

Annex 2

GUIDING PRINCIPLES FOR SECTOR CONCENTRATION AND THE CHOICE OF SECTORS

1. Sector concentration

The impact assessment¹ for the *Agenda for Change* Communication showed that a sharpened sectoral and geographical focus could significantly increase the impact of EU aid through a better and more strategic use of scarce aid resources. Concentration would reduce transaction costs for the partner government and allow the Commission to achieve a more balanced and strategic role as donor. Such improvements would also have positive spin-offs in terms of the EU's impact, development outcomes, visibility and reputation. Moreover, sector concentration would also facilitate building the necessary sectoral expertise in EU Delegations, which is crucial. In the *Agenda for Change* Communication, the Commission therefore calls for concentrating EU activities financed under bilateral assistance programmes in each country or region in a maximum of three sectors.²

It is however important to note the following:

- In small island developing states (SIDS), the best approach may even be to concentrate efforts and funds in one sector only, seeking to ensure that EU funds provide a critical mass.
- In fragile states and situations of conflict and crisis, adjustments in programming must remain flexible to reflect unforeseen/emerging needs and to ensure a better phasing between short and long term commitments. While the concentration in three sectors remains particularly pertinent in fragile situations (given their often limited management/absorption capacities), specific circumstances, such as transition from humanitarian to development assistance, or emerging security threats/conflict risks, may require an exception to this principle, allowing for an additional intervention.

Any additional intervention should be to support essential priorities linked to peace- and statebuilding objectives and be in states that have engaged in specific initiatives to address their situation of fragility, e.g. through an G7+initiative/ International dialogue for Peace- and Statebuilding, or where the government and donors have engaged in transition compacts or similar agreements.

An intervention may be

- in the area of security/justice in the context of a crisis or post-conflict situation, for instance to enable sustainability of a CSDP mission or interventions funded under the Instrument for Stability;

¹ COM(2011) 637 final - SEC(2011) 1173 final

² Confirming the Guiding Principle from the EU Code of Conduct on Complementarity and Division of Labour in Development Policy (2007)

- to enable a transition from humanitarian support to medium and long-term development in the context of a recovery/transition plan integrating humanitarian and development interventions, provided that the EU already has had a longstanding engagement in the country in the proposed three main sectors.

It is equally essential that the EU Delegation, when proposing such an additional intervention, justifies the proposal in terms of the capacity of the EU Delegation to manage such an additional intervention.

EU Delegation proposals for such an additional intervention will be examined on a case by case basis.

2. Sector definition and choice of sectors

The principles listed below provide a reference framework for the choice of sectors.

- An analysis of the existing National or Regional Development Plan (NDP, RDP) and sector programmes (or equivalent), of the key country/regional needs and priorities to which the EU could respond, and of other donors' activities should provide the first basis for identifying the sectors. Alignment to the partner country's/region's definition of a sector is important, recognizing the ownership and relevance of the country's/region's policies, in particular where sector approaches are in place with specific sector policies and coherent institutional frameworks.
- On that basis, the main drivers of concentration and choice of sectors are: (1) the effective ownership and relevance of country/regional sector policies and priorities, in particular from a long-term sustainability perspective, (2) the expected results and impact at country/regional level, and (3) the EU priority areas of cooperation and its comparative advantage, including in relation to EU Member States.
- When selecting a sector, one needs to consider whether the EU support reaches a critical mass at country/regional level in terms of knowledge, human resources (including capacity for policy dialogue), or financial resources in order to generate significant, measurable results.
- Lessons learned, continuity and coherence with previous cycles, absorption capacity, considerations of the EU's added value and comparative advantage, the capacity of the EU Delegation, and coherence between development and other EU policies, including EU commitments in international organisations and fora, as well as institutional and governance settings and the government's willingness to engage in policy dialogue, are other important criteria for choosing and defining the sectors.
- The definition of a sector must not be confused with the wider priority area it belongs to, such as human development and inclusive and sustainable growth. A similar point should also be made regarding wider areas such as regional integration and social cohesion. This must also be kept in mind for cases where such types of wider areas appear in the definition of sectors in NDPs/RDPs. In such cases, the definition of the sectors of EU support could of course not be simply aligned on the NDP/RDP, but should be within such a wider area.

- The definition of a sector within the two broad priority areas proposed in the *Agenda for Change* Communication does not need to coincide with individual priorities proposed for EU action as listed in that Communication. Depending on the objectives and other considerations already indicated, and aiming for significant results, high impact and avoiding multiplication of initiatives, the definition can be narrower by addressing specific issues within a given sector (a specific focus within a given sector may be appropriate in order to support a particular policy direction so as to achieve maximum impact and result) or cut across several areas by supporting, for example, "public financial management" which could cover expenditure, revenue, including tax revenue, and anti-corruption initiatives.
- Implementation modalities, such as Sector Reform Contracts, are not key decision drivers when selecting the sectors. These decisions will be made during the implementation phase within the sectors selected. Still, the selection of sectors cannot be completely disconnected from the possible implementation modalities. Some degree of anticipation on their constraints and advantages may be necessary in the analysis leading to the choice of sectors, without prejudging the effective choice of implementation modalities during the implementation phase. Budget support, being an implementation modality, is however, to be used within the sectors chosen and cannot be chosen as an additional, fourth sector.

When proposing the overall lines of the EU response during the programming phase, the Head of Delegation could propose as a priority sector "Good Governance and Development". In such cases the HoD will provide an assessment on whether the preconditions in terms of fundamental values are met for providing general budget support, for further discussion and decision by the Headquarters' Budget Support Steering Committee.

- Delegated cooperation being equally an implementation modality will be defined during the implementation phase, within the sectors selected. For the programming, appropriate donor coordination and division of labour should however lead to an EU choice of sectors corresponding to EU comparative advantage.
- In fragile states and situations, particular care needs to be taken that key areas such as peace building and state building are not left unaddressed by the donors. Relevant experiences from transitional states should be taken into account. Account should be taken of the **New Deal** endorsed at the Fourth High-level Forum on Aid effectiveness in Busan in 2011.
- Likewise, in countries prone to disasters (natural and man-made), attention should be paid that areas such as disaster risk reduction and climate change adaptation are addressed by the donor community in order to build up resilience to future shocks.
- The *Agenda for Change* Communication proposes that at least 20% of EU aid should support social inclusion and human development. The achievement of this global target should be monitored during programming and implementation and should be borne in mind when programming at country level.
- The Commission has, in the MFF Communication "A budget for Europe 2020", also proposed that 20% of the overall EU budget should contribute to low carbon and resilient

society. The achievement of this global target will be monitored during programming and implementation and should be borne in mind when programming at country level, including by contributing to the target through one or more of the chosen sectors.

- Priority sectors should not be excluded from the MIP in the expectation that they can be covered under a thematic programme.

When selecting the three sectors, two particular points should be kept in mind:

- For ACP-countries, in line with Article 4 of Annex IV of the Cotonou Agreement, and while stressing the importance of mainstreaming support for civil society organisations (CSOs) in the selected sectors, a specific allocation may be foreseen for support to strengthening CSOs and Local Authorities (LA), in addition to the maximum of three sectors.
- For ACP countries, a B-allocation may be included in the MIP for unforeseen needs (in particular relevant in situations of fragility). This allocation will be at €0 until a need arises. In case of necessity, a Financing Decision to meet an unforeseen or urgent need can always be taken notwithstanding the status of the indicative B-allocation mentioned in the MIP.
- For ACP and DCI countries, a support facility (such as the Technical Cooperation Facility (TCF) in ACP country and regional programmes) which aims to support or accompany the programming, preparation or implementation of actions, may be foreseen in the programming through a specific allocation. Such a facility is not considered as a sector and can therefore be programmed in addition to the maximum of three sectors. It is to be used for supporting activities of limited amounts. It may not be used neither for financing small projects in additional sectors to the maximum three sectors, nor for actions related to cross cutting issues. These should be financed within the sectors selected and, for ACP countries, within the specific allocation for support to civil society.

3. Traceability and reporting

Ex-post, the activities under each sector of EU cooperation need to be traceable and reported internally and externally. Headquarters will therefore ensure a consistent follow-up, including ensuring that the reporting can be linked to the priority areas proposed in the *Agenda for Change* Communication, and that the special provisions on tracking climate action, biodiversity expenditure and social and human development expenditure are respected.

This will also be taken into account in the forthcoming work on an EU measurement and reporting framework to be carried out in connection with the work initiated on a common results framework as proposed in the *Agenda for Change* Communication.