



IMPLEMENTING SECTOR APPROACHES IN THE CONTEXT OF EU ENLARGEMENT

**Challenges and Lessons learned
from the Sarajevo Workshop
22-24 March 2010**

A “How to” Note



October 2010

This document brings together information, good practice examples and general conclusions of the Workshop on Sector Approaches in the Context of EU Enlargement, which was held in Sarajevo in March 2010 under the joint organisation of the European Commission and the Ministry of Finance and Treasury of Bosnia and Herzegovina, with the financial support of the Austrian Development Agency (ADA) and the UK Department of International Development.

The workshop was attended by over one hundred senior civil servants from potential candidates and candidate countries of the Western Balkans and Turkey, as well as representatives of the donor community, EU Member States, EU Delegations in beneficiary countries, European Commission DG involved in managing the Instrument for Pre-Accession Assistance (IPA)¹. The workshop was a follow-up to two previous events: the "Conference on Donor Coordination in the Western Balkans and Turkey" held in Tirana in April 2009 and the "Conference on Effective Support for Enlargement" held in Brussels in October 2009. The Tirana conference concluded there was a need to develop sector strategies, enhance donor coordination at sector level and secure high level political will in the beneficiary countries for this approach. The October 2009 conference, jointly organised by the European Commission and the Swedish Presidency, concluded that a strategy-based approach to programming based on the countries' needs and strengths can contribute to more effective pre-accession aid.

Within this context the aim of the Workshop was to explore principles and working practices for the formulation of sector strategies and to share practical experience and lessons-learned by countries which aspire to accede to the European Union. The workshop brought participants together over two days during which time experience was shared through a combination of keynote presentations, working group sessions and case examples around four main themes:

- Formulation of sector strategies
- Linking sector strategies to EU integration objectives
- Governance of Sector-Wide Approaches
- Benchmarking and evaluation of Sector Wide Approaches

The outcomes of the workshop are brought together in this document in a format which is intended to be of practical use to participants of pilot sector approach processes in IPA beneficiary countries. The preparation of the document was financed by DFID and led by Anne Bartholomew of Mokoro Consultants, working in consultation with workshop participants. The document represents material, presentations and discussions from the event, rather than expressing definitive positions of any participating organisation.

Readers are invited to use the document as a resource when working on sector approach processes. In doing so, it is likely that you may wish to refer to other material which is referenced in the document, or to the full documentation of the workshop, which is available from the Ministry of Finance and Treasury of Bosnia and Herzegovina² and DG Enlargement³ websites. When using the report, please be aware that this is a new and evolving concept in the region, and for this reason you should seek to obtain additional guidance on current developments.

Dragan Vrankic
Minister of Finance and Treasury
Bosnia and Herzegovina

Gerhard Schumann-Hitzler
Director, DG Enlargement
European Commission

¹ A list of participants is annexed to the Report.

² http://www.trezorbih.gov.ba/bos/index.php?option=com_content&task=view&id=476&Itemid=177

³ http://ec.europa.eu/enlargement/projects-in-focus/donor-coordination/meetings_events_conf_coord_aid_en.htm

**IMPLEMENTING SECTOR
APPROACHES IN THE
CONTEXT OF EU
ENLARGEMENT**

**IMPLEMENTING SECTOR
APPROACHES IN THE
CONTEXT OF EU
ENLARGEMENT**

**CONTEXT OF EU
ENLARGEMENT**

**APPROACHES IN
IMPLEMENTING SECTOR
APPROACHES IN
CONTEXT OF
ENLARGEMENT**

Table of Contents

Foreword	I
Table of Contents	III
1. Introduction	1
2. What is a sector approach?	2
3. Why are sector approaches appropriate for countries engaged in the EU accession process and why are they likely to be effective?	3
4. Building blocks of a sector approach	5
5. Steps in implementing a sector approach	6
Step 1: Agree on which sectors would benefit from a sector approach	6
Step 2: Agree on the sector policy framework	7
Step 3: Agree on a framework for institutional arrangements and coordination	8
Step 4: Agree on capacity building strategy	9
Step 5: Agree on sector performance assessment system	9
Step 6: Agree on financing mechanisms for sector approaches	10
6. Sector approach implementation under different conditions - risks and opportunities of a sector approach	13
7. Sector approaches in practice	14
7.1. The experience of the Western Balkans and Turkey	14
7.2. Challenges and lessons learned	15
8. Best Practices in implementing sector approaches	16
9. Additional materials on sector approaches	16
Annex 1 The Accession or Copenhagen Criteria	17
Annex 2 EU Code of Conduct on Complementarity and Division of Labour in Development Policy	18
Annex 3 List of participant	19

IMPLEMENTING SECTOR APPROACHES IN THE CONTEXT OF EU ENLARGEMENT

1. Introduction

**Challenges and Lessons learned from the Sarajevo Workshop
22-24 March 2010**

A “How to” Note

Introduction

A sector-wide approach is a way of working between partner countries, donors and other stakeholders. The aim of the approach is to ensure government ownership, increased coherence between national policy, sector policy and resource allocation, and to minimize transaction costs. Sector approaches emerged as a response to changes in aid architecture in the late 1990s. They were aimed at improving aid effectiveness and are in line with development partners and country commitments to the Paris Declaration on Aid Effectiveness of 2005. A key objective of introducing sector approaches has been to increase the efficiency and effectiveness of public service performance, particularly service delivery.

The benefits of sector approaches, for the Instrument for Pre-Accession Assistance (IPA) beneficiary countries⁴, were first discussed in conferences (Brussels 2008, Tirana 2009) held by the European Commission and partners on donor coordination and enlargement in the Western Balkans and Turkey. The most recent conference in Brussels (2009) concluded that a move to a sector-wide approach would improve the effectiveness and efficiency of partners' financial assistance. A sector wide approach would strengthen ownership of IPA beneficiary countries and increase harmonisation and alignment among donors that are working towards specific well-defined results. The follow-up Sarajevo workshop of March 2010 was designed to identify working methods for the formulation of sector approaches and to deepen understanding of their application in the context of enlargement.

This publication is designed to provide practical guidance on how to implement a sector approach within the context of EU enlargement. It is aimed at both national governments and donor staff in pre-accession countries. Its purpose is not to be prescriptive, but to give a framework for how best to support a sector approach. It draws on the outputs of the March 2010 Sarajevo Workshop and incorporates case-studies and lessons learned from participants' experiences.

The note begins by outlining the main characteristics of a sector approach and proceeds to examine the main building blocks of sector approaches. It explains the steps needed to implement them and finishes with a discussion of the experience of sector approaches in the region to date - key challenges, lessons learned and examples of best practice.

⁴ The Candidate Countries are Croatia, the former Yugoslav Republic of Macedonia and Turkey. The Potential Candidates are Albania, Bosnia and Herzegovina, Serbia, Montenegro and Kosovo (under UNSCR 1244/99).

What is a sector approach?

A sector approach is a way of working together between government, donors and other key stakeholders (see Box 1). In practice, a sector approach involves a sector strategy with a set of objectives, a sector programme developed by a partner country (with the support of development partners), a medium-term financial framework for the delivery of reforms and other needs, and a network of development partners working together with the partner country to support reforms.

Box 1: Definition of a sector approach

A sector approach is a way of working together between government, donors and other key stakeholders. It is a process aiming at broadening government and national ownership over public sector policy and resource allocation decisions within the sector, increasing the coherence between policy, spending and results, and reducing transaction costs. (EC, 2007)

Source: Support to Sector Programmes Covering the three financing modalities: Sector Budget Support, Pool Funding and EC project procedures

http://ec.europa.eu/development/icenter/repository/Support-to--Sector-Programmes_27072007_en.pdf

Once a Government has identified a sector and has approved a single policy strategy with one budget and one set of results, the most appropriate aid modality can be chosen to support the implementation of the strategy by donors: project, budget support or pooled funding.

A useful way of looking at sector approaches is as a type of programme based approach (PBA) that operates at a sector level. PBA's can be defined in the EU enlargement context as:

'A way of engaging in EU integration activities based on the principle of co-ordinated support for a locally owned national programme, a sector programme, a thematic programme or a programme of a specific organisation'⁵.

The main characteristics of a PBA are as follows⁶:

- Leadership by a host country or organisation
- A single comprehensive programme and budget framework
- A formalised process for donor coordination and harmonization of procedures for reporting, budgeting, and financial management
- Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation

A sector approach has all the features that apply to PBA's and involves the promotion of national ownership, strengthening of results orientation and coordination of donor inputs with other resources. In this approach a donor may continue to support specific activities or to co-finance a sector strategy with other donors, the government and other stakeholders. In both cases the support will be designed strategically and reduce transaction costs and duplication.

This means that the activities of the government, donors, the private sector and NGO's are considered within the sector framework. The aim is to coordinate the activities of all stakeholders towards objectives established by the government within the EU integration context and a coherent public expenditure framework.

⁵ OECD-DAC (2006) "Harmonising Donor Practices for Effective Aid Delivery, Volume 2: Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management," DAC Guidelines and Reference Series, OECD 2006

⁶ CIDA (2008) Operational Guide to Program-Based Approaches, February 2008

Why are sector approaches appropriate for countries engaged in the EU accession process and why are they likely to be effective?

Current situation

IPA beneficiary countries are committed to undertaking major economic, political and social reforms in order to meet the conditions for EU membership. The EU and other donors provide different forms of assistance to help countries achieve their objectives. To date, although most EU projects are underpinned by country strategies, these are often narrow in scope and projects are implemented on a stand-alone basis. Coherence can be further improved between the overall reform environment and specific sectors and other donor activities.

Benefits of a sector approach

A sector approach and sector programmes, based on the needs and relative strengths of a country, can help determine the strategic objectives for which EU financial assistance is most needed and they can contribute to more effective pre-accession aid. Sector approaches also ensure that donor support is more strategically aligned with national priorities and policies for EU integration. It is expected that a move to a sector approach would improve the effectiveness and efficiency of financial assistance. This will be achieved by strengthening ownership by IPA beneficiary countries, as well as by increasing harmonisation between governments and donors working towards specific, well-defined results. In the context of IPA, a sector approach can assist countries to move towards the following good practices:

- Setting medium to long term priorities consistent with EU integration objectives and socio-economic development needs.
- Assigning national budget allocations and external assistance to priorities.
- Ensuring that line ministries have the administrative capacity to lead and efficiently implement policies and programmes.
- Agreeing targets and indicators with donors to assess progress.

A sector programme for an IPA beneficiary country should identify what is needed to modernise a sector and align it to EU standards. It should be based on a country's own national development plan and be underpinned by the EU's overall enlargement policy as well as by the country's Accession/European Partnership and SAA. It should also allow for EU integration priorities and be strategically planned for and sequenced at an early stage.

Moving to sector approaches will provide a more coherent framework for undertaking the reforms needed for EU accession and the assistance provided which supports this. It will also provide objectives, targets and indicators, which can be used to make assistance more results orientated. It will improve the mechanism for reporting on the implementation of projects and delivery of their activities and outputs.

Why will a sector approach be effective?

A sector approach is likely to be effective in the Western Balkans and Turkey as the EU is the dominant donor and the region consists mainly of smaller countries with an EU perspective, and EU accession is a medium term goal for all of them. They are all beneficiaries of IPA established by the EU to deliver aid to support the region's efforts towards EU integration.

The IPA instrument is a single framework that provides assistance under five components (see below) depending on the development needs of the beneficiary and the progress it makes towards compliance with the political and economic criteria and the *acquis communautaire*, better known as the Copenhagen Criteria (see Annex 1). The European Council Regulation, which established the IPA instrument⁷, states that assistance for candidate countries and potential candidates should be used to support efforts to strengthen democratic institutions and the rule of law, to reform public administration, to carry out economic reforms, to respect human as well as minority rights, to promote gender equality, to support the development of civil society and to advance regional cooperation as well as reconciliation and reconstruction, and to contribute to sustainable development and poverty reduction in these countries. It should be therefore targeted at supporting a wide range of institution building measures.

Under the IPA instrument, assistance for candidate countries should additionally focus on the adoption and implementation of the full *acquis communautaire*, and prepare candidates for the implementation of the Community's Agriculture and Cohesion policy. Assistance for potential candidate countries may include some alignment with the *acquis communautaire*, as well as provision of support for investment projects aiming, in particular, at building management capacity in the areas of regional, human resources and rural development.

All member state donor funding at the bilateral level and the majority of non-member state donors and multi-lateral agencies such as the World Bank support the EU Accession agenda, which provides unique leveraging potential for sector approaches. The adoption of a sector approach would provide the optimum basis for coherence between donor support for accession requirements and broader development needs. The sector approach will allow for complementarity. Donors provide different forms of financial assistance - grants, soft loans, loans - and they provide different forms of technical assistance and policy advice. Donors have different degrees of flexibility and deliver support at different stages. Sector approaches maximise the potential for complementarity between different modes of support, and help to rationalise it through an appropriate division of labour. The impact of the global economic and financial crisis has hit the region hard, and drivers of growth in the pre-crisis years are unlikely to return quickly. In this context it is particularly important for IPA funding, other grants and loans to be even better coordinated to foster recovery.

Although beneficiary countries in the Western Balkans and Turkey are non-aid dependant and there is generally a high caliber of government official, capacity is limited and there is scope to use mechanisms such as sector approaches, to clarify accountabilities, including government's accountability to donors and its citizens, and donor accountabilities, and therefore to maximize external resources.

The five components of IPA financial are :

- I Transition assistance and institution building
- II Cross-border cooperation (with EU member states and other countries eligible for IPA)
- III Regional development (transport, environment and economic development)
- IV Human resources development (strengthening human capital and combatting exclusion)-
- V Rural development

Beneficiaries with candidate status can benefit from support under all components⁶. Potential candidate countries can only make use of components (i) and (ii). However, the scope of component (i) for potential candidate countries includes support for policy development as well as preparation for implementation and management of the Community's common agricultural and cohesion policies. By considering the development of sector approaches under component (i), in conjunction with the prospect of operational programmes and budgets delivered under IPA components (iii), (iv) and (v) in the framework of the decentralised management process, there can be synergies and scope for adding value to the assistance under different components.

In order to facilitate this approach, the EU intends to include the development of sector approaches in the new Multi-annual Indicative Planning Documents (MIPD) 2011-2013. The EU is also considering a move to a multi-annual mode of programming to develop three-year programmes to allow for better prioritization and sequencing of actions.

⁷ Council Regulation (EC) No 1085/2006 of July 2006

⁸ Component ii prepares potential EU members to implement Structural Funds' Territorial Co-operation objective; Component iii prepares potential EU members for the European Regional Development Fund and the Cohesion Fund; Component iv is preparatory to the European Social Fund and Component v is preparatory to the Agriculture and Development Fund.

Building blocks of a sector approach

The three main building blocks of a sector approach are a sector policy and strategy, a sector budget that operates on a medium term basis and a sector coordination framework. The other two elements are institutional strengthening and capacity building and a performance monitoring system.

In addition to these five elements it is important to take into account contextual factors that influence the performance of a sector. These are macroeconomic policy that should provide a stable environment for the sector, along with predictable resource levels. Good public financial management systems are also needed to ensure that sector priorities are reflected in budget allocations.

A more detailed explanation of the main building blocks for sector approaches is provided in Box 2 below.

Box 2: Main building blocs for a sector approach

Core building blocs of a sector approach

- *A sector policy and strategy:* this should outline government objectives for the sector and be used to develop annual plans based on agreed priorities.
- *A sector budget and medium-term expenditure perspective:* the budget should reflect the sector policy and strategy and be developed within a medium-term perspective. This should ideally be linked to the national expenditure planning process.
- *A sector coordination framework:* there should be a formalised government led process for aid coordination and dialogue at sector level. This should involve a broad consultation mechanism that involves all significant stakeholders.

Two other key elements

- *Institutional setting and existing capacity:* one of the main focuses of sector approaches is to strengthen government capacity and to undertake this through using government systems. A capacity development strategy led by the government is often the mechanism by which this is undertaken.
- *A performance monitoring system that measures progress and strengthens accountability:* the focus of any system should be on results and feedback into sector management and policy. This often takes the form of a performance assessment framework, which is monitored to assess progress towards strategic objectives.

In the context of beneficiaries in the Western Balkans and Turkey, the experience has shown that most develop a sector strategy first and then move towards developing sector budgets and financing frameworks later. It should be emphasised that there is no right or wrong approach and much depends on the country context.

For example in Bosnia and Herzegovina (BiH) in the public administration reform sector, a sector plan was developed and a pooled funding mechanism established relatively early in the process. In the former Yugoslav Republic of Macedonia, a lot of effort was directed at establishing action plans, donor coordination mechanisms and codes of conduct prior to developing the sector programmes, with a decision made to try to move to non-project forms of funding at a later date. In much of the region, monitoring and evaluation frameworks have been addressed much later in the process or have not yet been developed.

Steps in implementing a sector approach

This section gives the main steps in establishing a sector approach and outlines the key issues that need to be considered when designing a sector approach and the main components that need to be put in place.

Step 1: Agree on which sectors would benefit from a sector approach

The first step is to agree on which sectors are the most appropriate for a sector approach by assessing which sectors are a priority in the context of EU accession. The institutional arrangements, capacity and management of each sector should then be reviewed to establish if such an approach is likely to be viable.

Experience in other regions indicates that sector approaches are more likely to be successful where all stakeholders agree that a sector approach is needed; where there is consensus on strategic plans and objectives; where sector coordination is good and there is strong leadership from the key institution in the sector. These criteria are outlined in greater detail in Box 3 below.

Box 3: Criteria for a successful sector approach

The criteria for a successful sector approach are:

- I *A broad consensus between Government and aid partners on key sector policy, strategy and management issues*
- II *A single dominant sector ministry and manageable institutional relationships, as strong and effective leadership from the sector ministry has been an important factor in most successful sector approaches.*
- III *Broad and effective government ownership which has three components which are strong and effective leadership at sector ministry level, commitment to the process at senior political level, and active involvement of the Ministry of Finance.*
- IV *An experienced 'lead aid partner' or lead group of partners willing to support government in managing donor and stakeholder coordination through good advice and through bringing other donors into line when necessary.*
- V *Incentives that are compatible with the objectives of a sector approach as a sector approach is more likely to be successful if there are civil service and other government-wide reforms in place to create incentives and performance-related rewards for the stakeholders.*

It is also useful to consider the scope of the sector approach to be implemented and which institutions and activities will be included. In particular it is useful to bear in mind the following factors when establishing appropriate sectors

- The sector as defined by the government.
- The institutional framework and the capacity of the lead ministry and organizational complexity of the sector.
- That there is a trade-off between being broad to ensure coherence, but narrow to limit complexity.
- If there is a fairly coherent and consistent policy in the sector or sub-sector.
- The budget framework and how comprehensive this is in terms of sector coverage.

As a consequence of these factors, sector approaches can commonly be found in the Health, Education and Transport sectors. These sectors are more likely to have clearly defined sector boundaries and organisational mandates. They more closely comply with the main characteristics that define sector approaches, namely a focus on service delivery, high public expenditure and aid partner financing.

However, more sector approaches are being established in non-traditional sectors such as Rural Development, Public Administration, Justice or Environment. It is likely that many of the sector approaches in the Western Balkans and Turkey will be in these areas and a main focus of IPA programmes.

If successful sector approaches are to be established in these sectors it will be important to pay close attention to getting policies and institutional and management arrangements right, particularly when there are many organizations involved. Flexibility is also important to ensure that the design of the sector approach fits with the sector context and is appropriate to the challenges involved.

In practice it is normally beneficial to pilot the concept of a sector approach in one or two sectors in a country and draw on the lessons learned before rolling out the approach to other sectors.

It is essential that preparatory work is done to assess the suitability of a specific sector for a sector approach. Such preparatory work could include the establishment of government-led sector working groups, which would have responsibility for effective donor coordination; developing short and medium term plans for the five main elements of a sector approach i.e. to identify the capacity building needs and the institutional arrangements of the sector before implementation commences. The working group would consult on strategic documents and make an assessment based against agreed criteria in order to identify sectors with readiness in the short and the medium term. Box 4 illustrates the areas that the former Yugoslav Republic of Macedonia assesses to identify potential sector approaches.

Box 4: Assessment of potential sector approaches in the former Yugoslav Republic of Macedonia

The following areas were assessed to identify programmes suitable for sector approaches:

- Scope of the programme: to reach a common understanding on the area covered by the sector approach and possibility of selecting subsectors in a phased manner.
- Analysis of key programme stakeholders and the best organisational set-up of a dialogue and sector approach implementation mechanism. This includes sector approach guiding principles and a code of conduct outlining how to work together.
- Availability of programme priorities and key medium-term results framework to anchor the approach in the respective programme area based on sector and sub-sector strategies
- Initial assessment of institutional capacity in the respective programme area including identification of capacity gaps
- Stocktaking of all international partners assistance and projects a comprehensive view of who is providing what support.

Based on this assessment a sector approach action plan was developed and coordination mechanisms established.

Step 2: Agree the sector policy framework

A good sector policy framework is the main element of any sector approach. It provides a statement of government objectives and how these will be achieved. The sector strategy or plan outlines how the government will implement the sector policy. It is normally a medium-term document covering a period of 3 to 5 years.

It is not necessary to have a perfect plan but it should at the minimum, outline the main sector objectives and strategies for how these will be achieved. The strategies and activities that derive from the plan should be reflected in sector budgets with a process outlined for reviewing results and outcomes and updating the policy. It is important that there is a broad consensus on the main objectives and strategies included in the plan. This ensures that government, development partners and other stakeholders agree on the direction in which the sector is moving.

A strategic planning exercise was undertaken in Bosnia and Herzegovina, for the Justice sector. This involved defining the Justice sector, assessing existing strategies and determining how the sector strategy would fit with these. The priorities for the sector were agreed, as were clear roles and responsibilities for drafting and adopting the strategy and monitoring and reporting on implementation.

There needs to be a clear link between sector policy and budgeting. To support the sector policy a comprehensive and transparent sector budget is essential, providing a clear view of resources available to the sector. The sector plan should be properly costed and prioritised within a realistic estimate of the resource envelope available from both donor partners and government. It should be comprehensive and include all resources provided to the sector, both external and internal and include all expenditures (capital and recurrent expenditures). It should be credible with actual budgetary outturns in line with planned expenditure.

Ideally the sector budget should be developed within a Medium-Term Expenditure Framework (MTEF). An MTEF is a transparent planning and budget formulation process within which governments and central agencies establish credible contracts for allocating public resources to their strategic priorities while ensuring overall fiscal discipline. The process entails two main objectives: the first aims at setting fiscal targets, the second aims at allocating resources to strategic priorities within these targets. When Australia embarked on a comprehensive reform program in the early 1980s a key consideration was the perceived inadequacies in the links between policies and programs and the resources allocated to their implementation. Fiscal crisis subsequently raised fundamental concerns about the affordability of current government policies. The response to this was to take the system of forward estimates which had played a peripheral role in decision making and place it at the centre of both resource allocation decision making and resource use⁹.

One appropriate generalization of MTEF is that it is a top down guide to strategic allocations of available resources and a bottom-up estimation of the current and medium-term costs of existing and planned policy. Costs are matched with available resources and estimated on a medium-term 3 to 5 year basis. However, it is most important to develop a credible budget first and gradually build up an MTEF later.

In Albania work has been undertaken to more closely link sector plans and financial management systems. A strategic framework has been developed with 12 sectoral and 14 cross-cutting strategies adopted by the Government in an integrated planning system. This is closely linked to the medium-term budget programme where there is an explicit link between budget allocations and programme policy objectives.

Step 3: Agree on a framework for institutional arrangements and coordination

Mechanisms for sector coordination and dialogue are crucial for a sector approach. The coordination process has two elements: coordination of government and other national stakeholders, and coordination of donor partners in the sector. The overall process involves mechanisms for coordination, consultation and harmonization of approaches.

Sector coordination mechanisms should be consistent with the structure of the national government, and certainly not a substitute for them. The government should take the lead on sector mechanisms such as sector working groups. These mechanisms should be connected to the wider framework of coordination and dialogue around national strategies. The lead sector ministry should have responsibility for the implementation of sector programmes. Other ministries relevant to the sector and other cross-cutting ministries such as civil service and local government and, importantly, the Ministry of Finance and the Ministry of Planning (or its equivalent) should be involved. In cases where more than one ministry is involved in delivering aspects of the sector programme there needs to be clear lines of communication and clear responsibilities in terms of overall targets and indicators to be achieved through the sector programme.

Institutional accountability should be in line with the country's system of decentralisation at central, regional and district government levels. Non-governmental stakeholders will include for-profit and not-for-profit service providers, as well as civil society organizations. All development partners in the sector should be included, regardless of the modalities they use for support.

Processes for coordination tend to start out as loose agreements on ways of working, but over time there is a tendency for more formal agreements and structured mechanisms to be formed. Sector coordination arrangements may include the following:

- **A Sector Working Group** chaired by the sector ministry and including other key national stakeholders and all partners.
- **A Joint Annual Review** to monitor sector progress and evaluate the performance assessment framework.

⁹ The Australian Experience with a Medium Term Expenditure Framework: Annex 7 of China PER, by Bert Hofman <http://siteresources.worldbank.org/INTPEAM/Resources/Annex7.doc> Word Document (39 KB)

- A **Programme of Work** which is an annual agreement on activities, performance objectives and benchmarks.
- A **Joint Financing Agreement** that outlines the obligations of development partners and government and procedures for channelling funding and a memorandum of understanding on the division of labour.
- A **Memorandum of Understanding** on division of labour

Under the EU Code of Conduct, EU donors will work towards and support the establishment of a lead donor arrangement for a sector approach thereby reducing the transaction costs for both the beneficiary and donors. The lead donor should be given a substantial mandate for specific aspects of sector policy dialogue and have an obligation to regularly consult with other donors in the sector. The lead donor model might differ from one case to another. A team of supporting donors which take on roles according to local needs and circumstances could be envisaged where relevant. The important objective is to ensure that the partner country is faced with a structured donor set-up, which for example identifies who is the lead donor, which donors have agreed to delegate authority to another donor for the administration of funds and sector policy dialogue with the government, which donors will phase out of support to a sector, and which might redeploy to another sector.

In Albania the coordination process is being carried out through the fast track initiative on division of labour (FTI-DoL), which supports the implementation of the EU Code of Conduct in Albania on division of labour. This process includes a division of labour between donors, outlines the responsibilities of lead donors within the Albanian Government led coordination structure in sectors most relevant to EU integration and outlines agreements on common goals and scope of work (roles and responsibilities). Following the EU Code of Conduct is also an approach the former Yugoslav Republic of Macedonia intends to take in implementing sector approaches in the sectors that have been identified as being appropriate for a sector approach.

The EU Toolkit for the implementation of complementarity and division of labour in development policy is a useful resource document that brings together current experience on the division of labour on the ground¹⁰.

Step 4: Agree on capacity building strategy

One of the main objectives of a sector approach is to strengthen government systems and donor incentives to use country systems. Using national planning, management, implementation, monitoring, and evaluation systems, should contribute to the reinforcement of these systems. It is important that efforts are made by development partners to use national systems where possible and support capacity building in areas that need strengthening. This can be through technical assistance and training or through policy dialogue to facilitate access to new ideas or management approaches.

This focus on capacity development also fits with the EU accession process as significant country capacity is needed to comply with *acquis* requirements. Sector approaches themselves require a reasonable level of capacity among public officials in the sector, which often has to be developed.

The success of a sector approach, and the degree to which outcomes are achieved, is also determined by institutional drivers of, and constraints to development, as well as by the capacity of the institutions and individuals involved. An assessment of these factors can help clarify where the main constraints or bottlenecks lie.

Any assessment of sector capacity should examine the strengths and weaknesses of sector systems and the drivers and constraints to performance. It should also examine the institutional setting and broader context within which the system works. Early and systematic investment in capacity building is key to the process.

In the former Yugoslav Republic of Macedonia, capacity building needs have been assessed and initiatives have been designed to address these needs as part of the preparatory work for the establishment of five sector programmes. This ensures that capacity building commences prior to programmes beginning. This capacity building has been linked to programming within IPA Component 1 on Institution Building.

Step 5: Agree sector performance assessment system

A performance assessment system (which includes monitoring and evaluation) should be established to set targets and indicators to measure progress towards policy objectives, focusing on results and providing feedback to management and policy. This is usually in the form of a sector Performance Assessment Framework (PAF). This

¹⁰ http://ec.europa.eu/europeaid/infopoint/publications/development/42b_en.htm

consists of a set of input (measures taken, resources used), output (immediate results of resources used/measures taken), outcome (results at beneficiary level) and sometimes impact indicators (outcome of wider objectives).

A set of indicators, defined on objective, programme and project levels, needs to be developed. This gives a reflection of how the sector as a whole is performing and can highlight areas where further actions are needed or policies need to be changed. The PAF is normally periodically monitored, but needs to be a manageable process based on strengthening existing government monitoring, including data management, rather than developing parallel systems. Ideally, this means linking and aligning donor monitoring frameworks to PAF and to a national system for monitoring and reviewing processes of national plans. PAFs should be used to monitor progress in achieving results in the sector rather than to impose conditionality.

Target/indicator setting is challenging because it has both political and technical dimensions, and requires high level political commitment and trained staff. Monitoring and evaluation of a sector approach is only possible if programming is at the appropriate level. In the enlargement context the logic and hierarchy of planning documents with coherent indicators and targets should be identified. The emphasis should shift from output to outcome indicators with a simplified log-frame. Only a small number of indicators are required to explain the key areas of sector performance. Budgeting should be directly linked with strategic planning and target/indicator setting.

There has been some experience of establishing performance assessment systems in the context of sector programmes in the region. In Serbia, there is an ongoing process of defining the Performance Monitoring Framework as a part of the mid-term planning documents at the public institution level. Since budget allocations are approved per institution/budget user, this allows progress at project, program and objective levels to be measured. It also allows for linking performance at the objective level to specific projects/actions taken and resources used. The weakness of this approach is the absence of a sector-wide perspective. The focus is on the institutional objectives and plans based on the sector policy. In Turkey a system is in place for setting indicators and monitoring of the Education Operational Programme under component (iv) of IPA. Monitoring systems are currently being developed in Albania for the sector approach in Education and in Bosnia and Herzegovina for the Justice sector and the Public Administration Reform sector.

The feasibility to carry out joint evaluations (beneficiary/donor) or, as a minimum for the EU and other donors, to better coordinate evaluations, should be explored. There is a need to coordinate monitoring and evaluation requirements under various IPA components. The quality of target/indicator setting is noted to be low in IPA project and policy documents. More emphasis on outcome indicators is recommended. There is also a need to consider the Results-Oriented Monitoring (ROM) system where monitoring is carried out independently under the responsibility of consultants. The effectiveness of this system is also hampered by the lack of proper performance targets/indicators.

Step 6: Agree financing mechanisms for sector approaches

Once an assessment of the viability of a sector programme has been undertaken and the main components have been developed, a decision needs to be made on the financing mechanism to be used. This can range from projects to pooled funding, Sector Budget Support (SBS) or General Budget Support (GBS). Most financing for sector approaches to date has been in the form of individual projects in the Western Balkans and Turkey. The IPA beneficiary countries have mainly used project support and, occasionally, pooled funding. Under IPA, programme assistance can be provided by the EU through a.o.:

- I investment, procurement contracts or subsidies
- II member state experts to build administrative cooperation
- III action to support beneficiary countries
- IV aid in implementing and managing programmes
- V in exceptional cases budget support

Some aid partners will often use pooled or sector budget support in line with the Paris Declaration of 2005, which commits development partners to using more harmonized ways of working.

The most appropriate funding mechanism will depend on the circumstances. For example, in the former Yugoslav Republic of Macedonia project funding had traditionally been the main approach to financing external assistance. When a decision was made to move to sector approaches, it was decided that moving to pooled funding

and sector budget support would prove difficult in the short-term. Given this, it was decided to move towards this type of funding at a later stage and explore possibilities in the short-term only if new projects were going to be developed. In contrast, in Bosnia and Herzegovina, a decision was made to establish a pooled fund for financial assistance to support in the Public Administration Reform Sector

This section gives guidance on when each type of financing mechanism should be used and the advantages and disadvantages of each approach.

Projects

Projects tend to be used by donor partners who are unable to pool funds with other partners or to use government systems. Projects can also be used when the conditions for pooled funding or sector budget support are not in place. This approach is compatible with a sector programme, as long as the development partner works within the sector framework and informs the government of project activities and funding.

Most IPA support under a sector approach will be through projects but, within the framework of a sector approach this support will be better targeted and part of a better defined, prioritised and sequenced sector strategy.

In the context of IPA, projects often support essential capacity development for structures that are then used to deliver financial support after the EU accession process is complete.

In order to ensure that projects fully support a sector approach, projects should be designed with the following criteria in mind¹¹.

- Ensuring that the project is consistent with sector policy objectives.
- Relying as far as possible on the use of government/national objectives for implementation of the project.
- Taking account of other expenditures within the sector by government and other partners, so as to maximize future recurrent cost implications.
- Providing full information to government on project budgets and expenditures, ideally in line with the same format and timetable utilized for reporting on government expenditures.
- Minimising transaction costs wherever possible, through coordination with government and partners and, if appropriate, through co-financing of projects.
- Engaging capacity development in a coherent and coordinated manner.

Pooled funding

Pooled funding or basket funding are mechanisms specifically designed to finance a sector programme. A pooled fund is defined as:

“A fund that receives contributions from different external agencies, and in certain cases from governments, to finance a set of budget lines or activities agreed as eligible in support to a sector programme” (EC, 2007).

Pooled funding differs from GBS and SBS, as pooled funds vary in scope, as these funds often do not cover the entire sector and may be for specific budget lines or a set of activities or sub-programme, such as primary education. The management of the funds is often different as they are held in a separate accounts and may be externally managed.

In the public administration reform sector approach in BiH a pooled fund was successfully established to support the process. Sida, the Royal Netherlands Embassy and DFID contributed to the fund, while the EU provided technical assistance.

¹¹ European Commission (2007), Support to Sector Programmes Covering the three financing modalities: Sector Budget Support, Pool Funding and EC project procedures. http://ec.europa.eu/development/icenter/repository/Support-to-Sector-Programmes_27072007_en.pdf

Sector budget support (SBS) is the transfer of financial resources from an external agency to the National Treasury of a partner country in support of a sector programme. Development partner funds are mixed with domestic resources and used in accordance with national budgetary systems. Sector budget support can be defined as¹²:

- Aid that uses the normal channel used for government's own-funded expenditures. Aid is disbursed to the government's finance ministry (or "treasury"), from where it goes, via regular government procedures, to the ministries, departments or agencies responsible for budget execution.
- Aid that has dialogue and conditions and other inputs associated with the sector and should be predominantly focused on a single sector.

SBS can be delivered in different ways with funding earmarked against specific public expenditure. This earmarking can be broad i.e. with funds earmarked against overall sector expenditures for a sector, or narrow i.e. when funds are earmarked to specific sector budget lines.

SBS should only be used when public finance management (PFM) capacity is fairly strong and the following conditions are in place.

- A well defined policy is in place or under implementation
- A credible and relevant programme to improve PFM is in place or under implementation
- A stability orientated macro-economic policy is in place or under implementation.

General Budget Support (GBS) is similar to SBS as it consists of a transfer of funds to the national treasury, but differs in that it aims to support the partner countries' development policy and national aims and objectives. Sometimes development partners choose to roll their sector funding into GBS without stating the level of funding that should go to the sector. This has the advantage that partner governments make decisions on budget allocations at the sectoral level, which should lead to a more efficient allocation of resources. The donor partner still engages in dialogue and processes at the sector level. The advantages of this approach are similar to those related to SBS that are outlined above.

Budget support has been used successfully by the European Commission outside the region, for example, in Tunisia. In this case, GBS and SBS have been used for tertiary education. In both cases funding was linked to implementation of reforms with complementary technical assistance. This resulted in strong coordination and ownership by government, as well as a high level of policy dialogue and lower transaction costs for both the government and the EC.

Budget support is an exceptional, but not marginal, tool under IPA. The IPA Regulation (article 15.1) provides a legal basis for budget support. It sets out the following eligibility criteria:

- Support shall be exceptional;
- It will be in support of sectoral/macro-economic policies approved by IFI's;
- Where there are sufficiently reliable and efficient administration of public finances; and
- Conditional disbursement

These criteria were applied to a request by Serbia for GBS in the wake of the global financial crisis. Exceptional GBS was approved under Serbia's 2009 Annual IPA Programme. The funds (€ 100 million) were provided to help mitigate the economic and social impact of the necessary re adjustments of public expenditure made in response to the crisis while keeping a focus on reforms needed for preparation for EU accession.

Neither GBS nor SBS would be used to deliver Components (iii), (iv) and (v) of IPA. This is because these Components have their own specific delivery mechanisms which are designed to prepare beneficiaries for the management of structural funds upon accession.

¹² Williamson, T and C. Dom (2009)

Sector approach implementation under different conditions - risks and opportunities of a sector approach

It is important to analyse when a sector approach might be relevant and what should be the first stages in implementing such an approach.

First, it is important not to become too preoccupied with developing a perfect sector plan, as both planning and budgeting can be improved while the sector approach is being implemented. More importantly it is critical that the plan is genuinely adopted by the government. It is also important that the most significant donor partners in the sector have aligned their support to the plan and the sector has the capacity to take the sector approach forward. The institutional set up must also be conducive to the sector, with either a strong lead ministry or a viable mechanism for sector coordination.

In the enlargement context it is recognised that the shift to a sector approach needs to be incremental and that beneficiaries and donors should work to improve the capacity for effective and evidence-based national priority-setting. The latter will provide a firm foundation for deciding which sectors should be prioritised and where efforts should be focused on developing more strategic approaches in areas where there is not immediate sector readiness. Improved policy making capacity and strategic planning can then be used to develop sectors in a medium term perspective. This can help ensure that sequencing of programming is most appropriately adapted to accession requirements.

Second, it is important to be flexible and fit the design of the sector approach to the country context. There is no need to develop all elements of the sector approach at the same time. Rather a step-by-step process should be followed, prioritizing the development of a sector plan with the other elements of a sector approach. Mechanisms, such as Performance Monitoring Frameworks, joint funding mechanisms and medium-term sector budgeting may not all be achieved at the same time.

Third, experience in other regions points to alignment with government plans and systems being more important than donor partners spending time harmonising with each other.

Fourth, capacity development should be at the core of any sector approach and should focus on all key sector institutions.

Finally, there should be an assessment of the risks of a sector approach. Although there are distinct benefits from adopting a sector approach, it is important to bear in mind that there are risks which should be considered. Measures to overcome these risks should be built into sector approach design.

Some potential risks concerning government institutions are:

- Capacity to implement and manage a highly intensive process;
- Executive capacity to negotiate with other decision makers in the public sector;
- Lack of adequate capacity to ensure accountability, particularly during the initial phase;
- Political risks due to a change of administration, leadership or strategy, in particular during elections;
- Blockages or delays to implementation of priority activities;
- Possible reduction of public expenditure in the sector;
- Not receiving partner funds for the sector as the partner withdraws or key conditions are not met;
- Centralisation of decision making and implementation, which would not allow the participation of decentralized or other institutions in the sector.

And concerning donor partners are:

- Lack of willingness to discuss and accept different approaches and technical criteria among aid partners.
- Establishment of different technical and legal requirements by aid partners.
- Frequent rotation of international staff leading to discontinuity.
- Different degrees of style and decentralization of agencies, particularly related to decision-making.
- Competition among bilateral and multilateral agencies.

This section examines the practical experience of implementing sector approaches in the Western Balkans and Turkey and outlines the main challenges faced, lessons learned and best practice that has emerged from this experience.

The experience of the Western Balkans and Turkey

Sector approaches are relatively new in the Western Balkans and Turkey, although most countries have developed some aspects of sector programmes already. There is a great deal of experience of sector strategy formulation in the region and some examples of pooled funding mechanisms, but very few programme based sector budgets have been established. There is little experience in the use of monitoring and evaluation frameworks, but a growing trend towards the use of sector working groups and developing sector coordination mechanisms. This means that although the experience of establishing fully-fledged sector programmes is limited, some of the building blocks for sector approaches are already in place in most countries.

The 35 chapters of the *acquis communautaire* form the basis of the accession negotiations for each candidate country. They correspond to the different areas of the *acquis* for which reforms are needed in order to meet accession conditions. At the general level this requires a well-functioning and stable public administration built on an efficient and impartial civil service, and an independent and efficient judicial system. The Sarajevo Workshop recognised that, despite the importance of Governance/PAR and Justice, there may be less political and technical readiness to progress in the short term to a sector approach in the areas. Consequently, good practice and lesson learning should be highlighted and shared in order to accelerate more strategic approaches to programming in these areas. Progress in these areas could also be made through an incremental approach to developing sector approaches, with an acknowledgement that there would be complementarity between sector and project approaches and that it could also be possible to apply various hybrids of these approaches.

Many countries are improving their sector level planning: with the development of sector programmes in Bosnia and Herzegovina. Montenegro and Kosovo¹³ are all at the early stages of implementing sector approaches. In the former Yugoslav Republic of Macedonia and Albania sector programmes have been developed, including medium-term budget frameworks.

A sector approach is being established in the Justice Sector Reform Programme in Bosnia and Herzegovina. A strategic plan has been developed and a joint donor financing mechanism is under development. A number of lessons emerged from the strategic planning process. There were clear benefits that stemmed from the realisation of a common vision, establishment of common priorities, identification of areas for common support and an improvement in harmonisation and coordination. However, problems occurred due to a lack of capacity and political will to implement the strategy. Institutional and inter-institutional coordination was also difficult.

The Public Administration Reform sector approach in Bosnia and Herzegovina has been successful in providing a framework for institutional reform and donor fund management through pooled funds. During implementation it was discovered that it takes considerable time to establish such an approach and it is important to ensure institutional support for reform at the beginning of the process, as without this progress is constrained. It was also found that there was a need to strengthen the absorptive capacity in the sector and implement a capacity building programme. Staffing changes have highlighted the need to find ways to preserve the institutional memory of the reform process. Key recommendations were to develop a sense of ownership over the process by the government and, in the planning phase, to identify key needs rather than desires.

In Kosovo, a large number of donors are supporting a pilot phase for a sector approach in Education. Turkey is also developing sector programmes in some areas such as education.

¹³ under UNSCR 1244/99

In Albania there has been considerable work made in developing strategic frameworks which provide for: integrated plans which outline medium-term budget commitments, a comprehensive monitoring system for sector strategies and “fast track” division of labour between stakeholders. The Education Excellence and Equity Program in Albania resulted in increased ownership of the programme by the Education Ministry and other beneficiaries and a stronger implementation focus, as everyone worked towards the same agenda. The main drawbacks experienced were a slowing of financial disbursements and a high turnover of government staff. It was concluded that a much more integrated assessment of functional and administrative capacities in beneficiary agencies should have been undertaken. This would have helped to identify risks early on and to plan mitigation measures

In the former Yugoslav Republic of Macedonia, it is intended to explicitly link the EU accession process to sector approaches. A detailed analysis has been undertaken and certain priority sectors have been identified as appropriate for sector approaches. An action plan for implementation has been prepared, and frameworks for dialogue, coordination and measuring results will also be established. The lessons learned were that the process of identifying and establishing sector approaches is time consuming and requires considerable commitment from both donor partners and government. Agreement on a Code of Conduct can help strengthen commitment and help ensure the sustainability of the partnership. Establishing pre-conditions for the process, early on, was also deemed to be important. A pragmatic approach was used to define sectors and there was an exchange of experience and knowledge among those involved in the process.

Challenges and lessons learned

Despite the generally positive experience of sector approaches, implementing a sector approach brings a variety of challenges as illustrated in the section above and the expected benefits are not always fully realized. The Sarajevo Workshop highlighted the following challenges and lessons learned from the implementation of sector approaches in the Western Balkans and Turkey to date:

Challenges

- A lack of information and knowledge regarding sector approaches among beneficiaries
- Ensuring political commitment to the process by all stakeholders involved, including at sector and national level
- Inter-ministerial and sectoral coordination is often a problem which hinders implementation
- Sector approaches require a different skill set to that of implementing projects. These skills need to be acquired by both beneficiaries and development partners.
- A high turnover of public officials can undermine capacity building efforts
- Many sector strategies are of poor quality, with no action plan or link to the budget, which hinders their use as a basis for implementation of a sector approach
- There is little experience in the use of performance assessment frameworks among IPA beneficiaries

Lessons learned

- Be realistic as to what can be achieved in the timeframe available. A sector approach is a long-term process and is likely to take 2 to 3 years to implement.
- Stronger leadership and ownership by beneficiary governments is needed, particularly in line ministries
- Human resource development is a key pre-condition for sector approaches and capacity development is needed for Ministry of Finance staff and those in the line ministries
- There needs to be a better link between strategic plans, budget allocations, strategic objectives and identified priorities
- The costing of sector strategies and realistic action plans need to be reflected in a national MTEF, to which a sector MTEF is linked.
- Programming should be developed jointly and should take place within the sector working group
- Complementarity between sector approaches and IPA should be maintained with mechanisms and structures developed for sector approaches used for the programming of IPA

Best Practices in implementing sector approaches

The following are best practices drawn from implementing sector approaches in the Western Balkans and Turkey:

- Preparatory work should be undertaken to assess which sectors are suitable for a sector approach;
- The sectors identified should be a priority for EU enlargement;
- A pragmatic approach should be taken when identifying sectors;
- Pilot sectors should be chosen for sector approach implementation in order to learn lessons, which can then be incorporated into a roll-out to other sectors;
- A draft structure or framework for implementation and an action plan should be developed prior to implementation;
- Efforts should be made to ensure political backing and ownership at national and sectoral levels;
- Ensure Ministry of Finance commitment and involvement to make certain there is adequate integration of sector plans and budgets with the governments' planning and budget process;
- Establish a coordinated and consistent coordination and monitoring mechanism for sectors which includes top political representation;
- Build capacity to ensure institutional readiness. Capacity building should begin prior to sector approach implementation;
- Development of good monitoring and reporting mechanisms is important and should be linked to national monitoring systems.

Additional materials on sector approaches

Anson, R and Pfaumann, p. (2006) *The Role of Sector Wide Approach to Sustainable Rural Development in Central America*, RUTA Publications Series, Working Paper No 20.

Boesen, N. and D. Dietvorst (2007) *Sector Wide Approaches in Motion: Sector Wide Approaches: from an Aid Delivery to a Sector Development Perspective*, Train 4 Dev.Net

European Commission (2007) *Support to Sector Programmes: Covering the Three Financing Modalities: Sector Budget Support, Pool Funding and EC Project Procedures*, Guidelines No. 2.

Round Table 8 (2008) *Enhancing Results by Applying the Paris Declaration at Sector Level*, Outcome Document.

Vaillancourt, D. (2009) *Do Health Sector-Wide Approaches Achieve Results? Emerging Evidence and Lessons from Six Countries*, IEG Working Paper 2009/4

Walford, V. (2007) *A Review of Health Sector Wide Approaches in Africa*, HLSP Institute, July 2007.

Williamson, T and C. Dom (2009) *Sector Budget Support in Practice: Good Practice Note, Making Sector Budget Support Work for Service Delivery*, ODI and Mokoro

The EU Toolkit for the Implementation of Complementarity and Division of Labour in Development Policy

Materials produced for the workshop available at:

http://www.trezorbih.gov.ba/bos/index.php?option=com_content&task=view&id=476&Itemid=177
and

http://ec.europa.eu/enlargement/projects-in-focus/donor-coordination/meetings_events_conf_coord_aid_en.htm

Annex 1: The Accession or Copenhagen Criteria.

The Accession Criteria, or Copenhagen Criteria, are the essential conditions all candidate countries must satisfy to become a Member State. They were set at the Copenhagen European Council in 1993 and at the Madrid European Council in 1995 and comprise:

- Political criteria: stability of institutions guaranteeing democracy, the rule of law and respect for human rights, including the rights of minorities.
- Economic criteria: a functioning market economy and the capacity to cope with competition and market forces.
- The capacity to take on the obligations of membership, including adherence to political, economic and monetary objectives.
- The creation of the conditions for integration through the adjustment of administrative and institutional structures guaranteeing effective implementation of the *acquis*.

The *acquis* is the body of common rights and obligations that is binding on all the Member States of the European Union. It is constantly evolving and comprises:

- The content, principles and political objectives of the Treaties.
- Legislation adopted pursuant to the Treaties and the case law of the Court of Justice.
- Declarations and resolutions adopted by the Union.
- Instruments under the Common Foreign and Security Policy.
- Instruments under Justice and Home Affairs.
- International agreements concluded by the Community and those entered into by the Member States among themselves within the sphere of the Union's activities.

In all areas of the *acquis*, the candidate countries must bring their institutions, management capacity and administrative and judicial systems up to EU standards, both at national and regional level. This will allow them to implement the *acquis* effectively upon accession and, where necessary, to be able to implement it effectively in good time before accession. At the general level, this requires a well-functioning and stable public administration built on an efficient and impartial civil service, and an independent and efficient judicial system. Detailed indications for each specific area of the *acquis* are given in the Guide to the Main Administrative Structures Required for Implementing the EU *Acquis* [410 KB]

Adoption and implementation of the *acquis* are the basis of the accession negotiations.

Annex 2: EU Code of Conduct on Complementarity and Division of Labour in Development Policy

The Code proposes broad guidelines, which establish the principles of complementarity in development aid. In particular, the Code consists of eleven guiding principles:

- Concentrate the activities on a limited number of national sectors (focal sectors). EU donors should confine their assistance, in a partner country, to two sectors in which they offer the best comparative advantage as recognised by the government of the partner country and the other donors. Apart from these two sectors, donors can provide budget support and finance programmes relating to civil society, research and education.
- Redeploy into other activities in-country (non-focal sectors). In regards to the non-focal sectors, donors should either remain committed through a delegated cooperation/partnership agreement or redeploy the resources becoming available in general budget support or exit from the sector in a responsible manner.
- 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.
- Encourage the establishment of delegated cooperation/partnership arrangements through which a donor has the power to act on behalf of other donors concerning the administration of funds and dialogue with the partner government on the policy to be implemented in the sector concerned.
- 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 three to five active donors for each sector.
- Replicate this division of labour at regional level through the application of the principles of the in-country division of labour in cooperation with the partner regional bodies.
- Designate a limited number of priority countries for each donor through dialogue within the EU.
- Grant adequate funding to the countries which are overlooked as far as aid is concerned and which are often fragile countries whose stabilisation would have positive repercussions for the region as a whole.
- Analyse and expand areas of strength: the EU donors should deepen the evaluations of their comparative advantages with a view to greater specialisation.
- Pursue progress on other aspects of complementarity, such as its vertical and cross-modality/instruments dimensions.
- 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 3: List of participants

	Title	First Name	Last Name	Country/Institution
1.	Ms.	Tifani	ŠIMUNOVIC-BOBAN	Croatia
2.	Ms.	Martina	ŠTUKA	Croatia
3.	Ms.	Ivana	ZDELAREC	Croatia
4.	Mr.	Aleksandar	DRLJEVIC	Montenegro
5.	Ms.	Dunja	NELEVIC	Montenegro
6.	Ms.	Ivana	PAJEVIC	Montenegro
7.	Ms.	Alma	MARKU	Albania
8.	Ms.	Oriana	ARAPI	Albania
9.	Ms.	Valbona	KUKO	Albania
10.	Ms.	Ledina	GJIKNURI	Albania
11.	Mr.	Josif	GJANI	Albania
12.	Mr.	Dragan	TILEV	the former Yugoslav Republic of Macedonia
13.	Ms.	Orhideja	KALJOSEVSKA	the former Yugoslav Republic of Macedonia
14.	Ms.	Lidija	CHADIKOVSKA	the former Yugoslav Republic of Macedonia
15.	Mr.	Mehmet S.	SUNER	Turkey
16.	Mr.	Ahmet	YÜCEL	Turkey
17.	Mr.	Mesut	KAMILOGLU	Turkey
18.	Mr.	Ali	DOGAN	Turkey
19.	Ms.	Gordana	LAZAREVIC	Serbia
20.	Ms.	Ana	ILIC	Serbia
21.	Mr.	Sasa	MARKOVIC	Serbia
22.	Mr.	Dragan	VRANKIC	Bosnia and Herzegovina
23.	Ms.	Dusanka	BASTA	Bosnia and Herzegovina
24.	Ms.	Ljerka	MARIC	Bosnia and Herzegovina
25.	Ms.	Selma	KASUMAGIC	Bosnia and Herzegovina
26.	Ms.	Zeljka	BOLJANOVIC	Bosnia and Herzegovina
27.	Ms.	Marina	KAVAZ-SIRUCIC	Bosnia and Herzegovina
28.	Ms.	Aneta	RAIC	Bosnia and Herzegovina
29.	Ms.	Zdenka	KOVAC	Bosnia and Herzegovina
30.	Ms.	Selma	DZIHANOVIC-GRATZ	Bosnia and Herzegovina
31.	Ms.	Amra	JASAREVIC	Bosnia and Herzegovina
32.	Mr.	Peter	VAN RUYSEVELDT	UN/ UNDP Bosnia and Herzegovina
33.	Mr.	Yuri	AFANASIEV	UN/UNDP Bosnia and Herzegovina
34.	Ms.	Florence	BAUER	UNICEF Bosnia and Herzegovina

35.	Mr.	Nevzat	YESILER	Turkish International Cooperation & Development Agency
36.	Mr.	Timothy	DONNAY	USAID Former Yugoslav Republic of Macedonia
37.	Mr.	Allan	REED	USAID Bosnia and Herzegovina
38.	Ms.	Beatrice	MEYER	Swiss Cooperation Office in Bosnia and Herzegovina
39.	Ms.	Rose-Marie	HENNY	Swiss Cooperation Office in Bosnia and Herzegovina
40.	Ms.	Claudia	TUSA	Ministry of Foreign Affairs of Romania
41.	Mr.	Csaba	FELEGYHAZI	Hungarian Embassy in Bosnia and Herzegovina
42.	Mr.	Gabor	BAKOS	Ministry of Foreign Affairs of Hungary
43.	Ms.	Dr. Elke	HELLSTERN	KfW Office in Serbia
44.	Mr.	Gerald	KUHNEMUND	KfW Office in Bosnia and Herzegovina
45.	Mr.	Heike	PÖRKSEN	German Foreign Office
46.	Mr.	Christian	KAUFHOLD	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
47.	Mr.	Flavio	LOVISOLO	Italian Development Cooperation
48.	Ms.	Mariarosa	STEVAN	Italian Development Cooperation
49.	Mr.	Heinz	HABERTHEUER	Austrian Development Cooperation
50.	Mr.	Christopher	OPANCAR	Austrian Development Cooperation
51.	Ms.	Astrid	WEIN	Austrian Development Cooperation
52.	Mr.	Daniel	ASPLUND	Swedish International Development Agency in BiH
53.	Mr.	Stefan	SJÖLANDER	Swedish International Development Agency in BiH
54.	Mr.	Erik	ILLES	Swedish International Development Agency in BiH
55.	Mr.	Anders	HEDLUND	Swedish International Development Agency in BiH
56.	Ms.	Britta	OLOFSSON	Swedish International Development Agency in Albania
57.	Ms.	Nevila	ÇOMO	Donor Technical Secretariat Albania
58.	Ms.	Riny	BUS	Ministry of Foreign Affairs of the Netherlands
59.	Ms.	Catherine	ROBINET	French Embassy in Bosnia and Herzegovina
60.	Ms.	Cristina	GUTIERREZ HERNANDEZ	Spanish Agency for International Development Cooperation - AECID
61.	Ms.	Kazumi	HOMMA	Japan JICA
62.	Ms.	Ann	BARTHOLOMEW	UK Department for International Development
63.	Mr.	Mladen	MILANOVIC	UK Department for International Development
64.	Mr.	Richard	MORETON	UK Department for International Development
65.	Mr.	George	HOLROYD	UK Department for International Development
66.	Ms.	Ruvejda	ALIEFENDIC	UK Department for International Development
67.	Mr.	Damir	HADZIC	UK Department for International Development
68.	Mr.	Markus	REPNIK	World Bank
69.	Ms.	Lida	KITA	European Training Foundation
70.	Ms.	Raija	PELTONEN	European Court of Auditors
71.	Mr.	Michel	GONTIER	EU Delegation to Albania
72.	Mr.	Luigi	BRUSA	EU Delegation to Albania
73.	Mr.	Dieter	THIEL	EU Delegation to former Yugoslav Republic of Macedonia
74.	Mr.	Nicola	BERTOLINI	EU Delegation to Montenegro
75.	Mr.	Aferdita	TAHIRI	EU Liaison Office to Kosovo
76.	Ms.	Verena	WESSELY	EU Delegation to the Republic of Serbia
77.	Mr.	Pedro	BRANDAO-FARIA	EU Delegation to Turkey

78.	Mr.	Odoardo	COMO	EU Delegation to Turkey
79.	Mr.	Dimitrios	KOURKOULAS	EU Delegation to Bosnia and Herzegovina
80.	Mr.	Boris	IAROCHEVITCH	EU Delegation to Bosnia and Herzegovina
81.	Ms.	Dominka	SKUBIDA	EU Delegation to Bosnia and Herzegovina
82.	Ms.	Maria	FARRAR-HOCKLEY	EU Delegation to Bosnia and Herzegovina
83.	Ms.	Gabriela	KOEHLER-RAUE	European Commission
84.	Mr.	Oscar	ARIAS	European Commission
85.	Mr.	Pedro	ANDREO-ANDREO	European Commission
86.	Ms.	Estelle	CARRELET de LOISY	European Commission
87.	Mr.	Mihael	BERRISFORD	European Commission
88.	Mr.	Mose	APELBLAT	European Commission
89.	Ms.	Magdalena	MUELLER-URI	European Commission
90.	Ms.	Yolanda	SAN JOSE	European Commission
91.	Ms.	Marie	LUNDKVIST	European Commission
92.	Mr.	Martin	KERN	European Commission
93.	Mr.	Goran	SEGERLUND	European Commission
94.	Mr.	André	LYS	European Commission
95.	Ms.	Anna-Claire	MICHAEL	European Commission
96.	Ms.	Francesca	ROSSO	European Commission
97.	Ms.	Michela	FORESTI	European Commission
98.	Ms.	Dr Elizabeth	PERI	European Commission
99.	Mr.	Alain	BOTHOREL	European Commission
100.	Ms.	Rebekka	EDELMANN	European Commission
101.	Ms.	Jeannette	MONIER	European Commission
102.	Mr.	Werner	SCHIESSL	European Commission
103.	Ms.	Tatjana	KOVACIC	Slovenian Ministry of Foreign Affairs
104.	Mr.	Vaclav	KUZELKA	Czech Ministry of Foreign Affairs
105.	Mr.	Goran	TINJIC	World Bank



This publication was produced by the Ministry of Finance and Treasury, Bosnia and Herzegovina and the Directorate General for Enlargement of the European Commission with financial and technical support provided by:

DFID Department for
International
Development