on the other hand, is a time-bound and costed set of actions and activities which support a sector strategy (i.e., “the single comprehensive program and budget framework of a PBA”, which incorporates both government and donor resources). Neither is an aid instrument. A sector development program may be (and usually is) supported by a variety of aid instruments, including aid-funded projects, technical assistance, sector budget support, and general budget support.

The key components of an effective SWAp are:

- A clear nationally-owned sector policy and strategy
- A medium-term expenditure program that reflects the sector strategy
- Systematic arrangements for programming the resources that support the sector
- A performance measurement system that measures progress and strengthens accountability
- Broad consultation mechanisms that involve all significant stakeholders
- A formalized government-led process for aid coordination and dialogue at the sector level
- An agreed process for moving toward harmonized systems of reporting, budgeting, financial management and procurement.

SWAp guiding principles support government ownership and leadership, work with government to strengthen institutional capacity and accountability, set the sector program in context, take a long-term strategic view, be pragmatic and flexible.

Experience suggests that the following factors are relevant for success:

- political and macroeconomic stability,
- broad and effective government ownership, and
- broad consensus between government and donors on sector policy and management issues.

SWAps should avoid being too ambitious, support the government’s effort to design its sector policy and strategy, pay attention to implementation (especially common arrangements, which can be very tricky), and donor coordination.

The DAC Good Practice note goes on to include suggestions for setting sector policy and strategies, establishing the sector framework, and programming sector and thematic expenditures, resource monitoring and accountability.

## ***Annex C - EU Code of Conduct***

The EC has proposed a *voluntary* Code of Conduct for better division of labor (DOL) between **EU donors in developing countries**. **The Code is based on 11 principles designed to reduce administrative formalities**, to use the funds where they are most needed, to pool aid and to share the work to deliver more, better and faster aid.

The Code of Conduct was adopted on May 15, 2007. It defines complementarity as *'the optimal division of labor between various actors in order to achieve optimum use of human and financial resources'*. It is: **voluntary, flexible, and designed to guide the policy and the actions of EU donors; dynamic in terms of principles, defining targets EU donors will endeavor to reach; for all EU development cooperation decision-makers**, with hopes other international donors will conform to it in future; aimed at **complementarity between public authorities** involved in EU cooperation policy, whilst acknowledging the importance of enhanced cooperation between public and private aid; and focused **on operational complementarity** ( working methods), in-country, cross-country, and cross-sector.

The Code consists of the following eleven guiding principles:

1. **Concentration of activities on a limited number of focal sectors (two, is recommended) where** EU donors offer the best comparative advantage, as recognized by the government of the client country and the other donors, in addition to GBS and finance for programs relating to civil society, research and education;
2. **redeploy into other activities in-country (non-focal sectors), remaining committed through a delegated cooperation/partnership agreement** redeploy to GBS or exit the sector in a responsible manner;
3. **encourage the establishment, in each priority sector, of a lead donorship arrangement** responsible for coordination between all the donors in the sector, with a view to reducing the transaction costs;
4. **encourage the establishment of delegated cooperation/partnership arrangements** through which a donor can act on behalf of other donors concerning the administration of funds and dialogue with the partner government;
5. **ensure appropriate support in the strategic sectors**. At least one donor should be actively involved in each sector considered relevant for poverty reduction. In addition, there should be a maximum of 3 - 5 active donors for each sector;

6. **replicate this division of labor at regional level;**
7. **designate a limited number of priority countries** for each donor through dialogue within the EU;
8. **grant adequate funding to the countries which are overlooked as far as aid is concerned** and which are often fragile countries whose stabilization would have positive repercussions for the region as a whole;
9. **analyze and expand areas of strength:** the EU donors should deepen the evaluations of their comparative advantages with a view to greater specialization;
10. **pursue progress on other aspects of complementarity,** such as vertical and cross-modality/instruments dimensions;
11. **deepen the reforms of the aid systems:** the changes suggested by the Code require reforms of a structural nature and in terms of human resources.

*Annex D – Selected Global Experience with Program-Based Approaches*

**Selected Global Experience with  
Program-Based Approaches**

Judy O'Connor and Paul Bermingham, Skopje, June 2, 2009

**Program-Based Approach – A Definition**

*“A way of engaging in development cooperation  
based on the principles of coordinated support  
for locally owned program of development”*

OECD/DAC (2005)

## PBAs – Key Elements

- PBAs are owned and led by Government
  - With strong technical role for public sector
- PBAs use
  - country systems/procedures
  - agreed sector/thematic policy framework and strategies
  - common expenditure framework
- PBAs are based on shared vision and priorities
  - in partnership with other development actors
- *Elements are NOT prerequisites, they are indications of intent/direction*
- *Elements may evolve separately and mature over time*

## PBAs – paradigm shift in focus and relationships

	Project Approach	Program Based Approach
<i>Design</i>	<ul style="list-style-type: none"> <li>•Narrowly defined objectives and scope</li> <li>•Upfront planning of specific inputs/outputs</li> </ul>	<ul style="list-style-type: none"> <li>•Broadly defined sector/program</li> <li>•Agreed multi year framework</li> <li>•Annual planning cycle</li> </ul>
<i>Results monitoring</i>	<ul style="list-style-type: none"> <li>•focus on performance and outcomes <i>project by project</i></li> </ul>	<ul style="list-style-type: none"> <li>•Focus on sector or program wide performance and outcomes</li> </ul>
<i>Relationships with financiers</i>	<ul style="list-style-type: none"> <li>•negotiations and agreement often bilateral (line ministries and donor)</li> </ul>	<ul style="list-style-type: none"> <li>•Negotiations and agreements multi-lateral (Government-led with many donors together)</li> </ul>
<i>Implementation</i>	<ul style="list-style-type: none"> <li>•Project specific, fixed-term management arrangements/capacity</li> </ul>	<ul style="list-style-type: none"> <li>•Integrated sector/program capacity, typically with longer term focus</li> </ul>

## PBAs – expected benefits: enhanced development impact

- More rational prioritization among competing sector demands and strategies
- more efficient use of government capacity, systems and institutions
  - reduced duplication of resources and ‘transaction costs’
    - eg on reporting requirements, audits
  - Potential to scale up successful approaches more easily
  - Potential for synergies between different program elements
- Greater focus on Results
- Potential for more open policy dialogue nationally

## PBAs – Operational Implications

- Up front clarification in:
  - Government accountabilities
    - Not only to donors, but more importantly, to citizens
  - Donor accountabilities
  - Ways of working between Government and Donors
    - Important if things change during implementation
- Regular review around agreed results framework
  - Ex post assessment can be widely commented on, by all local and international stakeholders
- Big tent ...
  - different donors can adjust their support to PBA at different speeds, depending on constraints

## Aid effectiveness

- Paris Declaration implementation experience has been mixed mixed
- Follow-up Accra meeting (2008) re-commits to it, and emphasizes three issues
  - Country ownership is key
    - Stronger commitment to use country systems (aim for 50%+)
    - Re-affirm Paris commitment of not less than 66% programmatic
  - Build more effective and inclusive partnerships
    - Work more with all players including civil society
    - Reduce costly fragmentation
  - Deliver and account for development results
    - Results, results, results
    - More transparency (to publics), reform conditionality, increase

## Poland – Roads

- Five year program (2004-09, i.e., post EU accession)
- EIB €500m, IBRD €350m, GoP €200m.
- Three IBRD loans—2004, '05 and '06, of which >90% for road maintenance and rehabilitation
- Funds disbursed in tranches into the govt.'s budget.
- Poland's procurement laws changed to accommodate EU, with some "tweaking" for IBRD compliance
- Audit carried out by Polish Supreme Chamber of Control

## Mexico – Oportunidades

- Government-initiated program, now opened up for donor support from IBRD and IADB
- IBRD country strategy now largely programmatic
- *Oportunidades* SWAp recently approved – largest-ever World Bank SWAp-type loan – US\$1.5 billion
- Aims to help 5 million poor people, 70% of whom live in rural areas, through conditional cash transfers (CCT) focused in health, education and nutrition
- First loan to be fully implemented in 1 year
- IADB has \$2 billion line of credit for the program
- Also includes focus on results monitoring and TA

## Brazil – States of Minas Gerais and Ceará

- Many SWAPs in Brazil, since early 2000's
- Ex #1: Large (\$975 million) IBRD loan to support the state of *Minas Gerais* in overall fiscal management, measures on health, education, transport, innovations in public management. Govt and IBRD funding, over three years
- Ex. #2: State of *Ceará* (\$240m IBRD) SWAp as part of \$2.5 billion total program (no other donor) to consolidate social advances & instit. modernization in 5 sectors
  - public sector management, education, health, heat and sanitation, and business environment and innovation

## Morocco – education, roads and HD

- Three SWAPs since 2004—education, rural roads, and national initiative for human development support
- Other donors involved—European institutions, AfDB, France
  - Roads - \$685 m over 3 years, of which govt. and local communities 55%, and donors/lenders (IBRD, EIB, AfDB, AFD, others) the balance
  - Education – \$275 m 2005-09, financed by govt and IBRD (\$60m)—other donors may join later
  - INDH – 2006-10 \$1.3bn, of which govt 60%, municipalities 20%, donors 20% (1<sup>st</sup> IBRD loan \$100m funds govt's share)
- Together with budget support (DPLs), IBRD program support is around 2/3 of total - amounts range from \$60 to \$100 million per loan
- Other features—sub-national, results monitoring, TA

## PBA with multiple donors – Health (i)

- Convergence of Government/donor view that '*projectized*' approach was not working
  - Little progress in meeting millennium development goals
  - Aid very fragmented
    - More than 300 projects, 10 donors, many with own project management arrangements replicating government systems, most with own reporting and audit requirements
  - Development policy financing overloaded
    - Focused on macro, social sectors, infrastructure (water, energy, transport), governance, business climate ....

## PBA with multiple donors – Health (ii)

- Government/Donors agreed to
  - Phase out discrete projects where possible
  - Introduce forum for debate, led by Government, and open to civil society
  - Common results framework, with longer term goals for 2015 (MDGs), as well as more short term, annual benchmarks to judge progress
- Some donors continued to provide project financing,
  - based on their mandate
- Some donors pooled funds with government tax revenues
  - together funding disbursed to central and district levels
  - Budget classification allowed expenditure tracking by donor (28 digit code)
- Joint annual reviews
  - provide time for review of experience, results , and modification in PBA

## Future trends in development cooperation

- OECD DAC last week endorsed "*Investing in Development – A Common Cause in a Changing World*"
- Response to a profoundly changing global landscape
- For development cooperation:
  - Development needs more than aid—notably, more policy coherence for development and integration of global public goods
  - Global governance for development needs radical reform, guided by increased legitimacy, accountability, and effectiveness
  - International community to step up its comments, resources and aid effectiveness
  - Re-commit to MDGs, and put in place successor (post- 2015) arrangements
- For the DAC: adapt its activities, processes, structures and governance to support the above

## Assessing Paris Declaration compliance

- No formal guidelines available.
- Done at country program rather than project level
- See [www.oecd.org/dac/hlfsurvey](http://www.oecd.org/dac/hlfsurvey).
- Aid flows aligned on national priorities:
  - Donors should provide budget authorities with timely and comprehensive information on their scheduled disbursements in line with government's system of classification.
  - Government should record comprehensive budget estimates for aid provided.
  - Government and donors should work together to ensure that aid recorded in budget estimates is as realistic as possible.
- Strengthen capacity by co-ordinated support
  - Partner countries commit to integrate specific capacity strengthening objectives in national development strategies and pursue their implementation through country-led capacity development strategies where needed.
  - Donors commit to align their analytic and financial support with partners' capacity development objectives and strategies, make effective use of existing capacities and harmonise support for capacity development accordingly.
- Use of country public financial management systems
  - How much donor support used national budget execution, financial reporting, external auditing?
- Use of country procurement systems
  - How much donor support used national public procurement systems?

## Assessing Paris Declaration compliance

- Strengthen capacity by avoiding parallel implementation structures
  - Number of parallel PIUs used
- Aid is more predictable
  - The realism of predictions on volume and timing of expected disbursements.
  - The mechanisms for notifying and recording donor-funded disbursements.
  - The comprehensiveness of government's records of disbursements made by donors.
- **Use of common arrangements or procedures (modalities for implementing PBAs)**
  - **The partner country is responsible for defining a clear country-owned program (e.g. sector policy) and establishing a single budget framework that captures all resources both domestic and external.**
  - **Donors are responsible for taking steps to use of local systems for program design and implementation, financial management, monitoring and evaluation.**
  - **Partner countries and donors are jointly responsible for establishing a formal process for donor co-ordination and harmonisation of donor procedures.**
- Joint missions
  - It is important that donors conduct fewer missions, co-ordinate timing with partner authorities and, where necessary, with other donors, conduct more joint missions and avoid 'mission free periods'.
- Joint country analytic work
- Mutual accountability

## Some lessons

- PBAs have an enormous contribution to make in middle income countries
- Country ownership and leadership are key
  - Leadership at both political and operational levels
- PBAs need to, and can, be accommodated to country-specific conditions
  - Can support country-specific political priorities
  - Can accommodate one donor or many
  - Can be responsive to political requirement to move and show results quickly
- There are pre-conditions for successful SWAPs...but these are largely addressed in the agreed guidelines

## Some challenges

- Government champion and capacity
- Willingness of donors to accept country leadership in practice
- Willingness of sector ministries and agencies to accept and support the shift from projects to programs
- How to avoid having donor coordination become too complex and time-consuming
- How to measure and disseminate results credibly and quickly
  - making allowance for measuring interim progress where outcomes take longer
- A framework that allows those who are ready to move to PBAs to do so quickly, while allowing those who need more time to continue to add value through non-PBA structures
- A framework that will allow PBAs to address implementation problems that arise

## Some comments on Macedonia

- EU accession provides a broadly supported national agenda within which to design and implement donor programs
- Much good work has already been done
  - the agreed guiding principles are the right ones
  - a soon to be finalized Conditional Cash Transfer project should provide useful lessons
- Don't limit it to aid (ODA)—include all sources of development finance, with country resources at the center
- The five areas identified provide a rich menu to draw from
- Prioritize, and find an early success—
  - Initially one area in each program
  - with one or more willing donors supporting govt. leadership
  - that can be approved and delivered quickly
  - that can deliver concrete results
  - that can form a basis for broadening and scaling-up

## ***Annex E - Checklist of program based approach elements***

Answering the questions below should help donors clarify where their agency can become more programmatic:

- At the Concept stage
  - ✓ Is program broadly defined, in scope and in time?
  - ✓ Is program part of agreed sector or thematic strategy?
  - ✓ Is program part of agreed policy framework?
  - ✓ Is program part of agreed national results framework?
- Agreement stage
  - ✓ Is program negotiated with Government and donors together
- Implementation stage
  - ✓ Does it use country systems for program implementation?
    - i. Project Management
    - ii. Monitoring and evaluation
    - iii. Procurement
    - iv. Financial Management
  - ✓ If not, can donors move to the use of country systems over the life of the program?
  - ✓ If not, can donors move to another program, or part of the program, where differentiated implementation arrangements will not create additional costs to the country or additional coordination burden?
- Integration stage (post-program)
  - ✓ Are results tracked post program
  - ✓ Are results tracked long term

Particular attention should be paid to the Financial Management and Procurement aspects of the PBA. In this context it may be helpful to clarify what aspects of financing flows are captured by and integrated into country systems and reporting requirements?<sup>12</sup>

- ✓ Is funding 'on' plan
- ✓ Is funding 'on' budget
- ✓ Is funding 'on' parliament's agenda, i.e. through budget
- ✓ Is funding 'on' treasury
- ✓ Is funding 'on' accounting
- ✓ Is funding 'on' audit, or does donor require separate audit?
- ✓ Is funding 'on' report to Parliament and the public
- ✓ Is funding 'on' procurement, i.e. using government procurement procedures?

For more details on each of these aspects see Better Aid, referenced below.

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<sup>12</sup> See *Better Aid Managing Development Resources The use of Country Systems in Public Financial Management*, OECD 2009

**Annex F - FYR Macedonia – Priority PBA Areas, Sectors, Strategies and Donors**

<b>Priority area</b>	<b># of Sectors</b>	<b># of Strategies Included</b>	<b># of Donors/IFIs</b>
<b>Business Environment</b>	<b>5 sectors</b> Business & other services Banking & financial services Industry Tourism Trade Policy & Regulations	<b>14 Strategies</b> National Development Plan (NDP) Pre-Accession Economic Program (PAEP) Program for stimulating investments National (N) Strategy (S) for SME Development Program for Development of Entrepreneurship, Competitiveness, & Innovation of SMEs National Corporate Responsibility Agenda Strategy on enforcement of law on Securities Audit Authority Development Strategy Bank Supervision Development Plan Strategy for Public Internal Financial Control National Program for Restructuring Steel Industry Strategy for Development of Textile industry National Strategy for Tourism Development <i>Planned Strategy for Industrial Policy</i>	<b>17 Donors</b> China EU (CARDS, IPA) EU countries (Austria, Germany, Greece, Netherlands, Sweden, UK) Japan Norway Switzerland UN (UNDP, UNESCO) USA World Bank (IBRD, IFC)
<b>Human Capital</b>	<b>3 Sectors</b> Education Health Other Social Infrastructure and Services	<b>16 strategies</b> NDP PAEP Public Investment Program (PIP) National Youth Strategy National Strategy on Mental Health N S on Diminishing Harmful Effects of Using Tobacco.. N S on Diminishing Harmful Effects from Alcohol Abuse Annual Program on Healthcare of Persons w Addiction Diseases National Employment Strategy National Employment Action Plan (06-08) N S for Deinstitutionalization w/in Social Protection System National Strategy for Roma National Strategy for Protection against Domestic Violence Regional Program for Natural & Cultural Heritage <i>Planned National Strategies for Tuberculosis Control and Health</i>	<b>23 donors</b> China EU EU countries (Austria, France, Germany, Greece, Italy, Netherlands, Sweden, Spain, UK) Japan Norway Switzerland Turkey UN (ILO, UNDP, UNESCO, UNICEF, WHO) USA Other (OSCE, Red Cross)
<b>Agriculture</b>	<b>3 Sectors</b> Agriculture Fisheries Forestry	<b>6 strategies</b> PAEP Strategy on Agriculture and Rural Development National Strategy for Organic Agriculture Production Food Safety Strategy Plan for Sustainable Development of Forestry	<b>12 donors</b> EU (CARDS/EU FUNDS) EU countries (Germany, Finland, Sweden, UK) Switzerland Turkey UN (FAO, IFAD) USA World Bank
<b>Environment</b>	<b>2 Sectors</b> General Environment Protection Water Supply and Sanitation	<b>15 strategies</b> NDP PAEP N Strategy for Environmental Investments National Environmental Action Plan National Strategy for Environmental Approximation National Strategy for Protection and Rescue National Strategy for Clean Development Mechanism N Program for Reduction ...of Ozone Depleting Substances National Strategy for Waste Management National Strategy for Waters Strategy for Sustainable Development of Forestry	<b>13 donors</b> EBRD EU EU countries (Austria, Germany, Italy, Sweden, UK) Japan Switzerland USA UN (UNDP, UNIDO)

<b>Priority area</b>	<b># of Sectors</b>	<b># of Strategies Included</b>	<b># of Donors/IFIs</b>
		<i>Planned National Strategies for 1. Sustainable Development, 2. Ambient Air Protection, and 3. Nature</i>	
<b>Governance</b>	<b>4 Sectors</b>  Government and Civil Society  Public Administration, Justice and Home Affairs, Decentralization, Regional Development	<b>11 strategies</b> NDP PAEP National Strategy for European Integration Strategy for Police Reform Strategy for Fight against Corruption Strategy for Reform of Criminal Legislation Strategy for ICT in Judiciary Strategy for Integrated Border Mgt Strategy for Reform of Judicial System Program for Implementation of Process of Decentralization Strategy for Regional Development	<b>14 donors</b> EU EU countries (Austria, France, Germany, Netherlands, Slovenia, Sweden, UK) Norway OSCE  Switzerland UN (UNDP) USA World Bank