

Helpdesk Research Report: Support to Public Administration Reform in Central and Eastern Europe

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Query: Please provide examples and assessments of coordinated donor support to public administration reform (PAR), particularly focusing on multi-donor trust funds, joint or pooled funds, and sector-wide approaches in the transition countries of Central and Eastern Europe.

Enquirers: DFID

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1. Overview

Although a review of the literature indicates that public administration reform (PAR) in Central and Eastern Europe has been undertaken with a degree of institutionalised coordination between donors led by the World Bank, the UNDP and DFID, there is little documentation of how this coordination operates in practice. The relevant literature addresses these issues in two principal ways: a) general reviews and guidelines for donors in post-conflict and transition countries, of which countries in the Central and Eastern European are included; and b) specific articulations of how donors function in specific countries in the region. The examples in this second class come largely from Bosnia and Herzegovina, which has received significant donor attention. Multi Donor Trust Funds (MDTFs) are the subject of most of the literature dealing with donor coordination in PAR, although published reviews of MDTFs in the PAR context are not widely available.

In general MDTFs are a popular way of organising donor support in difficult transition environments. The perceived benefits are:

- Lower transaction costs for donors
- Coordination of donor priorities and approaches
- Attracting a wide range of donors to contribute
- Facilitating easier harmonisation with country strategies and structures
- Straightforward disbursement and recording procedures

Alongside examples from transition countries such as Sudan, Indonesia, Iraq and Afghanistan donors have contributed to joint funds to support PAR (and related sectors) in Central and Eastern Europe. Cases include pooled Capacity Building Funds (CBFs) in Serbia and Georgia and the establishment of the Public Administration Reform Fund (PARF) in Bosnia and Herzegovina (BiH). An assessment of the literature on these suggests that:

- It is crucial for recipient government actors to participate in the management of such funds;
- Articulations of coordinated donor strategies and action plans have had a positive effect on the capacity of recipient governments to undertake reform;
- Funds need to be flexible and responsive;
- Donors must possess an exit strategy when funds are first implemented;
- Coordinated donor funding can be subject to disbursement delays and are unlikely to replace single donor funding.

2. General reviews and guidelines

Development Initiatives, 2006, 'Review of Trust Fund Mechanisms for Transition Financing: Phase 2 Report', UNDG, New York

<http://www.unsudanig.org/workplan/mande/reports/docs/evaluations/mdtf%20phase%20%20report%20284.pdf>

This evaluation for the UNDG concerns the financing of transition countries in all sectors and is based on case studies of Multi-Donor Trust Funds (MDTFs) in Iraq, Afghanistan, Indonesia and Sudan. The review makes a number of relevant points in relation to strategic organisation and policy:

- MDTFs allow for both emergency service provision and the fostering of long-term capacity in post-conflict environments. MDTFs are often involved in trade-offs between short-term needs and long-term developmental priorities such as building national capacity to lead recovery.
- In transition contexts it is not feasible to use financing mechanisms that have not been established and tested. This means that funding must flow through individual agencies and institutions.
- Because MDTFs are not standardised it can take a long time for them to be operational. In the future this should change.
- Due to their situation-specific nature MDTFs are unlikely to replace direct agency funding from individual donors.
- While harmonising procedures have been a major obstacle to the establishment of MDTFs progress has been made, including formal agreements at corporate level between the World Bank and UN and the adaptation of rules and procedures to meet the demands of particular situations.
- It is important for recipient governments to be engaged with the MDTF.
- MDTFs are attractive to donors because they are often the 'only show in town' (p20) and promise increased harmonisation.
- Harmonisation is held back by different procedures between MDTF stakeholders, a lack of common vocabulary and a lack of knowledge between organisations about rules and decision-making authority.
- Issues surrounding cost recovery for donors need to be sorted out.
- Despite offering reduced transaction costs to alternative funding mechanisms in theory, MDTFs are often more expensive in practice. .

Schiavo-Campo, Salvatore, 2003, 'Financing and Aid Management in Post-Conflict Situations', CPR Working Paper No.6, World Bank, Washington

http://www.peacecenter.sciences-po.fr/pdf/French_cycle/Sem_5/Schiavo-Campo_Financing_in_Post-Conflict.pdf

This paper looks generally at World Bank financing to a number of post-conflict countries, including BiH. In terms of Multi Donor Trust Funds the following points are highlighted:

- An MDTF fulfils both a fiduciary and executive function and requires the following: an agreed programme of reconstruction activities; ownership by donors and government; a workable interface with a local management agency; transparency; and an opening for citizen's voice.
- Individual donors need incentives to join a MDTF, including assurances that their aid goes to priority purposes
- Systematic reporting and consultation must be in place between donors
- Umbrella funds are attractive due because they present more potential to align with a government's budget.

The BiH case study examines donor efforts to finance post-war reconstruction in a politically-fragmented context which underlined all efforts to rehabilitate the country. In general there was a lack of donor coordination, despite the presence of the Peace Implementation Council. The Bank administered a Trust Fund (designed as a potential MDTF) into which three small bilaterals contributed. In order to remedy the underwhelming donor response to the Fund the Bank then took a sectoral approach to co-financing, setting up a multiplicity of trust funds in major sectors. The paper concludes three things about aid management in BiH:

- Projects funded through the Bank's Trust Fund had excellent implementation records
- Setting up sectoral PIUs can be a good vehicle for capacity building, as long as they are staffed by locals
- Sectoral trust funds can be a second-best option if an umbrella MDTF cannot be formed.

Webb, S., et al, 2008, 'Public Sector Reform: What Works and Why. An IEG Evaluation of World Bank Support', Independent Evaluation Group, World Bank, Washington
http://siteresources.worldbank.org/EXT/PUBSECRETF/Resources/psr_eval.pdf

In Chapter 3 the paper considers how the World Bank supported public sector reform in the period 1996-2006. Support to PSR projects are rising, with a total of 90 projects having been implemented in the Europe and Central Asia region. The following funding-related points can be drawn from this document:

- Not all World Bank support to PSR is channelled directly to the governance reform sector but through related sectors
- Civil service and administration (CSA) reform was the second most-supported sub-sector, behind PFM
- Since 2001 the number of investment loans with CSA reform content has grown rapidly following a steady decline in the 1990s
- The number of development policy loans with CSA conditions has increased since 2004
- The Bank is often the leader of a 'concert' of donors with differing priorities. The Bank's role has been to coordinate them.

UNDG/ECHA, 2009, 'Guidance Note on Funding for Transition', UNDG/ECHA, New York/Geneva
http://www.undg.org/docs/10827/Note%20on%20Funding%20for%20Transition%20Dec%2009%20FINAL_DUP_12-22-2009_12-31-15-19_PM.doc

This note provides resident UN coordinators and country teams with information on funding options available to assist countries in transition periods. Despite the 'transition funding gap' (p1) a number of instruments have been made available in order to promote early recovery. Existing mechanisms, tools and sources include:

- *Multi-Donor Trust Funds (MDTFs)*: This refers to a funding mechanism which receives contributions from more than one donor, which are then pooled and managed by a Fund Manager or Administrative Agent. These are usually administered by the World Bank, or a UN agency on behalf of the UNDG. UNDG MDTFs operate on the basis of the UNDG Joint Programming principles. For UNDG-managed MDTFs, the decision-making structure now usually includes the UN, government, donor representatives, and can also include the WB, other regional organizations and civil society. Since most MDTFs now develop funding policies that seek to support national plans, requests for MDTF resources need to demonstrate alignment with such national priorities. In addition, given the transaction costs associated with this instrument and unless they are already in place at the time of the funding need, MDTFs are not the most appropriate mechanism for UN agencies to fund immediate needs and early recovery activities. A MDTF does however unite government, donors, and the UN around a common set of objectives and ensure that nationally defined priorities are adequately and predictably supported.
- *Transitional Appeal*: The Transitional Appeal aids a UN Country Team in planning and prioritising a relief effort, shifting the emphasis from relief to recovery and reconstruction. It supports national actors during the transition from humanitarian crisis to recovery phase and as such is designed as a building mechanism for a return to a longer term development trajectory. This type of appeal has a wide scope and enables donors to share a common focus. The success of Transitional Appeals depend less on the nature of activities than on how far proposed activities contribute to national priorities. However there are significant transaction costs involved and donors often lack an appropriate budget line from which the appeal can be funded.
- *Peacebuilding Fund*: This is managed by the UNDP through which funds are dispersed to a UN recipient organisation. The scope of activities of the PBF include: activities designed to respond to imminent threats to the peace process and support of the implementation of peace agreements; activities in support of efforts by the country to build and strengthen capacities which promote coexistence and the peaceful resolution of conflict; establishment or re-establishment of essential administrative services and related human and technical capacities; and interventions in support of efforts to revitalize the economy and generate immediate peace dividends. Although it is responsive and allows critical funding gaps to be filled, often UN recipient organisations do not have the capacity to plan and implement proposed projects.

The paper concludes by offering a number of lessons learned, the most relevant of which are the need to: a) combine mechanisms and tools in transition contexts; b) ensure activities support national strategies; and c) ensure funding strategies are transparent.

3. National case studies

General

Miszei, K. and Jespersen, L., 2006, 'Capacity Building Funds – Support to Economic and State Reform in Transition Countries', NISPAcee Newsletter, Vol. XII, No.3.

http://www.nispa.sk/_portal/files/publications/newsletter/NISPAceeNews_summer2006.pdf

This article focuses on the experience of Central and South Eastern Europe in reforming governance systems, contending that in some instances the use of Capacity Building Funds (CBFs) can become a useful joint donor platform to address the need for radical reform. Such

funds are concentrated, effective and help attract highly skilled specialists to address political and economic results in a short space of time. The experience of the UNDP and George Soros Institute indicate that CBFs can achieve great progress. A number of case descriptions are presented, including the establishment of a Capacity Building Fund in Serbia (2001) and Georgia (2003).

The following guidelines on the establishment of CBFs are offered:

- Successful execution demands a partnership between government, donors and the UNDP.
- Funding needs to be aligned to national strategies and goals.
- Agreement between government and donors is required in order to embark upon implementation activities
- CBFs must be flexible and avoid a doctrinaire approach
- The ultimate goal of the CBF is to play an instrumental role at the early stages of reform when a new government is first formed
- The UNDP should continue to play a leading role in coordinating donors
- Door coordination is essential in post-conflict contexts in order to reduce the risk of corruption
- The UNDP can have an oversight role in the management of funds.
- An exit strategy is needed in order to promote capacity building gains.

Bosnia and Herzegovina

Memorandum of Understanding for the Establishment of the Public Administration Reform-Fund (PARF), June 2006, Government of Bosnia and Herzegovina and Donors, Sarajevo <http://www.parco.gov.ba/eng/?page=32>

The Memorandum of Understanding (MoU) between the donors (UK/DFID, Sweden/SIDA, the Netherlands and the EC) and the Government of Bosnia and Herzegovina provides the basis for €4.5 million to implement the Public Administration Reform Action Plan and the creation of the Public Administration Reform Coordinating Office (PARCO). More detailed commitments found in the MoU include harmonisation on the part of the donors, including an understanding on common procedures for decision-making, disbursement mechanisms, monitoring and reporting, review and evaluation, audit, financial management and the exchange of information.

The PARF's overall goal is to provide a harmonised approach in supporting the implementation of projects. Support is limited to projects which fall within the timeline of the PARF and do not duplicate other donors' projects. The PARF does not support technical assistance. The prerequisites for the establishment of the PARF are a) the establishment of PARCO; b) the appointment of PAR coordinators at State, Entity and Brcko district levels; and c) the approval of a comprehensive National PAR strategy. The arrangements for donor contributions are as follows:

- The contributions are to be deposited in a single non-interest bearing foreign exchange account held by the Ministry of Finance and Treasury (MOFT).
- The MOFT/Central Bank will immediately acknowledge receipt of the foreign exchange funds, in writing, to the donors in question. The funds will then be held in a ring-fenced budget line for expenditure on approved projects only.
- Financing to the PARF may be increased either by additional donors or the Donor themselves. However, for the first 12 months of this agreement only the principal signatories to the agreement will be allowed on the Management Board.
- The MoU will be reviewed and amended as appropriate on an annual basis.

In terms of organisational structure, consultations and decision-making the MoU states:

- Coordination between signatories will be organised through the Management Board, which is to meet every quarter.
- PARCO will be responsible for actively identifying, scoping, designing and drafting project specifications. It will also be responsible for the evaluation and monitoring of projects.

In relation to disbursements:

- Contributions are to be made in the donor's own currency. This will be transferred in phased installments.
- Each Donor may establish its exact and final financial contribution to the PARF upon receipt and approval of the final report and financial accounts of the projects.
- Requests for expenditure/payment from the PARF should be countersigned by a Donor representative.

The final sections of the MoU provide details on procurement, corruption, reporting procedures and auditing.

Chimiac, G., 2007, 'Bosnia and Herzegovina Donor Mapping Report 2007', Donor Coordination Forum, Sarajevo

<http://www.donormapping.ba/docs/DONORMAPPINGReportENG.pdf>

Chapter 5 considers Good Governance and Institution Building in BiH, where Public Administration Reform accounted for 44% of donor contributions to the sector in 2007. PAR is understood here as consisting of both institutional reform and public sector financial management. Activities are based on the Public Administration Reform Strategy and Action Plan and donors who contributed to PAR in 2007 were: Germany/GTZ, Sweden/SIDA, DFID, Norway, the Netherlands, Switzerland/SDC/SECO, the EC, UNDP, World Bank, Spain/AECID, Italy/IC, Austria/ADA and France. The PAR Fund was established in June 2007, supported by the EC, DFID, Sweden/SIDA, and the Netherlands. In 2007 €4.5 million were earmarked for the Fund for a period of three years. National ownership of the PAR Fund is improving as state-level entities now attend meetings which were previously donors-only. Donors admit that the PAR Fund will need even more resources in order to implement the PAR Action Plan.

Topcagic, E., et al, 2009, 'Bosnia Herzegovina Donor Mapping Report 2008-9', Bosnia and Herzegovina Ministry of Finance, Sarajevo

<http://www.donormapping.ba/docs/DonorMappingReport2008-2009.pdf>

Chapter 3 looks at donor support to Good Governance and Institution Building in BiH, of which the Public Administration Reform Strategy and Action Plan is one of five key sector strategies for governance reform. Public Administration Reform is coordinated by PARCO and the Council of Ministers. Donor contributions to PAR in 2008 and 2009 (totaling 21 million Euros) were second only to the area of Legal and Judicial Reform (42 million Euros). In 2008/9 the Netherlands, Sweden/SIDA and DFID contributed to the PAR Fund. Several other donors (UNDP, Spain/AECID, Austria/ADA, Germany/GTZ and Italy/IC) have supported PAR sub-sectors such as e-governance. Further, DFID provides technical assistance to the Government of BiH to promote the management of aid funds through the *Aid Coordination and Effectiveness* project.

Russia

Thompson, B., et al, 2007, 'Evaluation of DFID's Country Programmes: Country Study Russia 2001 to 2005', EVSUM 677, DFID, London

<http://www.dfid.gov.uk/Documents/publications/evaluation/ev677.pdf>

This evaluation provides a description of DFID's involvement in PAR (p32-33). Alongside support to the programme's key components DFID funded the formation of a Donor Secretariat based at the World Bank's Headquarters in 2004. It was tasked with implementing donor harmonisation and in practice carried out coordination, capacity building and policy analysis. The Secretariat has become a 'policy hub' (p33) which effectively coordinates reform across ministries, working at both national and regional level. In the case of the latter the Secretariat supports regional agencies in implementing reform.

A replica Donor Secretariat was set up in Rostov, in the Southern Federal District (SFD). This district contains some of the poorest areas in the Federation and DFID was instrumental in bringing together donors to support and implement governance reform in the district.

The Donor Secretariat is an example of successful donor collaboration led by DFID and the World Bank. There is significant support for continuing the Secretariat even after the DFID office is closed, although there are doubts as to whether DFID would have the capacity to influence the content of policy.

Serbia and Montenegro

World Bank, 2004, 'Serbia and Montenegro Public Administration Development: Creating the Conditions for Political and Economic Reform' Policy Note, Report No. 28553, World Bank, Washington

http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2004/07/01/000009486_20040701151421/Rendered/PDF/285530YU.pdf

This report describes the Public Administration Reform process in Serbia and Montenegro. Two relevant points about the financing of PAR are made in the section entitled 'What Role for the Donor Community?' (p46):

- However well-intentioned donor support to reform is, it can put the 'brakes' on reform due to delayed disbursements and different donor priorities, as the case of the Serbian Capacity Building Fund showed.
- Donor support must be linked to Government-designed measures. Without such linkages donor support becomes 'free money' without obligations.

World Bank and The Republic of Serbia, 2008, 'Multi-Donor Trust Fund for Justice Sector Support: Project Memorandum', World Bank, Washington

<http://serbiamdftf.org/Resources/Project%20Memorandum%20-%20Multi%20Donor%20Trust%20Fund%20for%20Justice%20Sector%20Support.pdf>

The project memorandum for the Multi Donor Trust Fund (MDTF) support to justice sector reform in Serbia focuses upon project rationale, context, activities and objectives, but also provides information about the workings of the MDTF. The MDTF is described as: a) complementing EC support to the Ministry of Justice and judiciary; provide short-term capacity building; c) coordinate donor support; d) be an instrument to improve aid effectiveness; e) promote external stakeholder participation in supporting Serbia's justice

sector reforms. The MDTF's objective is to support the goals of the Partner's Forum and build the capacity of justice sector institutions. The paper argues that::

- The presence of the MDTF results framework will strengthen the results framework for judicial reform overall;
- The MDTF will ultimately support the formation of a multi-year costed Justice Sector Expenditure Program;
- A MDTF Management Committee will be established comprising all donors and administered by the World Bank.
- The World Bank-accredited Task Team Leader will coordinate with the Ministry of Justice in order to oversee the day-to-day execution of the MDTF.

Three principal risks relating to the financing of the MDTF are identified:

- Differences in opinion between coordinating donors or between donors and the Ministry of Justice, resulting in delays
- There may be delays in the release of initial or subsequent contributions by donors.
- Some donors may withdraw support for Serbia
- The World Bank may not be able to field a technically qualified supervision team due to personnel and/or budget constraints.

4. Additional information

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Websites Visited

GSDRC, World Bank, Overseas Development Institute, Asian Development Bank, OECD Public Governance and Management, DFID, Research 4 Development, Center on International Cooperation, CHR. Michelson Institute, JStor, Eldis, UNRISD, Train 4 Dev.net, Sida, European Centre for Public Financial Management, Brookings Institute, IMF, UNDP, Public Administration Development in the Regions of the Southern Federal Okrug, UNDP Regional Centre for Public Administration Reform, SIGMA, United Nations Public Administration Network, Donor Coordination Forum in Bosnia Herzegovina, European Commission, Sigma Bleyzer, Adam Smith International, Scanteam, Central Europe Review, RUSI, Kings College London War Studies, EUROPA, UNDG.

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