

LUXEMBOURG

Development Assistance Committee (DAC)
PEER REVIEW



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and programmes of each member are critically examined approximately once every four or five years. Five members are examined annually. The OECD's Development Co-operation Directorate provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC members who are designated as "examiners". The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the member concerned. Field visits assess how members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

The Secretariat then prepares a draft report on the member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the member under review respond to questions formulated by the Secretariat in association with the examiners.

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from Finland and Spain for the Peer Review on 3 June 2008.

*In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

List of Acronyms

BCEAO	Central Bank of Western African States
BTC	Belgium Technical Co-operation
CERF	Central Emergency Response Fund
CGAP	Consultative Group to Assist the Poor
CONEA	National Coordination for Aid Effectiveness (Coordination nationale de l'efficacité de l'aide (Burkina Faso)
CST*	Commissions sectorielles thématiques (Burkina Faso)
DAC	Development Assistance Committee
DCD	Development Co-operation Directorate
DCF	Development Co-operation Fund
DGCOOP	General Directorate for Cooperation (Ministry of Foreign Affairs of Burkina Faso)
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EPA	Economic Partnership Agreements
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
GHD	Good Humanitarian Donorship Principles
GNI	Gross national income
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
ICRC	International Committee of the Red Cross
IDA	International Development Association of the World Bank
ILO	International Labour Office
JAS	Joint Assistance Strategy
KFW*	Entwicklungsbank (German Development Bank)
LDCs	Least Developed Countries
LuxFLAG	Luxembourg Fund Labeling Agency
LUXMINT	Luxembourg Microbanking Intermediary Scheme
MAE*	Minister for Foreign Affairs and Immigration (Ministère des Affaires étrangères et de l'Immigration - Luxembourg)
MDGs	United Nations Millennium Development Goals
MSF*	Médecins Sans Frontières
NATO	North Atlantic Treaty Organisation
NGOs	Non-governmental organisations

OCHA	United Nations Office for the Coordination of Humanitarian Affairs
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PANEA*	Plan d'actions pour l'efficacité de l'aide (Burkina Faso)
PIC*	Indicative Co-operation Programme (Programme indicatif de coopération)
STELA*	Technical Secretariat for Aid Effectiveness (Secrétariat technique pour l'efficacité de l'aide)
SWAp	Sector-wide approach
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
UNHCR	Office of the UN High Commissioner for Refugees
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
WAEMU	West African Economic and Monetary Union
WFP	World Food Programme

* Acronyms in original language.

Signs used:

EUR	Euro
USD	United-States dollars
()	Secretariat estimate in whole or part
-	(Nil)
0.0	Negligible
..	Not available
...	Not available separately, but included in total
n.a.	Not applicable

Slight discrepancies in totals are due to rounding.

Annual average exchange rate (EUR per USD)

2003	2004	2005	2006
0.8851	0.8049	0.8046	0.7967

Luxembourg's Aid at a Glance

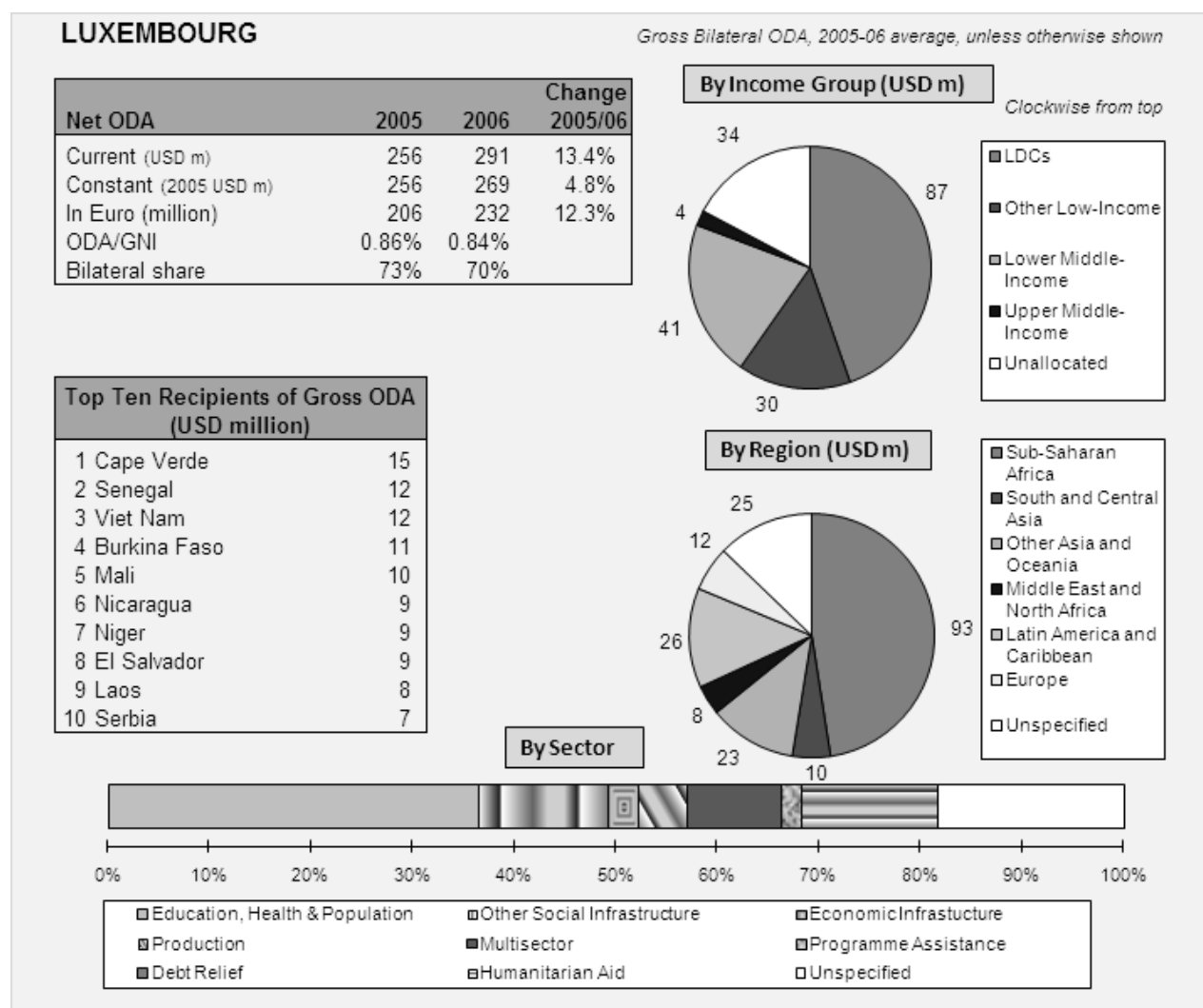


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THE DAC'S MAIN FINDINGS AND RECOMMENDATIONS

Summary

Luxembourg is a generous and committed donor. Its aid rose in real terms by almost 12% from 2006 (constant USD 291 million) and 2007 (constant USD 325 million) to 0.90% of its GNI, making Luxembourg the third most generous donor in percentage terms. Every year since 2000 Luxembourg has achieved an aid to national income ratio of at least 0.7%. It has also promoted international efforts to strengthen the quality and increase the volume of aid.

Luxembourg has improved the management of its aid programme, creating a strong foundation for more effective aid. Luxembourg has opened regional offices in five priority countries and is translating its international commitments into practice. Its second generation of multi-year co-operation programmes with ten priority countries makes aid more predictable. Luxembourg's ambitious programme is coherent and well structured thanks to an efficient use of financial and human resources. Aid allocations are concentrated and aligned to the expressed needs of a few priority countries, which are the world's least developed. It also works with a small number of multilateral organisations which share Luxembourg's aid objectives. Its record in implementing humanitarian assistance is exemplary in many respects and follows the lines of internationally agreed principles. Luxembourg's developing country partners appreciate the open and flexible manner in which it engages in policy dialogue and implements its aid programme.

At the same time, the Grand Duchy faces challenges in implementing the aid effectiveness agenda: it could do more to use partner country administrative systems and could co-operate in new ways with other donors. Ensuring that its staff has the necessary competencies, and that it has access to other needed expertise is a constant challenge. In addition, the Development Co-operation Directorate needs to enhance its capacities to become a learning organisation. Like other donors it will be a challenge for Luxembourg to shore up public and political support for meeting aid effectiveness commitments and taking risks such as engaging in difficult environments, including fragile situations.

Foundations for development co-operation

Solid legal and political orientations anchored in foreign policy

Luxembourgers share a deep and growing sense of international solidarity which is rooted in the vagaries of Luxembourg's history over the last century and a half. This international solidarity is expressed through the development co-operation programmes of both the State and the NGOs, which have become a visible component of Luxembourg's foreign policy and help place Luxembourg on the international map.

The 1996 Act on development co-operation gives a mandate and clear overall objectives to the Grand Duchy's development co-operation policy, which should address the sustainable economic and social development of developing countries, especially the least developed, the fight against poverty, and the gradual integration of developing countries into the world economy. The law also gives broad

direction to the sectors which should be financed, and established a Development Co-operation Fund which the Ministry of Foreign Affairs uses to manage 70% of the aid budget.

A clear vision that would benefit from a forward-looking policy statement

The Ministry of Foreign Affairs's one page "strategy and principles" statement on development co-operation outlines Luxembourg's vision and policy framework. It makes explicit reference to the Millennium Development Goals and priority sectors, which cover health, education - including vocational training and integration in the labour market, integrated local area development, microfinance, and humanitarian assistance. This statement stresses Luxembourg's commitment to concentrate on 10 priority countries, to reach 1%, and to implement the Paris Declaration on Aid Effectiveness. The current vision works well for the Ministry of Foreign Affairs. However, Luxembourg would benefit from a forward-looking statement that looks at the long-term evolution of its development co-operation programme. By preparing the statement in consultation with key actors, Luxembourg can create public awareness of the importance of balancing the short-term need to demonstrate results to shore up public and political support with the need to take risks, engage in difficult environments, including fragile states, and to meet commitments to aid effectiveness.

Luxembourg should complete its operational strategies

Luxembourg has taken a pragmatic approach to strategic planning which is based on its law, the "strategy and principles" statement as well as DAC and EU guidelines on development co-operation. Multi-annual co-operation programmes (PICs) with priority countries and framework agreements with other partners are also used to further define its strategy. At the same time, Luxembourg has become more active in policy dialogue at the country level and is committed to implementing the Paris Declaration. In this new context, staff – at headquarters and in the field – require more strategic guidance. In response, Luxembourg started developing operational strategies for key sectors in 2007. The DAC welcomes this development and encourages Luxembourg to finalise these strategies for all priority sectors as well as for cross-cutting issues. Luxembourg could benefit from drawing on similar policy work conducted by the DAC and other donors.

High public support but low awareness

There is high political and public support for development co-operation in Luxembourg where there is a consensus for attaining Luxembourg's 1% aid target and about one NGO per 5 000 inhabitants. However, this is accompanied by low public awareness of Luxembourg's development policies and programmes. The DAC commends the Ministry of Foreign Affairs for its comprehensive development education strategy which is backed by a dedicated budget line and aims to strengthen public awareness of global development challenges. Such a strategic approach could also be taken for the Ministry's communication about Luxembourg's aid programme, which has yet to address the less visible, and more complex, aspects of development co-operation such as aid effectiveness and development results.

Promoting policy coherence for development: can it be more systematic?

The consensual nature of Luxembourg's society seems to translate into "natural" policy coherence within government, although this is also facilitated by the small size of the public administration, informal dialogue and good cross government awareness of Luxembourg's various policies, including development co-operation. Thus, Luxembourg states that "there are probably little or no points of friction between national policies and Luxembourg's development co-operation

policy”. There are many advantages in having such a consensus-based culture which is conducive to a flexible and pragmatic approach; however it may also inhibit risk-taking.

Luxembourg played a key role in promoting policy coherence for development within the European Union in 2005 when it held the Presidency of the European Council. In particular, Luxembourg is to be congratulated for having co-ordinated agreement between member states on 12 sectors relevant for policy coherence for development. The important leadership and direction that the EU provides on policy coherence may explain why Luxembourg has not prepared its own formal position on this issue. Having such a position would be useful for national level discussions about policy coherence for development. It would also assist the Ministry of Foreign Affairs in promoting policy coherence across government and raising awareness and public support for policy coherence on a long term basis. The Inter-Ministerial Committee for Development Co-operation is meant to serve as an interface on policy coherence within government. While the Committee serves Luxembourg well as a body to ensure a coherent development policy it does not discuss how important national policies may promote or work against the development of poor countries. Consequently, the Committee should have a clear mandate in this respect, accepted throughout government.

Recommendations

- Luxembourg would benefit from a forward-looking policy statement that addresses how it will implement the aid effectiveness agenda, including how it will engage in riskier development co-operation such as new aid modalities and co-operation in fragile states. This should be done in a consultative manner to build transparency and generate greater ownership of the policy.
- Completing its operational strategies would help Luxembourg to ensure that the implementation of second generation PICs and other projects are consistent with the development policy.
- Luxembourg needs a communication strategy on aid effectiveness that demonstrates the improved development results donors achieve by working together; this would help build public support for a programme that takes more risks.
- Within the Interministerial Committee, Luxembourg should define appropriate methods that will promote, monitor and evaluate policy coherence, including for development, in a systematic manner so as to arbitrate between policies.

Managing aid volume, channels and allocations: highly strategic and concentrated

The DAC welcomes Luxembourg’s commitment to reach an aid to national income ratio of 1%. In 2007, Luxembourg’s aid budget was 0.90% of gross national income (USD 325 million). This assistance is provided through untied grants. The share of multilateral aid has increased since 2003 to reach 30% of total aid in 2006 and is increasingly channelled in a more strategic and appropriate manner, thanks to multi-annual framework agreements with four UN agencies and the integration of multi-bi co-operation in PICs with priority countries. Luxembourg can be congratulated for increasing and strengthening its multilateral co-operation and should sustain this effort. Luxembourg is among the most generous DAC countries when it comes to allocations to NGOs which over the period since the last review averaged 12% of the total aid budget. While support to NGOs will contribute to Luxembourg’s international visibility, the efficiency and impact of small and scattered NGO projects may be limited.

Luxembourg's commitment to the poorest countries - especially countries that rank lowest on the human development index – and its efforts to concentrate on a few priority countries are evident from bilateral aid allocations. Fifty four per cent of Luxembourg's bilateral assistance went to least developed countries in 2006 compared to the DAC average of 26%. Sixty three per cent of bilateral aid was allocated to Luxembourg's top 10 aid recipients in 2005-06, of which two are fragile states (Niger and Laos). In addition, most priority countries received a significant increase in bilateral assistance in the second generation PICs, launched in 2006-07 and the number of "project" countries has decreased from 20 (2003) to 12 (2006). This demonstrates Luxembourg's strong commitment to geographical concentration.

Furthermore, the number of projects being implemented by Lux-Development has not increased significantly despite greater aid volumes. This implies that projects are not proliferating and resources are concentrated in bigger projects. Luxembourg is encouraged to sustain efforts in increasing the size of its projects as it evolves to programme-based approaches. The Development Co-operation Fund and the indicative five-year budget envelope for each PIC give greater aid predictability for partners (in two cases annual allocations are made), although none of it is provided as budget support. Still, Luxembourg needs to manage its budget carefully to ensure that annual disbursements are made to meet aid targets.

Luxembourg also performs well on sector concentration. The bulk (53% in 2005-06) of Luxembourg's bilateral aid goes to social infrastructure and services: health, education – including vocational training and professional integration, integrated local area development, and water and sanitation. Ten percent falls under multi-sector support. Luxembourg's support to cross-cutting issues is more evident in operations than in statistics. Luxembourg would benefit from more strategic guidance and statistical reporting on these issues. Reporting on ODA statistics, in general, remains a challenge for Luxembourg.

Recommendations

- In the light of the many NGOs eligible for official aid and the strong support they receive, Luxembourg should consider how the effectiveness of this aid could be strengthened through incentives other than geographical focus.
- Some improvements have been made in the statistical data provided to the DAC by Luxembourg. To achieve further needed improvements, the Ministry's statistical reporting capacity should be strengthened.

Organisation and management

Clarity of structures and responsibilities

Luxembourg's structures for managing development co-operation are well organised and leave little room for confusion between different actors. The Ministry of Foreign Affairs takes the lead for development co-operation policy and programming while the Ministry of Finance manages relations with the international financial institutions. The executing agency, Lux-Development, receives project mandates from the MFA and is accountable for the projects' effective implementation. The Ministry of Foreign Affairs and Lux-Development are co-located with clear responsibilities at the country level: the MFA engages in policy dialogue and Lux-Development in project management. It was evident in Burkina Faso that dialogue between the two entities is open and informal. The Development Co-operation Fund and multi-annual framework agreements with priority partners, multilateral organisations and NGOs also contribute to clarity of objectives, financial support and reporting.

Luxembourg can be congratulated for having opened country offices in five out of ten priority countries. This has facilitated deeper consultation with partner countries and donors and the identification of priorities for the second generation PICs. Luxembourg should capitalise on this presence to achieve ownership and alignment and to promote its priorities, including microfinance and disaster risk reduction, in policy dialogue at the country level. The stronger country presence also provides a basis to consider whether further decentralisation of aid management to the field level would be appropriate.

Becoming a learning organisation with the right competencies

Human resources remain a challenge for Luxembourg's Development Co-operation Directorate (DCD) where many officers are responsible for at least two aspects of the programme. Yet upon the recommendation of a 2006 audit of the directorate three new staff were hired. The key challenge for the MFA is to have access to appropriate competencies when it needs them – something that may become more crucial as Luxembourg adapts to division of labour between donors. To ensure both continuity within the Directorate and sufficient access to expertise, Luxembourg should continue to have a core cadre of people within the DCD with expertise in development. Other staff within the Ministry could also be exposed to development by spending part of their career on this issue. If the Ministry cannot recruit, then it should be an intelligent buyer of external expertise from a variety of sources. Pragmatic ways of addressing the latter include mobilising external competencies (primarily from Lux-Development but also from external consultants) and establishing partnerships with other actors (donors and NGOs).

Evaluation has improved since the last peer review although more progress is required. External evaluations require particular attention since they do not follow DAC guidelines and in order to ensure that the lessons they offer are effectively taken into account. The Ministry also needs to spell out the general guidelines that it intends to adopt and apply to external evaluations. These guidelines should incorporate various aspects of the programme, including the executing agency, different modalities and the involvement of partner countries in the process. More systematic evaluation along with better dissemination of the findings and recommendations will contribute to organisational learning and greater accountability. Furthermore, Luxembourg's monitoring and evaluation will have to adapt to new aid modalities as it moves to sector and programme approaches.

Recommendations

- The Ministry of Foreign Affairs should take steps to ensure that it maintains the expertise it has built-up over the years, that it gives attention to developing institutional memory, and secures access to expertise in specific sectors, cross-cutting issues and to support new modalities.
- Luxembourg should give systematic priority to external evaluations carried out according to DAC principles and procedures including the dissemination of the findings and recommendations.

Improving impact

During its EU Presidency, Luxembourg was an important force behind international efforts to improve the quality and impact of development assistance. It played a prominent role co-ordinating EU member states preparing for the Paris High-Level Forum on Aid Effectiveness. Luxembourg should use this experience to lever domestic support for effective implementation of the Paris Declaration in partner countries and continue to drive for aid effectiveness in its own programmes.

Implementing aid effectively

Luxembourg started to prepare its own operational action plan for implementing the aid effectiveness agenda in 2007 when it commissioned a study on *Luxembourg's Obligations towards International Political Commitment*, including the Paris Declaration. The recommendations from the study will feed into Luxembourg's aid effectiveness action plan. The study also stresses that Luxembourg will have to undergo fundamental structural and human resource reforms to be in a position to meet the Paris Declaration targets. Winning the necessary political will and momentum will be crucial to successfully implement the reforms.

Applying the principles of the Paris Declaration in the field

It was evident in Burkina Faso that Luxembourg has skillfully used second generation PICs to align with partners' development strategies and to co-ordinate with donors. And the participatory approaches used by the Ministry and Lux-Development to formulate and manage projects are conducive to ownership by partners, including local government. At the same time, Luxembourg's predominant implementation of projects according to Lux-Development's own procedures could hamper greater alignment to country systems, donor harmonisation and national ownership. The new PIC shows that there may be some entry points for Luxembourg to harmonise around a sector approach, to support basket arrangements and, in response to demands from their partner countries, to start preparing the ground for providing direct budget support. Luxembourg should examine the PICs to identify such opportunities. It is evident that part of the groundwork will also have to be done in Luxembourg. The mandates, roles and responsibilities of both the MFA and Lux-Development should be clarified with a view to conforming to the Paris Declaration. For example, clarity is required on which institution should take the lead in donor coordination and results based management including accountability for results. Further decentralisation of aid management to the country level should be considered in this context.

Nevertheless, Luxembourg is ready to move on other aspects of the aid effectiveness agenda. It is the lead donor for vocational education in Cape Verde and is open to taking on this responsibility in other sectors in priority countries. Some moves have been made towards joint work with donors including the use of joint donor analysis for the PICs, delegated co-operation with Belgium in Ecuador, and conducting joint evaluations. Luxembourg is commended for its willingness to be a lead donor. It should seek opportunities for taking on this responsibility in other priority countries as part of its efforts towards donor harmonisation.

Learning from experience on priority topics

Capacity development

Luxembourg, like other donors, believes that capacity development is an essential element for development in general and that it is primarily the responsibility of partner countries. The MFA talks about three phases of capacity development (i) training (general and professional); (ii) strengthening existing capacities (professional training); (ii) and building institutional support (management). While Luxembourg does not yet have an operational strategy for capacity development it is a recurrent objective in Lux-Development's project documents albeit in a more traditional way. Capacity development rarely goes beyond the immediate capacity needs of the project and the capacity of local partners to own and run the project once Luxembourg has handed it over to partners. Furthermore, Lux-Development should be able to delegate project implementation fully to the project's country director enabling Lux-Development to play a more advisory and supportive role to local managers.

Luxembourg could support more systematically capacity development in the public administrations of priority countries because many of them are among the least developed with strong capacity constraints. In addition, having its own operational strategy on capacity development – which builds on emerging good practice by other donors – will help Luxembourg to prepare the ground for using new aid modalities in these countries.

Microfinance

The rationale and motivation for Luxembourg's inclusive financial sectors and microfinance policy is founded on Luxembourg's domestic scene: it is home to an international financial centre and has solid experience in development co-operation. Luxembourg aims to use its aid as a catalyst to strengthen microfinance and inclusive financial sectors. At the level of international policy making, Luxembourg chairs the UN Advisors Group on Inclusive Financial Sectors. It also ensured that microfinance found its place in the European Consensus on Development. Luxembourg has also provided seed money to Luxembourg-based support structures that promote increased investment in quality microfinance institutions. In 2008, Luxembourg launched a multi-million Euro (EUR 18.8 million¹) regional microfinance project in collaboration with the Central Bank for West African States. In many ways, Luxembourg follows internationally recognised good practice in terms of using development assistance for microfinance. It reinforces the capacities of microfinance institutions; develops the capacity of the sector; and facilitates private investment.

Internationally, Luxembourg is a successful ambassador for inclusive financial sectors and microfinance and should consider how it can best play this role in priority countries. It can achieve this by systematically integrating microfinance in its PICs and promoting it in policy dialogue with the partner government and donor partners. Luxembourg should also capitalise on its new project in the West African Region by ensuring that staff at country level participate in the steering group and take messages to national level policy dialogue.

Recommendations

- Luxembourg is encouraged to finalise an aid effectiveness action plan in line with the Paris Declaration commitments. The results of the Paris Declaration monitoring exercise and emerging good practices in the preparation of the Accra High level Forum can be a useful resource. Luxembourg may also wish to update the Convention signed between the Ministry of Foreign Affairs and Lux-Development to clarify mandates, roles and responsibilities for managing aid more effectively.
- Luxembourg will continue to finance programmes and projects that will, for the most part, be executed by Lux-Development over the medium term. Luxembourg should therefore ensure that the programmes and projects conform to the objectives of the Paris Declaration, and that they are well integrated within sector programmes. Luxembourg should also make greater use of new aid modalities in line with aid effectiveness principles.
- Luxembourg should prepare a capacity development strategy that gives specific guidelines and outlines the principles and practical modalities for operationalising capacity development across its co-operation programmes.

¹ Source for figures in euros: Luxembourg.

- The Committee encourages Luxembourg to strengthen the integration of inclusive financial sectors and microfinance in PICs. It should also capitalise on the lessons from the microfinance project in the West African region to promote this issue in priority countries.

Humanitarian action

Luxembourg was one of the seventeen original endorsees of the *Principles and Good Practice of Humanitarian Donorship*, which aimed to improve the collective performance of donor action in the humanitarian domain. In general, Luxembourg has lived up to commitments made under the Good Humanitarian Donorship (GHD) initiative and, in some areas, may be regarded as exemplary. Publishing a sectoral strategy for humanitarian action and strengthening evaluation and learning functions will serve to further improve the impact and transparency of Luxembourg's humanitarian action programme.

The regular annual budget for humanitarian aid has steadily increased in recent years to EUR 29 million in 2008.² Appropriations have been augmented by supplementary budget allocations (notably in response to the Indian Ocean tsunami). In addition, humanitarian actions have been financed from the Development Co-operation Fund (principally for disaster prevention, mitigation and preparedness activities). As a consequence, Luxembourg's gross disbursements for humanitarian action have attained a level of EUR 31-32 million per annum in recent years. These disbursements provide Luxembourg with a functional profile in international fora that outweighs the modest budget. According to DAC figures approximately 14% of gross ODA was allocated to humanitarian assistance in 2006 which is well above the average for DAC members of 8% and does not reflect all disbursements made by Luxembourg to humanitarian assistance. Furthermore, Luxembourg has demonstrated a capacity for providing leadership in the context of the EU response to the Indian Ocean tsunami during the term of its Presidency. Luxembourg therefore appears well positioned to project domestic achievements into the international arena, including guidance to new member states on adoption of the EU Consensus on Humanitarian Aid.

Humanitarian aid allocations are widely dispersed and often targeted towards so-called "forgotten crises". A key characteristic of Luxembourg's humanitarian action are strategic partnership agreements, which provide for bilateral dialogue and multi-year funding commitments in the case of multilateral agencies or annual funding commitments in the case of Luxembourg's NGOs. In both cases, the high level of predictability and flexibility coupled with low levels of earmarking that these arrangements provide to implementing partners, is widely welcomed. However, Luxembourg could do more to promote a culture of disaster risk reduction within the framework of PICs with priority partner countries.

Notwithstanding these positive impressions, evaluation and learning processes appear rather weak and it is likely that critical learning opportunities may be overlooked. Rather than conducting its own evaluations, participation in joint donor evaluations would be less taxing on the human resources of the humanitarian aid unit and would provide useful forums to exchange lessons with peers.

² Source for figures in euros: Luxembourg.

Recommendations

- The Committee commends Luxembourg for the strong track record in implementing GHD commitments. The Committee encourages Luxembourg to disseminate the good practices it has developed amongst the broader donor community, including new member states of the EU.
- The Committee recommends that Luxembourg's commitment to humanitarian action be formalised within a sectoral strategy and that the approach to crisis prevention, mitigation and preparedness be made more explicit – particularly within the context of PICs.
- More systematic evaluation and learning processes would ensure that the overall impact of Luxembourg's humanitarian action is documented and critical lessons are captured.

SECRETARIAT REPORT

Chapter 1

Strategic Orientations

Development co-operation has become an essential element in the international activities of the Grand Duchy of Luxembourg over the last decade. Luxembourg has set itself ambitious objectives; it has equipped itself with substantial means for intervention, and it has set an example in several fields. Luxembourg's activities can be appreciated only from a perspective that goes well beyond its borders. Luxembourg joined the Development Assistance Committee (DAC) in 1992, and has been the subject of three previous peer reviews, the last in 2003. Luxembourg has been diligent in responding to its international commitments and to the recommendations made. Luxembourg's official development assistance reached full stride about 15 years ago. Until 1990, Official Development Assistance (ODA) amounted to less than 0.20% of gross national income (GNI). It achieved the ODA target of 0.7% in 2000, and intends to move steadily towards 1%. Two major orientations of its development policy are outlined in its "Strategy and Principles" document: combating poverty, and reducing the number of partner countries. Concerned to ensure the quality and impact of its aid, Luxembourg targets niche areas where it can put its limited resources to the most effective use.

Luxembourg's co-operation demonstrates how, in just a few years, with relatively modest and well-targeted resources, and an appropriate and effective intervention mechanism, an aid programme can win the respect of partner countries, establish a recognised position among donors, and evoke the pride of its citizens. From this viewpoint, Luxembourg's co-operation is a model in several aspects: concentration, complementarity with multilateral organisations, and priority to least developed countries. Luxembourg could also be an inspiring example for donors beyond the DAC.

The legal framework for Luxembourg's development co-operation policy

The Development Co-operation Act of 1996 establishes the legal and regulatory framework for the Grand Duchy's development co-operation. While some voices have been raised in Parliament and among NGOs calling for the Act to be updated and amended, the government considers that the three objectives set forth in the Act are still relevant, even if they do not refer specifically to the Millennium Development Goals. It is also true that the Act makes no explicit reference to humanitarian assistance, which has taken on greater importance in recent years (Annex C). The Act establishes intervention modalities as well. The Development Co-operation Fund instituted by the Act is financed from the state budget, but is exempt from annual budgeting constraints - meaning that unspent budgetary allocations can be carried forward from one year to the next.

In Article three of the Act, development co-operation objectives are stated as (i) sustainable economic and social development in developing countries, and especially in the most disadvantaged

among them, (ii) harmonious and gradual integration of developing countries into the world economy, and (iii) poverty reduction in developing countries.

Strategic orientations of the Grand Duchy of Luxembourg

International co-operation has become a major orientation of the Grand Duchy's external relations. The country's international role and its dedication to solidarity are widely shared by all political parties, officials and Ministers,³ and by the general public. This consensus has emerged in the absence of historical relations with developing countries, and is based on a tradition of listening to the views of others and of involving all stakeholders in decision-making. The government believes that it must produce sound results *vis-à-vis* parliamentarians and public opinion, in order to maintain a significant assistance effort.

While the commitment to international solidarity has become increasingly strong over the last 15 years, its roots can be found in the vagaries of Luxembourg's history over the last century and a half. The country still has recollections of suffering, poverty, and emigration, but also of international solidarity (the Marshall Plan). The 1% target was set in the 1999 and 2004 government statements. ODA is forecast to reach 0.91% of GNI in 2008, and is on track to achieving the declared objective of 1% of GNI in the medium term.

Luxembourg's co-operation strategy is firmly based on the benchmark framework established by the Millennium Declaration and the Millennium Development Goals (MDGs), the Monterrey Consensus on development finance, and the Paris Declaration on aid effectiveness (March 2005). As President of the European Council in the first half of 2005, Luxembourg was instrumental in ensuring the success of the Paris conference and in the adoption of the UN aid target by EU member states, thanks to its negotiating skills and the example it seeks to set.

Luxembourg's "Strategies and Principles" statement guides activities in the spirit of sustainable development in all aspects - social, economic and environmental. The principal fields of intervention are the social sectors: health, education (including vocational training and professional integration) and integrated local development, with particular emphasis on water and sanitation. In all documents, Luxembourg's government cites the eight MDGs as the guiding themes of policy.

The positions taken by the Grand Duchy are consistent with its international commitments. This is particularly important as government members and deputies alike consider that the required changes in interventions (as a result of applying the Paris Declaration) could undermine the confidence of citizens and parliamentarians in the effectiveness of ODA. Project aid offers greater guarantees of effectiveness than programme aid or "baskets" of assistance. This argument reflects public attitudes.⁴ Doubts with regard to budgetary aid can also be explained, if not justified, by officials' concerns as to effectiveness, management capacities, the administrative costs, and the impact. Nevertheless, with Luxembourg having played a part in making the collective commitments a reality, it is bound to work towards their effective implementation.

The general strategy document gives a consensual and coherent picture, but one that is simplistic and not directly operational. Luxembourg's pragmatic approach to poverty reduction and the MDGs is

³ The government is collectively committed to achieving the ODA target of 1% of GNI.

⁴ A non representative survey of Luxembourg residents in 2007 yielded a score that many other DAC countries might envy: 81% of respondents rated the government's development assistance policy as good (57%), very good (19%) or excellent (5%).

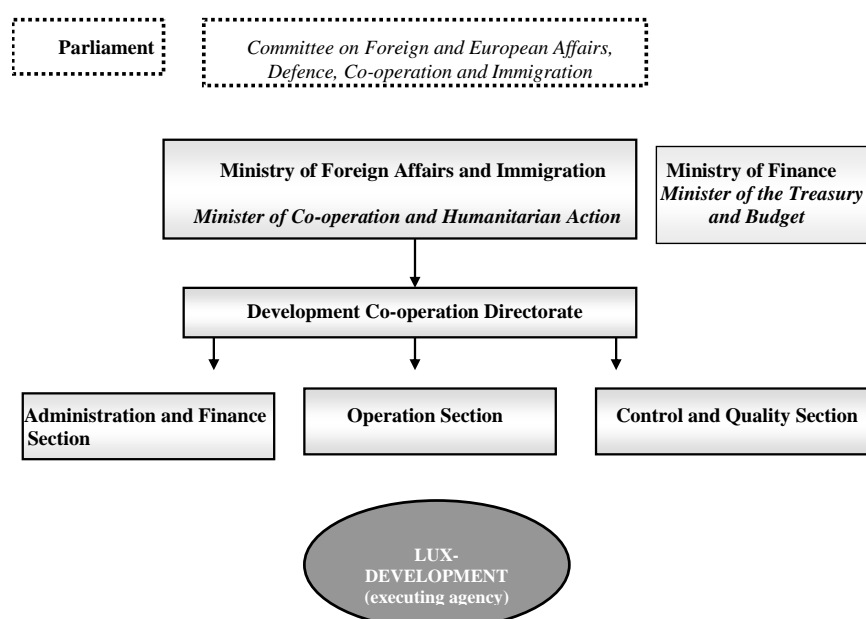
thus realised without a medium or long-term perspective that incorporates the implementation of aid reform (e.g. alignment, division of labour) or activities which could be seen as too risky (e.g. co-operation with fragile states, new methods). In this respect, Luxembourg should profit from an overall medium-term development co-operation strategy established on the basis of the broadest possible consultations.

Institutions responsible for ODA and international co-operation

The Development Co-operation Directorate (DCD), within the Ministry of Foreign Affairs and Immigration, has primary responsibility for the design and implementation of Luxembourg's official development assistance. The DCD reports to the Minister for Co-operation and Humanitarian Action (Figure 1) and its Director chairs the Inter-Ministerial Committee for Development Co-operation (Chapter 2).⁵

The Ministry of Finance, in collaboration with the Central Bank of Luxembourg, is represented on the executive boards of the Bretton Woods organisations, the World Bank and the International Monetary Fund (IMF), and is thereby able to exert influence, to the extent of its voting power, on the policies of those two institutions.

Figure 1. Luxembourg's Co-operation System



Within parliament, the Committee on Foreign and European Affairs, Defence, Co-operation and Immigration holds an annual plenary debate on the statement by the Minister for Co-operation and Humanitarian Action on development co-operation policy. This is the only public debate on official development assistance. Other debates on specific elements take place in the Foreign Affairs

⁵ A grand ducal decree of 31 July 2004 established the ministerial responsibilities of members of the government formed in 2004, following legislative elections. The current incumbent holds two additional ministerial portfolios, namely Defence and Communications.

Committee of the Chamber of Deputies, dealing, for example, with the Cotonou Agreement or the Economic Partnership Agreements (EPA). But these debates are not open to the public.⁶

An active and effective role within the European Union

As a founding member of the European Union, Luxembourg has an intimate knowledge of the mechanisms of the European Commission and the major issues which are debated in Brussels. It has held the Council presidency 11 times, and has been able to capitalise on its accumulated experience. As president of the European Union in the first half of 2005, Luxembourg helped to move forward the European and international agenda for development co-operation.

Thus, in June 2005, the European Council adopted a clear commitment of the Union's member states and the Commission to a steady increase in individual and collective official development assistance, to reach 0.7% of GNI in 2015. Having led the way (it achieved the objective in 2000), Luxembourg succeeded in bringing the other member countries along with it. In the context of the EU's relations with its African, Caribbean and Pacific (ACP) partners, the year 2005 also saw the revision of the Cotonou agreements, completed under Luxembourg's presidency. These revised agreements have opened the way to a renewed partnership. The beginning of the presidency also coincided with the tsunami in the Indian Ocean putting Luxembourg in a pre-eminent position to steer Europe's humanitarian assistance response (Annex C). In March 2005, at the instigation of the European Union, the Paris Forum saw more than 100 countries adopt the Paris Declaration on Aid Effectiveness, which is already helping to shift the behaviour of donors and partner countries alike towards making more effective use of resources. It is also noteworthy that Luxembourg took the initiative, in November 2005, to put the topic of migration and development on the agenda of the European Union. Luxembourg deserves to be congratulated for having used its presidency to move the European Union forward on a number of priority issues, including the Paris Declaration.

Clearly established geographic, strategic and operational priorities

Concentrating its assistance geographically has become a strategic element of Luxembourg's co-operation policy, which is now targeted at 10 priority partner countries,⁷ six of them in sub-Saharan Africa (Chapter 3). Luxembourg also intends to shift its traditional aid relationships towards more conventional economic, financial and technological relations with priority countries that are progressing beyond the category of least developed countries. Since the last review, Luxembourg has been disengaging from "project countries", such as Tunisia, Morocco and Ecuador, and the number of "project countries" has declined from 20 in 2003 to 12 in 2007.⁸

With an increase in allocations to its multi-year co-operation programmes (PICs) with priority partner countries, a gradual halt to interventions in "project countries", and a strategy of moving towards other forms of intervention in countries with a relatively high Human Development Index (see below), Luxembourg's co-operation is concentrating more directly on the priority countries. At the same time, the Palestinian Administered Areas enjoy the same advantages as the priority partner

⁶ A factor that also limits the information available on the Chamber of Deputies web site.

⁷ Burkina Faso, Cape Verde, El Salvador, Laos, Mali, Namibia, Nicaragua, Niger, Senegal, and Viet Nam.

⁸ For Lux-development (8 non-core countries in 2007 versus 12 in 2003, with 18 projects under way versus 32). The withdrawal from non-core countries will be completed by the end of 2009, except for the Balkans (Albania, Kosovo, Montenegro and Serbia), where three new projects are now being prepared.

countries (MAE, 2007a). Nevertheless, contributions to that entity declined substantially in 2006, while funding for projects in Kosovo rose almost to the level of priority country allocations.

Concentration on the least developed countries (LDCs) is explicit and real. The basic criterion for this choice is the United Nations Human Development Index (HDI). Other informal criteria include the size of the partner country population,⁹ a long-standing presence (sometimes involving Luxembourg NGOs), distribution across three continents, and an attempt to maintain the visibility of aid. All of the Grand Duchy's priority countries fall within the lower half of the HDI rankings, and five of them are among the least developed. Guided by the HDI, Luxembourg plans a gradual exit strategy from three countries, El Salvador, Viet Nam and Namibia (Chapter 3).¹⁰

Apart from geographic concentration, the other strategic priorities of Luxembourg's co-operation have not been developed. The general strategy is covered in a one-page presentation on the Ministry's website, and the essential points are found in government statements or operational documents (PICs, project formulation mandate given to Lux-Development, and Lux-Development's methodological manual). Strategic sectoral and horizontal guidelines are in the planning stage, and, for the time being, only microfinance has a sectoral strategy.

Sectoral and thematic priorities are changing

The conventional social sectors (basic education, primary health care), which were long declared to be the main priorities of Luxembourg's co-operation, seem now to be changing in favour of projects connected with income-generating activities and the private sector, such as technical and vocational training and microfinance – as outlined by the Minister in the Parliamentary debate. Between 2005 and 2007, Luxembourg negotiated a second generation of multi-year co-operation programmes (PICs) with the 10 priority countries, under which it will now concentrate its interventions more closely in a limited number of sectors. Luxembourg has, in effect, moved ahead with the European Union's Code of Conduct on Complementarity and Division of Labour in Development Policy, which declares that “EU donors will aim at focussing their active involvement in a partner country on a maximum of three sectors”. Given the inevitable lag in implementing projects of long gestation in the social sectors, and in designing new projects in support of income-generating activities, the new orientations of Luxembourg co-operation are not yet apparent in the figures (Box 1).¹¹

Luxembourg's traditional sectoral concentration was bolstered by framework agreements establishing special relations with four multilateral agencies (WHO, UNDP, UNFPA, and UNICEF) which receive voluntary contributions for their core budget, multi-bi contributions in priority countries, and other voluntary contributions for certain of their thematic priorities (Chapter 3). In the humanitarian sector, three framework agreements have been signed with WFP, the UNHCR and the International Committee of the Red Cross (ICRC) (Annex C).

⁹ The countries of the Sahel, the core target countries, have a population of 12 to 13 million, but the size of populations ranges from 0.5 million in Cape Verde to 83.1 million in Viet Nam.

¹⁰ Cape Verde is seen as a case apart inasmuch as the high HDI ranking is the outcome, inter alia, of funds transferred by Cape Verdeans from abroad, not the country's domestic resources.

¹¹ Staff numbers in the PIC2 sectors are the same as for PIC1; only the proportion differs.

Box 1. Sectoral concentration in Burkina Faso

The multi-year co-operation programme (PIC) for 2003-07 gave priority to the social sectors, with a view to achieving the MDGs. Three sectors were selected, education/technical and vocational training, health and handicrafts. On an exceptional and case-specific basis, the two parties were also to co-operate in the following non-priority sectors of natural resource management and rural development.

In fact, the “non-priority” sectors that were accorded only secondary importance during that period have now been fully integrated into the PIC for 2008-12 (MAE, 2007b). The new PIC reduces the number of core sectors to two, sustainable management of natural resources, and technical and vocational education and training. Activities are also planned in two non-core areas, non-formal education and literacy campaigns, and blood transfusions. The two non-core sectors account for less than 10% of the PIC envelope.

Source: MAE

Some orientations are not yet operational

The PICs are powerful tools for strengthening coherence between Luxembourg’s development co-operation policies and those of partner countries and donors. Data on the number of projects provide clear evidence of increasing geographic concentration (Chapter 3); however, the PICs need to conform more closely with declared sector priorities. Luxembourg consistently gives more attention to some issues within certain sectors than to others. For example, vocational training and professional integration into the workforce is becoming the main education activity in many priority countries and, although microfinance is also mentioned as a new focus sector, this is not apparent in the PICs (Chapter 6). Furthermore, the Ministry of Foreign Affairs needs to bring its intervention procedures more closely into line with the Paris Declaration. To do so will require closer collaboration with other donors and international agencies, and some real choices will have to be made on sectors and aid modalities.

Cross-cutting issues

Luxembourg has selected gender equality, the environment, capacity building, and good governance as the cross-cutting themes around which it intends to focus its efforts. Neither the Ministry nor Lux-Development has yet produced any internal guidance document on these four cross-cutting themes (Box 2). Yet, the review team noted that these themes are regularly mentioned in the PICs, the project formulation mandates, and Lux-Development documents. While progress has been made at the operational level, the experiences have not been conceptualised or captured for a more strategic approach. Luxembourg needs to define a sound and systematic institutional approach so that the cross-cutting themes will be properly reflected in the conception of projects and programmes in the field. The team also found that the Ministry has not established any incentives that would induce NGOs to take these cross-cutting concerns into account in their activities.

Box 2. Cross-cutting themes with Burkina Faso

The PIC for 2008-12 lists the four cross-cutting themes, which are systematically reflected in all projects and in the respective evaluations. These four themes are also included in the methodological guide that Lux-Development uses to assess the likely impacts of projects dealing with poverty, gender issues, democratic governance, and the environment. These issues are again cited in the terms of reference for evaluations, and are covered by the reports.

The peer review team addressed these issues in field interviews and found that, while they were reflected in all documents, they did not change the content of projects. Their impact has more to do with the nature of the partnership, the local context, and the forms of intervention. The team noted that the projects pursued by Luxembourg pay increasing attention to integrated local development, and consequently the cross-cutting issues are becoming intrinsic to operations.

Source: PIC 2008-2012 (MAE, 2007b); Formulation project guide (Lux-Development, 2006a); and mid-term and final evaluation reports.

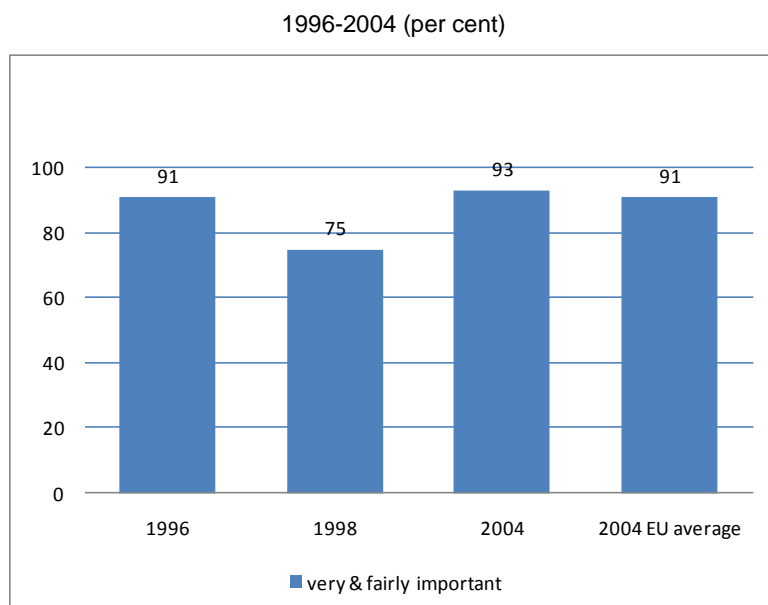
Public awareness in Luxembourg

Strong support for ODA

The government's commitment to attaining its 1% aid target and to helping the poorest countries is backed by strong public and political support in Luxembourg. In 2004, 93% of Luxembourgers considered it very important (68%) or fairly important (25%) to help people in poor countries in Africa, Latin America and Asia to develop (Figure 2). A poll conducted as part of the "All We Need" exhibition in 2007 found similar levels of public support for aid: 86% of respondents thought that Luxembourg should increase aid to 1% in the years to come (TNS-ILRES, 2007).¹² The population is also positive about the effectiveness of Luxembourg's aid. In 2004, 74% believed that their aid was making a difference to improving the lives of poor people in developing countries compared to an EU 25 average of 51% (Eurobarometer, 2005).

Public awareness of the government's development commitments is low. Only 14% of Luxembourgers said that they had heard of the MDGs in 2007 (the same level as in 2004), compared to 41% of Swedes and 38% of the Dutch (Eurobarometer, 2007). Forty-three per cent of respondents to the 2007 survey thought that Luxembourg had not yet reached 0.7% (57% were aware) (TNS-ILRES, 2007). However, when told what the eight MDGs are, Luxembourgers, like the majority of Europeans, think that the three most important Goals are to (i) reduce extreme poverty and hunger (76%), (ii) combat HIV/AIDS and other diseases (48%), and (iii) achieve universal primary education (47%). The government's focus on poverty reduction is thus consistent with the public's top priority. However, while the development programme supports all of the MDGs, HIV/AIDS and universal primary education do not figure among its priority sectors. The challenge for Luxembourg is to deepen support for aid by increasing awareness of Luxembourg's development commitments and priorities. Efforts to increase awareness will also strengthen the accountability of the aid programme to citizens. Since the 2007 survey was not representative of society at large, Luxembourg should follow good practice and commission an in-depth representative survey on awareness about development co-operation – the results will be useful for its communication strategy.

¹² Since the respondents to the poll were participants in the exhibition the responses should not be treated as representative of the general population. The exhibition received a grant from the Ministry but the Ministry neither commissioned it nor participated in its conception.

Figure 2. Public support for the principle of helping poor countries to develop

Source: Eurobarometer (2007), *Europeans and Development Aid*, Special Survey 280, European Commission, Brussels. http://ec.europa.eu/public_opinion/archives/ebs/ebs_280_en.pdf; Eurobarometer (2005), *Attitudes towards Development Aid*, Special Survey 222, European Commission, Brussels. http://europa.eu.int/comm/public_opinion/archives/ebs/ebs_222_en.pdf

Communicating and building public awareness

There are three components to Luxembourg's public awareness-raising efforts. They are (i) communication, (ii) outreach or *sensibilisation*, and (iii) development education, which is mostly focused on youth (from 15 years). The Ministry has supported public awareness raising and development education since the late 1990s. There are two budget-lines for these activities; the first and smaller budget is for information and *sensibilisation* activities by the Ministry (EUR 425 000 in 2007¹³) and the second is for awareness and development education activities by NGOs (EUR 1.4 million in 2007). Luxembourg allocated 0.73% of its aid to these activities in 2007, placing it among the leaders of DAC countries for these activities (*e.g.* Belgium, the Netherlands, and Sweden). A new development education policy will be published by the Ministry of Foreign Affairs in 2008 after broad consultation with NGOs, the Ministry of Education and other stakeholders. Luxembourg's comprehensive strategy linking the short and long term aspects of raising public awareness, its dedicated budget for these activities, and its open engagement with key stakeholders for a more strategic approach to development education, could be emulated by other DAC members.

The Ministry actively promotes its relations with partner countries through press releases, its website, annual report, ministerial visits to partner countries, an annual public conference on development co-operation (Box 3) and events, such as the Microfinance Week which took place in Luxembourg in November 2006 and 2007. High coverage of these issues gives visibility to Luxembourg's development co-operation in the national press. However, despite a receptive press for development issues and positive public opinion, Luxembourg has taken a more cautious approach to communicating about aid effectiveness and the principles of the Paris Declaration. There is particular concern that the provision of budget support will not be well received by public opinion.

¹³ Throughout the report, figures given in Euro were obtained from Luxembourg.

Box 3. Public forum on co-operation (*les assises de la coopération*)

In 2006, the Ministry of Foreign Affairs hosted the first “*assises de la coopération*” with participation by all stakeholders (government, parliament, NGOs, experts, and the general public, as well as ambassadors from partner countries) to discuss the broad orientations of development co-operation policy. The event was repeated in 2007, and was deemed fairly successful, although parliamentarians would like to be associated more closely, and NGO representatives want to have an effective role in organising and not merely attending the sessions. The event received no mention on the website of the *Cercle de la coopération des ONG*.

Source : MAE website, *Coopération et action humanitaire*, actualité du 12/09/2007.

As pointed out in the 2007 Development Co-operation Report, greater awareness of development issues and challenges helps to generate support for reform and more aid (OECD, 2008). Experience from other DAC members (*e.g.* the Netherlands, Ireland and Sweden) suggests that citizens appreciate messages about donors working together with partner governments, and, when the messages are presented convincingly, they do not expect to see their national flag on projects (OECD Development Centre, 2007). However, the issues of national visibility and results, when using new aid modalities (especially budget support), are communication stumbling blocks and require a more strategic approach to communication. Like other donors, Luxembourg should prepare a communication strategy that links aid effectiveness and development results, and develops key messages for different target groups on how donors are changing how they work. Promoting public debates on aid effectiveness will help pave the way for a constructive discussion about budget support.

Future considerations

- Luxembourg would benefit from a forward-looking policy statement that addresses how it will implement the aid effectiveness agenda, and how it will engage in riskier development co-operation, such as new aid modalities and co-operation in fragile states. This should be done in a consultative manner to build transparency and generate greater ownership of the programme.
- Luxembourg could undertake evaluations of the cross-cutting themes, covering various projects pursued in priority countries, and on this basis elaborate a strategy.
- Luxembourg could build on its good practice in development education and win domestic support for the Paris Declaration commitments by developing a communication strategy on aid effectiveness with a special focus on results.

Chapter 2

Policy Coherence

Policy coherence figures prominently on the agenda of the OECD and of other multilateral organisations, as they recognise that other policies pursued by donors may jeopardise the impact of aid on poverty reduction.

Building consensus for policy coherence to promote development

Luxembourg has demonstrated a real commitment to achieve policy coherence for development (PCD), and has been making noteworthy efforts both domestically, *vis-à-vis* government bodies and public opinion, and internationally, particularly within the European Union.

There is ample evidence of parliamentary interest in international questions. The Prime Minister, the Minister of Foreign Affairs, and the Minister for Co-operation and Humanitarian Action make annual statements before the Chamber of Deputies (Box 4). This means that the Grand Duchy's international relations are debated in parliament on three occasions, from three complementary angles, during which the people's representatives can seek assurances and guarantees on the role their country plays in the world.

Box 4. Political Commitment to Policy Coherence for Development

"Progress in north-south relations also depends on the coherence of our policies. Coherence allows us to introduce into the globalisation process a social and human dimension that is absolutely necessary. This means in particular that the goal of reducing poverty needs to be taken into account in policies at the national, European and world level, whether we are speaking of policies relating to agriculture, trade, the environment or finance."

Source: Statement on International Development Co-operation by Jean-Louis Schiltz, Minister for Co-operation and Humanitarian Action (November 2004) before the Chamber of Deputies (translation by OECD) (MAE, 2004).

An argument often advanced by government officials to substantiate the country's "natural" policy coherence is the limited size of government, which allows for regular and prompt exchanges between ministerial departments. The Memorandum¹⁴ points out that "there are few if any points of friction between Luxembourg's domestic policies and its development co-operation policy". Consensus is a core social value that serves as the foundation of the country's policy. It does not need to be established, for it is an intrinsic feature of the nation. Another, complementary viewpoint is that "What is needed is not just a theoretical discussion of the issue of coherence, but rather a focus on concrete cases where the policy coherence achieved in favour of development can serve as an example for emulation (*e.g.* the Economic Partnership Agreements)" (MAE, 2007d).

¹⁴ The Memorandum (MAE, 2007c) submitted to the DAC on 1 November 2007 by Luxembourg to be referred to as "the Memorandum" in the report.

This pragmatic approach is widely shared within government, and the Minister for Co-operation can address policy coherence issues and speak out on subjects beyond the scope of international aid that have an impact on developing countries. Since taking office in 2004, the Minister has expressed concern about the Common Agriculture Policy and, more recently, about international trade, in particular the Doha “development round” of negotiations within the World Trade Organisation (WTO) and the Economic Partnership Agreements (EPA) now being negotiated between the European Union and the countries of Africa, the Caribbean and the Pacific (ACP).

Luxembourg sees the European Union as the driving force in the preparation of member states’ policies in the areas in which it has exclusive competence, as well as a means for those states to promote their interests. It regards the EU as essential for strengthening policy coherence in favour of development, in the light of EU responsibilities, not only in the important fields of trade and agriculture, but also in other areas, such as climate change and the environment. The recent European Consensus for Development (2006) reaffirms the commitment of the European Community and its member states to promote policy coherence for development. The consensus document lists 12 priority areas¹⁵ and their action plans, for which responsibility is generally shared between the EU and countries. For the most part, Luxembourg leaves it to the European Commission to ensure policy coherence.

Co-ordination mechanisms for ensuring policy coherence

The Inter-Ministerial Committee for Development Co-operation

The Inter-Ministerial Committee for Development Co-operation, established by law on 6 January 1996, “advises on the broad orientations of development co-operation policy”. The Committee has recently expanded its responsibilities to include policy coherence for development in line with international trends. The committee meets every two months, in principle, and is chaired by the Director of Development Co-operation.

In its 2003 review of Luxembourg, the DAC suggested that the mandate of the Inter-Ministerial Committee for Development Co-operation be expanded to allow that body to play a more active role in promoting debate on policy coherence. It is important, therefore, to look at this Committee and to examine its role compared to other national policy co-ordination forums.

From the perspective of the 2008 review, and in the context of a European Commission survey for a biennial report on policy coherence within the EU and its member states, Luxembourg described the February 2007 meeting of the Inter-Ministerial Committee as “a first discussion” on the issue of policy coherence for development. Representatives of other departments were invited to explain the extent to which their specific activities could conflict with development co-operation policy, and what constraints they faced, if any. In response, they indicated that these difficulties were dealt with in other bodies, primarily in Paris (OECD) and Brussels (EU).

While the Committee has indeed examined issues relating to policy coherence, such as the Common Agriculture Policy, it usually deals with issues specific to development co-operation (Box 5). Generally speaking, consensus emerges naturally from these meetings. The coherence of Luxembourg’s policies is something that participants from all departments take for granted. As they

¹⁵ The 12 priority areas for policy coherence are trade, environment, climate change, security, agriculture, fisheries, social dimension of globalisation, employment and decent work, migration, research and innovation, information society, and transport and energy.

see it, decisions are now taken by the European Commission and other intergovernmental institutions, in keeping with their function and with international commitments.

Box 5. Inter-Ministerial Committee for Development Co-operation: agenda items

- 27/07/2006: The *Assises de la Coopération*.
- 19/12/2006: The mandate of the *Service Éducation Nord Sud*, a development education network, and “Microfinance Week”.
- 15/02/2007: Policy coherence for development.
- 05/04/2007: Policy coherence for development; reimbursement of social security contributions for co-operation workers.
- 21/06/2007: Presentation of the Code of Conduct adopted by EU co-operation ministers.
- 04/10/2007: Follow-up to the *Assises*, presentation of the annual report on Luxembourg Co-operation.
- 29/11/2007: Preparation for the DAC peer review, 3-7 December 2007.
- 07/02/2008: The 2008 Programme.

Source : MAE website, *Coopération et action humanitaire, Comité interministériel sur la coopération au développement*.

The Inter-Ministerial Committee for Development Co-operation is meant to serve as an interface on policy coherence within government, but it is not able to deal with certain topics. The Committee serves more to ensure a coherent development policy than to ensure overall policy coherence. As such it serves Luxembourg well.

Multiplication of horizontal co-ordination bodies

The Ministry maintains regular contact with co-operation stakeholders, facilitated by direct and accessible decision-making channels and procedures. The relatively small size of Luxembourg’s administration fosters interpersonal relations and a shared understanding of issues among colleagues from the various departments. Moreover, the same participants are likely to meet each other frequently in the parallel co-ordination bodies. This situation might suggest that coherence emerges automatically and spontaneously within Luxembourg’s policy system. The fact remains, though, that the meetings of these co-ordination bodies usually result in the exchange of information, rather than in any trade-offs or decisions.

A number of other inter-ministerial committees involved with sustainable development operate in parallel:

- The Inter-Ministerial Committee on Gender Equality, which seems to focus only on Luxembourg’s domestic application of the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW).
- The Inter-Departmental Commission on Sustainable Development.
- The Inter-Ministerial Committee on Financing of the Kyoto Mechanisms.

The degree of awareness about policy coherence for development varies among the different sectors of government. It is naturally strongest in certain areas (agriculture or environment), while in other ministries (health, social security) it depends on the personal inclinations of officials. The large foreign-born population in Luxembourg (which, at 181 800 in a total 2006 population of 459 500, or 40%, is proportionately the highest in Europe) is not, as it is in other European countries, the subject of public debate about migration movements. Nevertheless the Immigration Directorate of the Ministry of Foreign Affairs and Immigration is invited to the Inter-Ministerial Committee for Development Co-operation.

According to Luxembourg's authorities, since purely Luxembourg policies have little or no impact on the developing countries, in contrast to common European policies (trade and agriculture, *inter alia*), it is via European institutions (and in the Council above all) that Luxembourg works to promote greater coherence of EU policies as a whole. Moreover, the mechanism in place in Luxembourg for co-ordinating European affairs is not primarily mandated or specifically designed to deal with policy coherence for development.¹⁶

In a number of fields, the action programme to support policy coherence for development is just beginning to be taken seriously. The multiplication of co-ordination bodies is no guarantee of overall coherence. The peer review team considers that Luxembourg should identify appropriate methods that will promote policy coherence, including for development, in a systematic manner.

More discussion with civil society would not only enrich the debate on policy coherence with a greater variety of viewpoints, but would also bring a number of "forgotten" issues into the open. This dialogue could take place within an inter-ministerial committee in which NGOs participate or perhaps in the framework of the development co-operation forum (the *assises*).¹⁷ Dialogue alone is not enough. Luxembourg needs to focus on actions to give effect to policy coherence.

Future considerations

- Within the Inter-Ministerial Committee, Luxembourg should define appropriate methods that will promote, monitor and evaluate policy coherence, including for development, in a systematic manner so as to arbitrate between policies.
- The Development Co-operation Directorate should deepen its conception of policy coherence. This would be useful for promoting policy coherence internally, among decentralised offices and other departments, and, more broadly, among partners in developing countries and other donors.

¹⁶ Concern over climate change is giving a whole new dimension to environmental issues. Here, Luxembourg could have difficulty achieving its objectives for reducing CO₂ emissions. Its poor performance is blamed on the fact that gasoline prices at the pump are lower than in neighbouring countries. This exacerbates the problem in Luxembourg, but shows, at the same time, that decisions taken at the domestic level are still important. (Peer review mission to Luxembourg.)

¹⁷ This situation is already possible in the case of an inter-ministerial committee on the environment, to which NGOs can be invited.

Chapter 3

ODA Volume, Channels and Allocations

Luxembourg is one of the most generous DAC donors on a *per capita* basis, reaching 0.71% ODA/GNI in 2000 and surpassing the UN target of 0.7% every year since then. A high proportion of Luxembourg's bilateral aid is allocated to least developed countries. Most priority partners have seen an increase in bilateral assistance thanks to Luxembourg's strict policy of geographical concentration. Luxembourg is ready to engage in new aid modalities where and when circumstances in priority countries allow it. The number of projects managed by Lux-Development has not increased substantially since 2003 and there is strong co-operation with multilateral organisations and NGOs. The statistics on Luxembourg's allocation to cross-cutting issues do not adequately reflect its commitment to these issues.

ODA commitments, volumes and trends

The trend in Luxembourg's aid volume over the past seven years is positive and demonstrates the country's firm commitment to the UN target of 0.7% ODA/GNI and its own target of 1%.¹⁸ In 2007, Luxembourg's development co-operation budget amounted to approximately constant USD 325 million, representing 0.90% of GNI compared to 0.84% in 2006 (constant USD 291 million). Since 2000, the volume of Luxembourg's development assistance has increased by an average 6.3% annually, with a 4.5% increase in 2006 compared to 2005 (Table B.1.). Thanks to the economy's continued growth, development assistance will increase by an estimated EUR 64.4 million in 2008 to EUR 296 million. This should push the aid to national income ratio up to 0.91%. The Grand Duchy is thus in a legitimate position to encourage other donors to reach the UN target for aid as a percentage of national income, which it did during its Presidency of the EU in 2005. In addition, 100% of Luxembourg's development assistance is provided in the form of untied grants.

Overall distribution of ODA

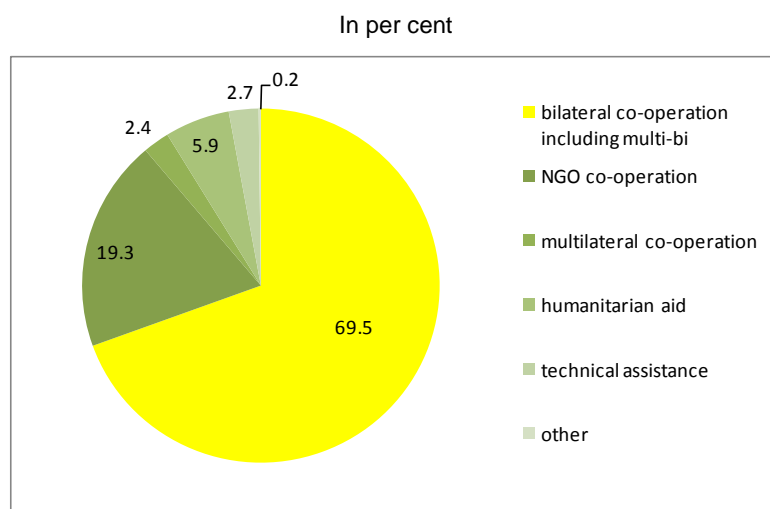
The Ministry of Foreign Affairs manages between 80% and 85% of Luxembourg's development co-operation budget, the Ministry of Finance 15% and about 1% is managed by other ministries (*e.g.* Health). This aid is channelled through bilateral co-operation as well as multilateral and non-governmental organisations. Overall, 70% of Luxembourg's development assistance qualifies as bilateral aid and 30% multilateral, which increased from 23% of total aid in 2003. Bilateral aid delivery through NGOs has remained stable over the same period at about 12% of the total.¹⁹ Humanitarian assistance has increased progressively from 7% of the total aid budget in 2003 to 13% in 2006. Together, aid allocated through multilaterals and NGOs along with humanitarian assistance accounted for about half of Luxembourg's total aid in 2006.

¹⁸ Luxembourg was hoping to reach 1% as early as 2009 (OECD, DCR, 2007), but has postponed reaching this target to sometime between the next five to ten years (remarks made to the Review team during its mission to Luxembourg).

¹⁹ DAC figures provided on NGOs for 2006 in Table B.2.1 are incomplete and are currently being revised.

In 2006, 70% of Luxembourg's development co-operation budget (EUR 131.51 million) passed through the Development Co-operation Fund - an important tool for the management of aid in Luxembourg as resources do not have to be disbursed within the financial year (Chapter 4). In addition, 95% of the aid allocated to NGOs, multi-bi flows, and an additional 9% of total multilateral flows, are administered by the Fund (Figure 3). Aid provided for development education in Luxembourg cannot be managed by the Fund – a rule that is contested by the NGOs.²⁰ All the same, the Ministry of Foreign Affairs makes every effort to disburse 100% of funds committed for the financial year and, so, roll-over from one year to the next does not exceed 10% of commitments.²¹

Figure 3. ODA disbursements through Luxembourg's Development Co-operation Fund in 2006



Source: MAE 2007a, *Rapport annuel 2006, La coopération luxembourgeoise au développement*, Ministry of Foreign Affairs and Immigration, Development Co-operation Directorate, 2007, Luxembourg.

Aid predictability

The gradual increase in Luxembourg's development co-operation budget towards 1% ODA/GNI, along with the *Programmes indicatifs de coopération* (four to five year programmes), multi-year commitments with multilateral organisations and programme agreements (*accord cadres*) with NGOs (two to five years) have made Luxembourg's aid more predictable for its partners. Luxembourg's Development Co-operation Fund, and second generation PICs, with ten of Luxembourg's priority partners, make Luxembourg's bilateral development co-operation predictable and flexible. Luxembourg commits to a minimum indicative budget envelope for the duration of each PIC and, in the case of the PICs with Mali and Senegal, how much should be disbursed each year. This gives partners a clear idea of the funds they should receive from Luxembourg over a 4-5 year period. Nevertheless, the fact that Luxembourg commits to a global envelope in its PICs requires careful management by the Ministry of Foreign Affairs and Lux-Development to ensure that annual disbursements are made and ODA targets met.

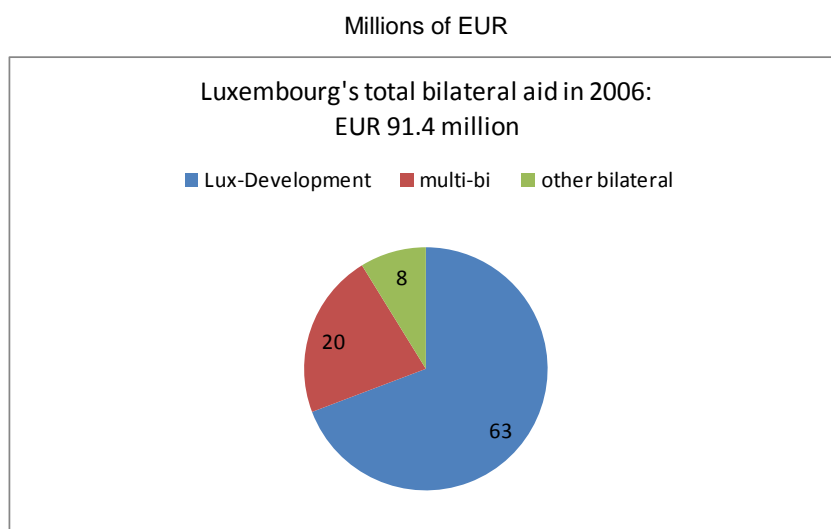
²⁰ The 1996 Act stipulates that the Fund can only finance activities in developing countries.

²¹ Information gathered during meetings in Luxembourg.

The bilateral channel: consistency with policy objectives

Luxembourg's use of the bilateral channel has decreased since 2003 and was slightly lower than the DAC average in 2006. The bilateral share of Luxembourg's aid dropped from 79% of gross disbursements in 2003 to 70% in 2006 – the DAC average was 76% (Table B.2). This declining share is compensated by a seven point increase in multilateral assistance over the period 2003-2006. Multi-bi flows accounted for EUR 20.1 million (15.3%) of bilateral assistance in 2006 (Figure 4).

Figure 4. Overview of Luxembourg's bilateral assistance in 2006



Source: MAE 2007a, *Rapport annuel 2006, La coopération luxembourgeoise au développement*, Ministry of Foreign Affairs and Immigration, Development Co-operation Directorate, 2007, Luxembourg.

Luxembourg's policy to assist least developed countries, especially those that rank low on the human development index, is evident from the aid data. Fifty-four per cent of Luxembourg's bilateral assistance went to least-developed countries in 2006 compared to the DAC average of 26% (Table B.3). Of the countries on Luxembourg's list of the top 20 aid recipients, seven have an HDI ranking between 150 and 176, and 12 of the countries rank between 102 (Cape Verde) and 147 (Sudan). Four of Luxembourg's priority partners figure among the lowest ranking countries – Burkina Faso, Niger, Mali and Senegal – and two are considered to be fragile states.²² Luxembourg has started to enter a phase of transition with priority partners that have been moving up the HDI scale (e.g. Namibia, El Salvador and Viet Nam).

Bigger and more efficient projects?

The executing agency, Lux-Development, manages almost 70% of Luxembourg's bilateral aid (EUR 63 million in 2006) as projects. These projects are aligned to partner country priorities as outlined in the PICs agreed between the Grand Duchy and priority partner countries (Chapter 5). The number of projects managed by Lux-Development in 2007 (136) has not increased significantly since 2003 (120) (Table 1) despite an increasing budget over the same period. This slow increase in the number of projects suggests that the projects managed by Lux-Development are bigger, and possibly more efficient due to reduced transactions costs. Luxembourg should continue scaling-up the size of

²²

<http://www.oecd.org/dataoecd/34/24/40090369.pdf>

its projects in priority countries and avoid the creation of new parallel implementation units. Nevertheless, Luxembourg should participate in new aid modalities to implement the aid effectiveness principles and to curtail transaction costs.

Table 1. Trends in the number of projects managed by Lux-Development 2003-07

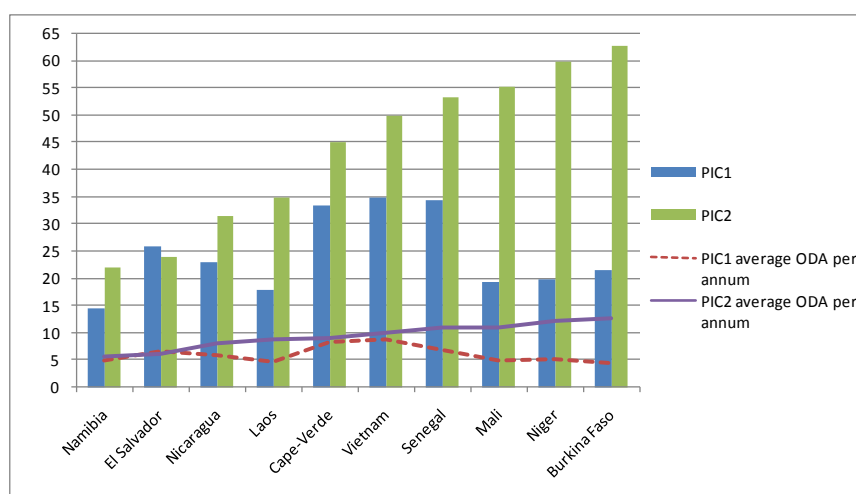
	2003			2007		
	Projects underway	Projects in preparation	Total	Projects underway	Projects in preparation	Total
Priority countries	78	21	99	76	23	99
Project countries	32	5	37	18	3	21
Total	110	26	136	94	26	120

Source: Lux-Development.

Geographical concentration

Luxembourg has performed well in maintaining and reinforcing the geographic concentration of aid. The number of priority partners has been stable at ten since 2003 and the number of project countries, that is, countries with which Luxembourg does not have a PIC, has declined from 20 to 12 (Chapter 1). The geographic concentration is also evident in the figures. Sixty three per cent of the total aid was allocated to Luxembourg's top 10 recipients in 2005-06 compared to 57% in 2000-04, and the top 20 recipients received 80% of gross bilateral disbursements in 2006.

Figure 5. Evolution in ODA allocation to priority countries from PIC1 to PIC2



Source: MAE 2007a, Rapport annuel 2006, La coopération luxembourgeoise au développement, Ministry of Foreign Affairs and Immigration, Development Co-operation Directorate, 2007, Luxembourg.

Luxembourg has also reinforced its geographical concentration as PICs have evolved. Allocations have doubled in the latest round of PICs, but increases are comparatively smaller for the three countries from which Luxembourg is planning to exit or with which it plans to develop new co-operation arrangements – El Salvador, Namibia and Viet Nam. The combined share of these three countries declined from 31% in the first round of PICs to 22% in the second round. As shown in Figure 5, many of Luxembourg's priority partners have seen a significant increase in commitments from Luxembourg. Increases are most important for Burkina Faso, Laos, Mali, Niger, and Senegal. In Burkina Faso, the average annual commitment for PIC2 has increased to EUR 12.3 million from EUR 4.3 million in PIC1.

Strategy for consolidation and exiting from priority countries

According to Luxembourg's current geographical policy the number of priority partners will not increase. It will exit from three, and the number of 'project countries' will be reduced to zero. Luxembourg is starting to close its programmes in El Salvador and Namibia, where funding is increasing at a slightly slower rate or is decreasing. Phasing-out through reduced aid is not yet taking place in Viet Nam, however, co-operation is evolving towards the economic infrastructure sectors, including financial services and banking – a sector in which Luxembourg can add value. It is not yet clear whether this new form of co-operation with priority countries will qualify as official development assistance.

Disengagement from project countries, such as Tunisia, Morocco and Ecuador, continues according to a schedule determined in agreement with these countries. In the case of Ecuador, Luxembourg has started to scale down its operations and Lux-Development has signed a delegated co-operation agreement with the Belgian Development Co-operation Agency (BTC) for one health project. These actions by Luxembourg demonstrate its exemplary commitment to geographical concentration. However, since Luxembourg's aid will continue to increase, the preparation of a forward-looking policy statement could identify criteria for entering into new relations with other countries as current relationships mature and Luxembourg exits.

Sector concentration

The bulk (53% in 2005-06) of Luxembourg's bilateral aid is directed to social infrastructure and services: health, education – including vocational training and professional integration, integrated local area development, and water and sanitation. The DAC average for the same period was 33%. Education and health take the greatest share at 16% and 18% for 2005-06. In 2006, almost 50% of Luxembourg's aid to education went to secondary education, which seems consistent with its stated focus on vocational training. Ten per cent of Luxembourg's bilateral assistance falls in the multi-sector category compared to the DAC average of 6%. This relatively large envelope is dedicated to bilateral and multi-bi projects in the framework of integrated local area development, which may incorporate agriculture, irrigation, health, education, civil society and microfinance.²³ According to Luxembourg, the bilateral programme tends to address cross-cutting issues through multi-sector activities.

As per its policy, Luxembourg's support to multilateral organisations is aligned to its bilateral programmes in priority countries. Between 15% and 20% of the budget envelope for each PIC can be allocated to multilateral organisations and an examination of the sectors in which the multilaterals are involved shows that these are consistent with Luxembourg's sector priorities including for cross-cutting issues.

²³ Memorandum (MAE, 2007c).

On average, aid is allocated to four sectors in priority partner countries even if a number of different projects are implemented within each priority sector. The sector focus at the country level tends to reflect the Ministry's position on priority sectors. However, as Luxembourg develops closer relations with partner governments and donors at this level, and once it really engages in the EU division of labour, it may have to change its sector priorities. This situation arose during negotiations with Burkina Faso in 2007 when the Burkinabe government asked, and Luxembourg agreed, to concentrate on natural resource management. This sector was not a stated priority for Luxembourg, although it does contribute to sustainable development and will address the environment, gender, and local livelihoods.

Emerging activities: microfinance and humanitarian assistance

While microfinance is given significant policy attention by Luxembourg and figures as one of its priority sectors (Chapter 6), the annual aid allocation to microfinance remained a small share of total aid in 2007 at approximately EUR 5.7 million (2.3% of total). Allocations to this new sector should increase substantially from 2008 when Luxembourg co-financed a project – EUR 18.8 million – in the West African Economic and Monetary Union (WAEMU) zone in collaboration with the Central Bank for West African States (BCEAO).

Trends in the data suggest that humanitarian assistance has grown in prominence in Luxembourg's aid programme. According to DAC data, Luxembourg's humanitarian assistance increased its share of total aid between 2005 and 2006 from 6% to 13% placing the level of Luxembourg's humanitarian assistance above the DAC average of 6% of total aid in 2005-06 (Table B.2.). In line with the Good Humanitarian Donorship commitments, Luxembourg has allocated a proportion of this assistance for disaster risk reduction in Niger and could extend this to other priority countries.

Cross-cutting issues: environment, gender and governance

Luxembourg's support to cross-cutting issues is more evident in the various projects financed by the Ministry of Foreign Affairs than it is at the policy and strategic level or in the aid statistics. In the case of gender, no figures appear on the DAC database for Luxembourg, which could imply that it does not support gender activities, which is not the case in reality. The Ministry of Foreign Affairs reports that contributions to gender related activities was 0.37% of total bilateral aid in 2006. About 3% was allocated to environmental protection. In 2006, Luxembourg contributed approximately EUR 5 million to the fight against HIV/AIDS. Cross-cutting issues are also supported through the multi-sector budget line which averaged USD 18 million in 2005-06. However, it is not possible to track flows to individual cross-cutting priorities from this aggregate figure. There is an apparent mismatch between the statistics and Luxembourg's support to cross-cutting issues. To get more credit for its work Luxembourg should provide more strategic guidance on cross-cutting issues and report these flows to the DAC. Reporting on ODA statistics, in general, remains a challenge for Luxembourg.

Multilateral ODA allocations

Luxembourg has strengthened its co-operation with multilateral organisations – especially UN agencies – over the past few years at both the policy and operational level. According to the Minister for Development Co-operation, Luxembourg intends to further increase its co-operation with UN agencies. The share of multilateral co-operation of total aid increased by seven points from 2003 to 30% of gross disbursements in 2006, and multi-bi contributions have almost doubled between 2004 (EUR 13.5 million) and 2006 (EUR 25.6 million). Eight per cent of Luxembourg's gross development

co-operation budget (USD 22 million in 2006) is allocated to the European Community. Luxembourg's co-operation became more strategic thanks to new framework agreements reached with the WHO, UNDP, UNFPA and UNICEF. These agencies were selected by Luxembourg because of the close alignment between their activities and Luxembourg's priority sectors and cross-cutting issues. This is shown by the projects that received earmarked financing from Luxembourg, such as UNDP's environmental programme in Burkina Faso (multi-functional platforms); the health projects of WHO and UNICEF in Cape Verde; and water, sanitation and gender activities of the UNDP and UNFPA in Mali. Together, these four agencies received EUR 7.6 million in core contributions in 2006.²⁴ They also received approximately EUR 15.7 million for projects in partner and project countries compared to EUR 8.7 million that was allocated to projects implemented by other UN Agencies.²⁵

In 2006, Luxembourg's support to UN Agencies was twice as high as the DAC average - 9% of gross disbursements (compared to 4%). Other UN agencies receiving aid from Luxembourg include *inter-alia* ILO, WFP, FAO, UNHCR and UNIFEM. While these organisations do not have a framework agreement with Luxembourg they can receive multi-year financial support through the Development Co-operation Fund. Many of them also receive non-earmarked, voluntary contributions for their general programmes. Luxembourg might also consider taking even greater advantage of multi-bi co-operation to help meet its aid effectiveness commitments.

The Ministry of Finance (Chapter 4) disburses a significant contribution to the World Bank, the Asian Development Bank and to the European Bank for Reconstruction and Development (EBRD). It has also made multi-bi contributions to the IMF in Africa (regional technical assistance centres) and the EBRD. In 2006, the Ministry of Finance disbursed EUR 27 million in ODA, about 9% of gross ODA including, EUR 9.7 million to IDA-14. Even though Luxembourg has no bilateral debt with poor countries, it contributed EUR 29.52 million to the Multilateral Debt Relief Initiative (MDRI), subsequent to a parliamentary vote on 22 December 2006 in favour of Luxembourg's participation in this initiative.²⁶

Co-operation with Luxembourg's NGOs

Twelve per cent of Luxembourg's development co-operation budget was allocated to 82 accredited Luxembourg NGOs in 2006. Fourteen of these NGOs had signed framework agreements with the Ministry. These NGOs receive 65% (EUR 17 million of a total EUR 26 million) of the NGO aid envelope and the Ministry co-finances up to 80% of the framework agreement programme activities.

NGOs that have not entered into a framework agreement with the Ministry also receive co-financing – up to 75% for projects realised in priority countries and 66.7% for projects in other developing countries. The idea behind these differentiated co-financing ceilings is to provide an incentive for national NGOs to work in priority partner countries without necessarily stepping up co-ordination between PICs and NGO projects. However, it is not clear that this incentive works, not least because the NGOs are adamant that they should retain their independence and be free to work where they want. A study of the geographic focus of NGOs with framework and co-financing agreements demonstrates that the majority of aid allocated to NGOs does not go to priority countries

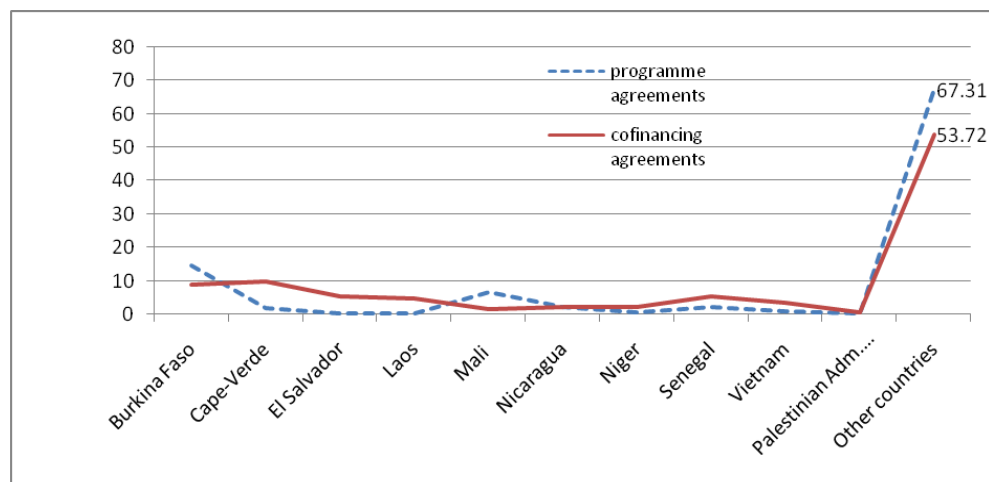
²⁴ DAC data.

²⁵ Annual report 2006 (MAE, 2007a) (pp 86 91), flows through the Development Co-operation Fund.

²⁶ Annual report 2006 (MAE, 2007a, p. 132).

or partners (Figure 6). In the case of the Palestinian Administered Areas both programme and co-financing agreements with Luxembourg NGOs account for 0.48% and 0.77% of the total.

Figure 6. Percentage of ODA allocations to NGOs going to priority countries in 2006



Source: MAE 2007a, *Rapport annuel 2006, La coopération luxembourgeoise au développement*, Ministry of Foreign Affairs and Immigration, Development Co-operation Directorate, 2007, Luxembourg.

The large number of NGOs in Luxembourg is a positive expression of the population's support and engagement in development co-operation and international solidarity. The government is conscious that the budget allocated to NGO activities is an important tool to sustain this interest and to broaden the presence and visibility of Luxembourg around the world. While support to NGOs will contribute to Luxembourg's international visibility, the efficiency and impact of small and scattered NGO projects may be limited. For example, NGOs with framework agreements implemented 266 projects in 50 developing countries with the EUR 17 million they received from the Ministry of Foreign Affairs in 2006. Given the high proportion of total aid volume that is allocated to NGOs, the government's commitment to increasing the quality and impact of the aid programme, and its focus on geographic and sector concentration, Luxembourg might consider developing some incentives that would help national NGOs improve their own effectiveness – especially those NGOs that receive the bulk of the development assistance.

Future considerations

- Luxembourg should participate in new aid modalities to implement the aid effectiveness principles and to keep transaction costs low. This should help Luxembourg move away from the project mode over time.
- In the light of the many NGOs eligible for official aid and the strong support they receive, Luxembourg should consider how the effectiveness of this aid could be strengthened through incentives other than geographical focus.
- While some improvements have been made in the statistical reporting to the DAC by Luxembourg efforts must now be made to bring reporting into full compliance with DAC guidelines.

Chapter 4

Organisation and Management

The general features of the organisation of Luxembourg's co-operation are the same as those described in the 2003 review, although some important improvements were made following internal organisational audits of the Ministry of Foreign Affairs and the executing agency. The principal change in management has been that local offices in six partner countries have been opened. Some progress has been made towards building an evaluation culture in Luxembourg; however, fully achieving this remains a challenge.

General organisation

A directorate devoted to co-operation within the Ministry of Foreign Affairs

Responsibility for co-operation policy in the Ministry of Foreign Affairs and Immigration lies with the Minister for Co-operation and Humanitarian Action. Within this Ministry, the management of development policy has been entrusted to the Development Co-operation Directorate since 1998. The overall structure has not altered since 1998, but there have been significant changes in internal organisation and in operational matters.

The Development Co-operation Directorate uses an executing agency, Lux-Development, which designs and implements bilateral projects. Further assistance is provided for various activities through other mechanisms. These include contributions to the NGO co-ordinating body (*Cercle de Coopération des ONG de développement*), advisory support to NGOs initiating development projects (through the BAT, *Bureau d'assistance technique*, Box 6) and the promotion of microfinance (ADA, LuxFLAG, *Maison de la microfinance*).

Box 6. "Cercle de coopération des ONG"

Luxembourg's NGOs, numbering 70 associations and foundations, have been grouped together since 1979 in a consortium that now embraces most of the NGOs active in co-operation with developing countries.

The *Cercle de coopération des ONG* fulfils four essential functions:

1. It represents NGOs in their dealings with the authorities, the Ministry of Foreign Affairs (Co-operation Directorate) being the prime partner.
2. It co-ordinates NGO activities, strives for synergies, and encourages the exchange of experience, training and information.
3. It represents Luxembourg NGOs within the European federation, CONCORD, in dealings with the European Union.
4. It provides information to the general public on the activities and concerns of development NGOs.

The Ministry and representatives of development NGOs and the *Cercle* meet regularly in a working group to discuss issues of common interest, at both the technical and the strategic level. The working group held three meetings in 2006, allowing for the regular exchange of information.

BAT (*Bureau d'assistance technique des ONG*)

The BAT, a subsidiary structure of the *Cercle*, consists of two professionals who provide support, advice and training for development NGOs. It is supported from public funds.

Source: <http://www.cercle.lu/>.

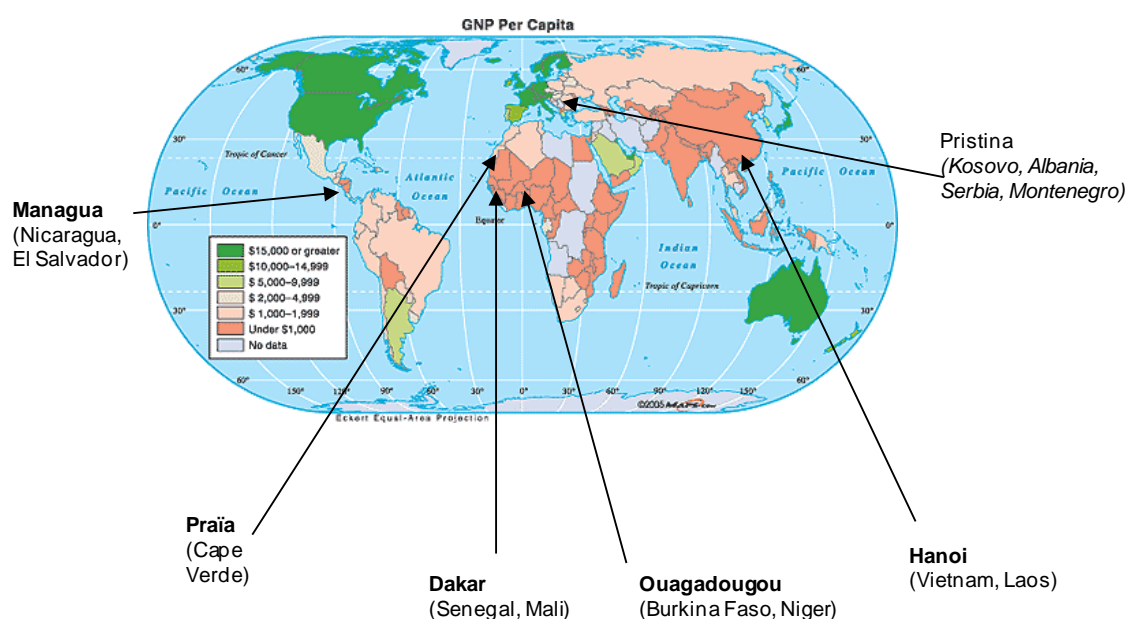
Distribution of tasks among the main ODA players

The Ministry's Development Co-operation Directorate prepares PICs, identifies programmes and projects, both in priority countries and in other countries, and conducts ex-post evaluations. It is also responsible for multilateral financing (apart from the Bretton Woods institutions), for humanitarian aid, and for grants to NGOs. The Ministry of Finance is responsible for relations with the international financial institutions including, in particular, the IMF and the World Bank, and also monitors problems relating to international indebtedness and sustainable growth.

A contractual agreement establishes the procedures for collaboration between the State and Lux-Development. Lux-Development's role is confined to bilateral projects entrusted to it by the Ministry, as well as to a few projects that it manages for the Ministry of Finance, or that involve other sources of external financing (Lux-Development 2004a).

The network of regional offices in partner countries has been expanded (Figure 7) since the last review, with offices having been opened in Ouagadougou (Burkina Faso) and in Managua (Nicaragua). With the exception of the Pristina office, Luxembourg now has six regional co-operation offices with the status of diplomatic missions. Luxembourg's gradual consolidation and retreat from co-operation in Ecuador, a former core country, has led to the closing of the office in Quito.

Figure 7. The network of MAE offices



Note: The regional offices of Lux-Development share premises with diplomatic missions in Dakar, Hanoi, Managua, Ouagadougou and Praia. The agency also has an office in Windhoek (Namibia).

Source: Memorandum (MAE, 2007c).

Lux-Development is a limited liability company with a capital of EUR 250 000. Shares are held by the State (90%) and the *Société nationale des crédits et d'investissement* (2%) (Box 7). The corporate status allows it to operate in a flexible and businesslike manner (Lux-Development, 2004b). The Board of Directors includes representatives of Luxembourg's government, professional associations, labour unions, the *Cercle des ONG de développement*, two independent members and the

Director of the Agency. Staff are expected to observe the principles of solidarity, mutual respect, integrity, and efficiency.

By mandate from the Ministry of Foreign Affairs, Lux-Development formulates and implements bilateral development co-operation projects and programmes in collaboration with its developing country partners. The agency manages about 90% of the Ministry's bilateral programmes, and is held responsible for the outcomes. In 2006, more than 30% of Luxembourg's total aid budget (MAE, 2007e), was channelled through the agency. Lux-Development is also involved in emergency assistance.

Box 7. Lux-Development earns ISO 9001-2000 certification

The certification audits were conducted by the Luxembourg company SNCH (*Société nationale de Certification et d'Homologation*) in July 2005. The certification applies to all activities performed on behalf of the Luxembourg State. The auditors looked not only at headquarters operations, but also at the workings of the regional offices and the projects managed by the agency.

Lux-Development told the team that it knew of no other bilateral agency that has pursued its quality aspirations as far as obtaining ISO 9001-2000 certification.

Source: Lux-Development.

Lux-Development also has representatives in six countries. The representatives are co-located in the Ministry's offices. However, the Ministry and Lux-Development are not always present in the same countries. For example Lux-Development has an office in Windhoek (Namibia) and in Pristina (Kosovo), with responsibilities for Albania, Kosovo, Montenegro and Serbia, while the Ministry is not present in these countries.

Operations are highly centralised

Operating procedures

Luxembourg's cultural, technical and financial relations with partner countries are governed by general co-operation agreements – PICs - which were established in 2002-03 with the 10 priority partner countries. They are negotiated for five years and can be renewed. In the light of recommendations from an assessment of the first generation of PICs, the government has negotiated and signed a second generation of PICs with priority countries over the last three years. The review team recognised the harmonisation effort that has been made, but noted that projects are still being implemented according to the same procedures (Chapter 5). The PICs mention new modes of intervention, but these have yet to be put into effect.

At the beginning of 2008, Lux-Development had 77 senior technical advisers and long-term technical assistants assigned to development projects (not including administrative and financial personnel). Lux-Development has limited unearmarked financial resources at its disposal. In 2006, the Ministry recruited five JPOs (Junior Professional Officers deployed to the United Nations), six JEPs (young experts deployed to the European Commission), and four ATJs (Junior Technical Assistants) for Lux-Development.

Field presence

The opening of a co-operation mission in Dakar, with regional responsibilities for Senegal, Mali and Burkina Faso, marked an important move to bring Luxembourg's co-operation closer to the field. In the same year, a co-ordination office was opened in Praia, Cape Verde. By 2007, Luxembourg had opened several other offices (Managua, Hanoi and Ouagadougou) with regional responsibilities for monitoring activities in neighbouring priority countries. The opening of local offices has clearly strengthened relations and promoted policy dialogue between Luxembourg and priority partner countries. This raises the question of whether Luxembourg might open offices in all priority countries, or find another way to enhance its presence in these countries.

Luxembourg has non-resident ambassadors accredited to some priority countries (Burkina Faso, Nicaragua and Senegal) and intends to extend this practice to other countries (El Salvador, Mali and Niger). Luxembourg's co-operation offices and the offices of Lux-Development now share premises in partner countries, in order to enhance their visibility and efficiency.

In Burkina Faso, the review team confirmed that the local office has a great deal of freedom in preparing the PICs. The relatively small size of Luxembourg's administration and the close relations between the Ministry of Foreign Affairs and the executing agency would seem to ensure that communications between the field and headquarters flow smoothly. In this respect, the virtual lack of decentralisation in Luxembourg's co-operation system is not much of a constraint, as contacts are so free and direct. Even so, Luxembourg may have to gradually decentralise so that it is better able to implement the provisions of the Paris Declaration.

The role of NGOs in co-operation

In terms of contributions to NGOs, Luxembourg ranks among the most generous donors (along with Ireland and the Netherlands), with a ratio of about 12% of ODA. In some priority partner countries (especially Burkina Faso), funding for activities by Luxembourg's NGOs is roughly equal to official bilateral co-operation – this was the case in 2006.

The Ministry prefers to finance NGO activities through framework agreements that currently cover around two-thirds of such contributions (Chapter 3). Five of these were renewed by the Ministry in 2006. The framework agreements are multi-year programmes (two to five years), covering a number of co-operation activities with a clearly defined strategic approach that, in practice, translate into geographic or sector-concentrated interventions.

The Ministry supports the important work of designing and monitoring NGO programmes and projects by paying a portion of the administrative costs they incur in Luxembourg, amounting to EUR 2.3 million in 2006. The review team concluded that Luxembourg strongly encourages NGOs, building consensus through frequent contact, simplifying administrative procedures (framework agreements), and helping NGOs maintain a modest presence in priority partner countries (Chapter 3). As far as the review team could determine, the Ministry does not have a particular strategy for nongovernmental co-operation, nor any guidance for NGOs relating to the effectiveness of aid or partnerships, sector concentration, or issues of capacity building, gender, the environment or good governance.

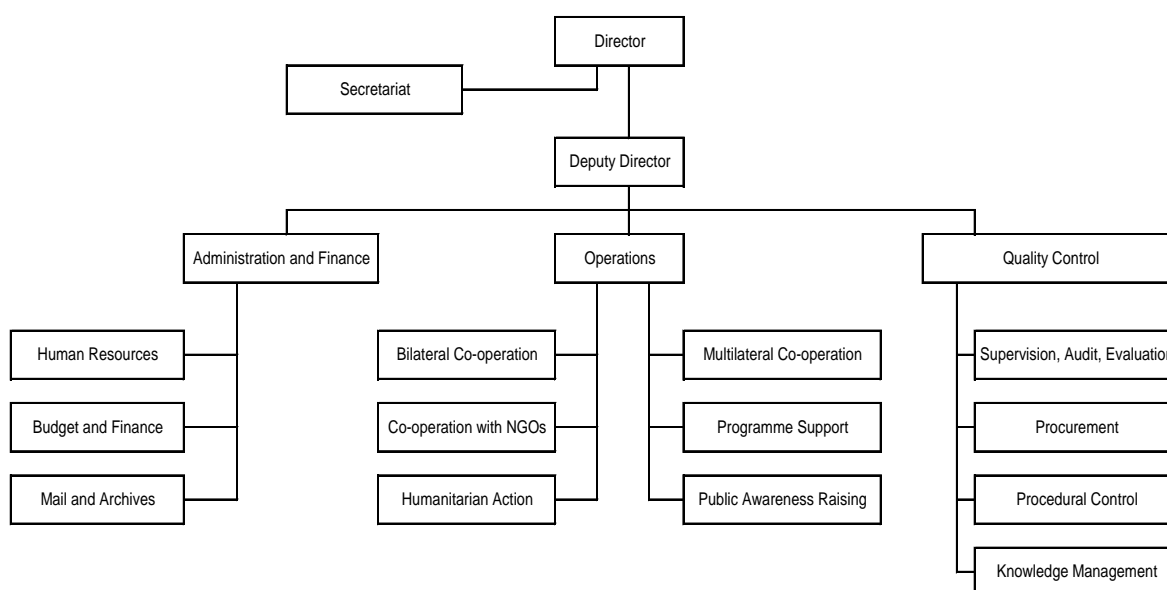
Management

Human resources

The Development Co-operation Directorate of the Ministry of Foreign Affairs has a total of 33 employees at headquarters and in the six regional offices. The small number of staff is seen as an important constraint on the capacity of Luxembourg's development co-operation. This constraint is offset, in part, by geographic targeting, sector selectivity, and the expertise acquired by public or private operators - in particular Lux-Development, which has effective resources and tools for intervention. Luxembourg NGOs also have a support and advice mechanism in the *Bureau d'assistance technique* (BAT, the Technical Assistance Bureau) funded by the Ministry. In light of this situation, the review team finds Luxembourg's co-operation is structured effectively and efficiently.

An organisational audit of the Directorate in 2006 examined financial flows, decision-making and information channels in-depth, and led to a series of recommendations that the Directorate is now implementing. The audit recommended changes in the organisational structure to clearly define decision-making, financial and information channels. The principal outcomes of the audit were a new organisation chart with three subdivisions (Figure 8), a set of job descriptions, and a quality control unit. The Directorate's human resources have also been strengthened (with the creation of three new posts in two years).

Figure 8. Organisation Chart of the Development Co-operation Directorate (MAE)



Source: Memorandum (MAE, 2007c).

The organisation chart resulting from the audit is not yet a reality as several officers are still responsible for two posts. This makes it difficult for them to apportion their time and to acquire the skills or aptitudes needed to do both jobs properly. The 2003 review noted that the problem of insufficient staffing had already been raised at the two previous DAC reviews. The issue remains a challenge for the Ministry, in terms of both staffing levels and qualifications because human resources are limited, as are local training capacities. The Ministry is responding in two ways. First, by enlisting external skills (primarily from Lux-Development, together with consultants hired on contract) and

establishing partnerships with other donors and NGOs and, second, by recognising the importance of engaging staff from other divisions in the Ministry in the field of international co-operation. Non-development staff that are assigned for a time to the Development Co-operation Directorate should receive recognition for this in their career development plan.

Any assessment of the means available to Luxembourg's co-operation must take into account the executing agency - Lux-Development. In 2000, the agency's operational structure was overhauled using a model similar to that subsequently adopted by the Ministry. Lux-Development has evolved extensively over the course of the past decade. Operating resources have increased more than tenfold. The staffing complement rose from 15 (including four in the field) in 1996 to 23 in 1998 (seven in the field), and to 220 in 2006: 73 at headquarters, 115 in the field, and 32 in the regional offices. Most staff are recruited as experts or, in the case of some local staff in regional offices, under contracts managed by outside companies. Employees working under direct contract with the agency numbered 55 at headquarters in 2007, and 19 in the field (including five ATJ). There are imminent plans for further expansion.

The stress now being placed on sector concentration may pose new problems for Luxembourg's co-operation. The tendency to reduce the number of intervention sectors, as recommended by the DAC and encouraged by Luxembourg, will require greater specialisation and expertise, the development of new skills and gradual reorganisation both at headquarters and in the field.

Performance-based management

The Ministry of Foreign Affairs plans to implement a recommendation from its auditors to introduce multi-criteria management scoreboards. With the new emphasis on sector programme approaches, the Ministry believes that its monitoring and evaluation must be adapted to these new aid modalities. The accent will now be placed on co-operation with other donors, and developing joint initiatives. The review team believes that this new approach should also be applied to the cross-cutting themes (gender, environment, capacity building and governance).

To adjust to the needs of a greatly expanded bilateral programme, Lux-Development has equipped itself with a new structure, a new management system for making better use of funds, and six regional offices. The quality initiative launched by Lux-Development was designed to address two challenges, managing increased funds efficiently, and decentralising activities to partner countries. These efforts were recognised by the ISO 9001-2000 certification awarded in July 2005.

In the course of improving its interventions, the agency has designed a methodological manual (Lux-Development, 2007b) and, in 2008, it introduced an online accounts management system that gives the regional offices real-time access to the financial status of bilateral projects. At the same time, the agency has begun the second cycle of certification, setting new procedural objectives measured by indicators from the Paris Declaration commitments. These include the percentage of joint evaluations, the degree of alignment, and the percentage of operations governed by national procedures.

It is apparent that, like other donors, Luxembourg's development co-operation system is facing a difficult dilemma. It must choose between a focus on improving its own procedures, monitoring mechanisms and intervention abilities, and the option of paying greater respect to its commitments under the Paris Declaration, which emphasise national ownership and capacity building. Despite a few specific responses (*e.g.* mobilising local expertise), the general trend is away from ownership. Examples of this would be using the Internet for online accounting between Lux-Development headquarters and the regional offices, and the PIC evaluations. This trend can only work to the

detriment of partner countries' accounting systems and their own evaluations of poverty reduction strategy frameworks.

Evaluation

The 2003 DAC review noted that Luxembourg has, as yet, no aid evaluation system in place, but that there would be a specific budget appropriation for this purpose and that an initial evaluation programme has been drawn up. The budget appropriation was EUR 750 000 in 2003, and EUR 900 000 in 2006 (up by 20%, while ODA rose by 35% over the same period). Only two-thirds of the budgetary appropriation has actually been spent (Box 8).

Box 8. Concepts for the evaluation of Luxembourg co-operation

Projects and programmes are supposed to be regularly monitored by the organisation responsible for their execution. Those organisations have suitable mechanisms in place.

- Lux-Development subjects all its projects to semi-annual or annual financial audits, and it conducts mid-term and final evaluations.
- NGOs submit annual execution reports on projects and programmes that are co-financed by the Ministry of Foreign Affairs, and may conduct project evaluations at the expense of the Ministry. These evaluations are treated as internal by the Ministry, but they still help to improve project monitoring.

Multilateral partners submit annual reports on project execution and the use of funds. Interim monitoring is done through annual consultations and through participation (as member or observer) in the executive boards of UN funds and programmes. Finally, the regional offices are in regular contact with representatives of multilateral partners in the field.

Source: Memorandum (MAE, 2007c).

An “Evaluation and Audit Unit” was created in 2002. Following the reorganisation, it is now called the “Monitoring, Audit and Evaluation Unit”. In the Luxembourg co-operation system, the functions of control, audit and accountability take clear precedence in the evaluation process over the functions of learning, drawing lessons, partnership and capacity building. The Unit has yet to establish operational guidelines, priorities and procedures for an evaluation programme. Reports are not published, they are not distributed, and they are not accessible on the Ministry website. There are no procedures for tracking the implementation of recommendations. The review team concludes that these measures, announced in 2003 and intended to bring evaluations into line with the DAC Principles for Evaluation of Development Assistance and the guidelines for evaluating humanitarian aid, have not yet been defined and applied. Evaluation is too often confused with other means of monitoring and control.

Evaluation is repeated at several levels and in various bodies: the Ministry, the Agency, multilateral co-operation and NGOs (Box 9). The review team identified five or six different modalities, reflecting the concern of Luxembourg's authorities to compile multiple elements for decision making. It is possible, however, that with limited resources and the lack of an evaluation culture, these exercises do not yet have the expected scope and impact.

Box 9. Overview of evaluation modalities in Luxembourg

The Ministry of Foreign Affairs:

Evaluating the PICs: The PICs call for mid-term and final evaluations, which are also called reviews. The procedures for producing these reviews could be more transparent. In some cases the reviews were performed by consultants, but in other cases there is no indication of who did the review suggesting that the work was done internally. The partnership approach has apparently been difficult to implement, and several reports note that “full partner participation” was not possible.

Bilateral project evaluations: The Ministry draws up the terms of reference for evaluations, in consultation with the organisations concerned. External consultants are recruited through calls for tender. They perform their work with complete independence, and submit their evaluation reports to the Ministry and to the organisation evaluated, who decide whether and how it should be made public. The 2006 evaluation exercise focused primarily on the health sector (Laos, El Salvador and Kosovo). All these evaluations produced specific recommendations, which the Development Co-operation Directorate is now preparing to implement. It is unclear, however, how the evaluation conducted by the Ministry of Foreign Affairs differs from the final project evaluations performed by Lux-Development.

Framework agreements: During 2006-07 Luxembourg conducted its first external evaluation of five framework agreements with Luxembourg NGOs (MAE, 2007f). The process involves a double evaluation. There is an organisational evaluation of the NGO concerned, followed by a project evaluation in the field. The consultant's conclusions have been submitted to the Ministry (apparently without the presence of the NGO representatives), using an identical format for the five NGOs. Certain observations, however, are systematically repeated in each report. The Ministry should strengthen the mechanisms for providing feedback to stakeholders and input to decision makers in future exercises of this kind.

Selective evaluations: The Ministry of Foreign Affairs also conducts selective evaluations for audit purposes. For example, an external evaluation of the BAT was done in 2007. *Aide au développement autonome* (ADA), a microfinance association that receives significant support from the Ministry, was externally evaluated in 2002 and in 2005.

Other evaluations: Luxembourg plans to step up its involvement in joint evaluations with other donors. This initiative reflects an undertaking of signatories to the Paris Declaration. Luxembourg has committed to take part in a wide-ranging evaluation in Niger, involving multiple donors (European Commission, France, Belgium) and multiple sectors (water and sanitation, rural development and food security, health, education), thereby covering more than half of international assistance flows to Niger over the last 10 years.

Lux-Development:

Lux-Development conducts its own internal mid-term and final evaluations of its projects. The evaluation reports on projects in Burkina Faso (the country visited) are of excellent quality. The reviews were entrusted to external consultant teams (which often include local experts), selected by competition on the basis of terms of reference that were reviewed by the project steering committee. Thus, there is a clear opportunity for players in the field to actively participate and to internalise the experts' recommendations. Nevertheless, the procedures used may cast some doubt on the independence and impartiality of the exercise (as one government representative suggested to the review team in Burkina Faso) and the evaluation reports are not available on the Agency's website.

The Ministry recognises that it has to make further progress with evaluation to become a learning organisation and to manage by results. As a first step, the Ministry, Lux-Development and the NGOs could make the findings and conclusions from evaluations more widely available through their websites. The Ministry could also join other DAC members in sharing these evaluations in the DAC Network on Evaluation. For example Luxembourg is not even listed among the 30 bilateral and multilateral contributors to the DAC evaluation abstracts that are available to the international donor community (www.dac-evaluations-cad.org/). Both the accountability and transparency of Luxembourg's development programme would be strengthened by more dissemination of evaluations.

Future considerations

- The Ministry of Foreign Affairs should take steps to bolster development capacity (for example, new sectors, cross-cutting issues and new modalities), maintain the expertise it has gradually built up, and develop an institutional memory in a situation in which staff rotate quite quickly and frequently.
- The Ministry and Lux-Development should reinforce their access to sector and thematic expertise, both at headquarters and in the decentralised offices. Given human resource constraints, this means that they will need to make choices, to engage international, regional and local expertise, to establish partnerships with NGOs and other donors, and to maintain these orientations over the long term.
- The role and the mandates that the Ministry of Foreign Affairs has conferred upon Lux-Development should be revised to enhance decentralisation, introduce new modalities consistent with national procedures, strengthen partnership, and implement results-based management.
- External evaluation should be given its proper place, following the principles and standards agreed by all DAC members, in order to enhance the quality of evaluations and to ensure that the lessons they offer are effectively taken into account. The Ministry of Foreign Affairs should spell out the general guidelines that it intends to adopt and apply to external evaluations. These guidelines should incorporate various aspects of the programme, including the executing agency, different modalities and the involvement of partner countries in the process.

Chapter 5

Aid Effectiveness

Strong commitment to aid effectiveness

Luxembourg has been a positive force for aid effectiveness at the international level, especially during its Presidency of the European Union Council in 2005 when it was a driver for co-ordination among EU member states preparing for the Paris High Level Forum on Aid Effectiveness.

There is high awareness of Luxembourg's commitment to aid effectiveness within the Ministry of Foreign Affairs and the Ministry of Finance, as well as other ministries that participate in the Inter-Ministerial Committee for Development Co-operation. This awareness is also evident within Lux-Development and among national NGOs. Strong efforts are being made by Luxembourg to ensure ownership, alignment to partner governments' development priorities, predictability and co-ordination with other donors, thanks to the open, flexible and participatory nature of Luxembourg's co-operation.

Luxembourg's policy document states that, "Luxembourg's co-operation is very much involved in discussing and defining new standards as regards the harmonisation and quality of international development aid. It subscribes to the principles laid down in the Paris Declaration adopted in March 2005, namely ownership, alignment, harmonisation, managing for results and mutual accountability". In his first speech to parliament after the adoption of the Paris Declaration, the Minister for Development Co-operation stressed the importance of implementing the Declaration (15 March 2006). Subsequent public statements by the Minister also stress the importance of improving the quality of aid. Furthermore, all staff dealing with bilateral co-operation should take account of the aid effectiveness agenda in their work (Box 10).

The importance given to aid effectiveness at the Ministry has also followed through to Lux-Development where the issue was regularly raised at its Executive Board. The 2007 Lux-Development Methodology Guidelines refer explicitly to the Paris Declaration Principles²⁷ and questions on the implementation of the Paris Declaration are systematically integrated in the terms of reference for evaluations.²⁸

Luxembourg is aware of the many challenges it faces as it translates the commitment to aid effectiveness into real behaviour change at country level. Challenges include evolving towards a programme approach using new aid modalities, and participating in more joint efforts with donors.

²⁷ Lux-Development (2007b), *Guide méthodologique: suivi des résultats et des partenariats. Module 1 Contexte, Cadre et Système de Monitoring*.

²⁸ Memorandum (MAE, 2007c) p. 31.

Box 10. Active efforts to disseminate the Paris Declaration

Luxembourg has undertaken a number of actions to raise awareness of the Paris Declaration and to build support for its implementation within government, Lux-Development and among other development actors.

The Declaration was disseminated through training, in September 2006, and seminars for all staff in the Ministry and Lux-Development. All missions and staff based in partner countries, from both the Ministry and Lux-Development, were informed about the importance of the Declaration. It was also presented to all Ambassadors during their annual meeting in 2006. Lux-Development local staff were asked to disseminate the Paris Declaration to project leaders and their staff. A chapter is also dedicated to the implementation of the Paris Declaration, with particular focus on harmonisation, in the country reviews for partner countries that the Agency produced in 2006 and 2007.

Aid effectiveness was on the agenda at the *Assises de la Coopération* in 2006 and 2007 (Chapter 1). It also figures on the agenda of the regular working group meetings between the Ministry and Luxembourg's NGOs. Here, the discussions also focus on how NGOs could adopt the Paris Declaration principles in the conception and implementation of the programmes and projects that are co-financed by the Ministry.

Source: OECD 2006e, Compendium of donors reports on disseminating the Paris Declaration.

Paving the way towards an Operational Action Plan

Luxembourg has not yet prepared its own action plan on aid effectiveness, although there are plans to translate the Paris Declaration commitments into an operational action plan in the near future. In 2007, Luxembourg took a step in that direction when it issued a study on "Luxembourg's Obligations towards International Political Commitments", including the Paris Declaration.²⁹ One of the main conclusions from the study is that Luxembourg will have to undergo fundamental structural and human resource reforms to fully implement these commitments. The author of the study suggested that in preparing for these reforms there would also be an opportunity to establish a new strategy for Luxembourg's development co-operation in general. As it moves forward with this agenda, Luxembourg should use the leadership it displayed internationally on this issue to win domestic support for concrete implementation in partner countries.

Ownership

Luxembourg is committed to ensuring that there is greater ownership of its development co-operation activities in partner countries at the national, regional and local levels. This was confirmed during consultations with the review team in Burkina Faso where there was broad and deep awareness of the priorities identified in the new PIC for 2008-12. Luxembourg's approach to project identification and implementation is conducive to ownership. Priorities are identified through participation and consultation. Luxembourg also has a policy of letting local partners do the job (*faire-faire*), of accompanying projects (*accompagnement*) to try to ensure sustainability, and gives particular attention to capacity development.³⁰ In a few cases in Burkina Faso local ministries had committed some funds to ensure the continuation of successful projects (*e.g.* REPAJE and PAGREN projects). Nevertheless, a persistent challenge is to achieve a real transfer of the project to local authorities. Luxembourg needs to optimise institutional ownership to ensure sustainability.

²⁹ *Obligations de la coopération luxembourgeoise aux termes de ses engagement politiques internationaux* (MAE, 2007g).

³⁰ Lux-Development (2007b)

Every project has a steering committee with both national and Luxembourg participation. The steering committee meets at regular intervals to monitor the project, to take strategic decisions, and to share concerns about its implementation and sustainability. Feedback from the Burkinabe officials demonstrates that Luxembourg responds to requests and criticisms from national authorities on issues that relate directly to ownership.³¹ For example, Luxembourg quickly addressed concerns on the roles and responsibilities of the international technical assistants that are attached to every project. Technical assistants should support local capacity development, but often took on more responsibilities thus undermining local ownership. Careful communication with, and instructions to, the technical assistant on his/her functions has helped tackle this problem. Project ownership would also be strengthened if the national director for every project could co-sign for the release of funds and the tendering processes that are launched by Lux-Development, even if projects are still unaligned with national procedures.

How does Luxembourg perform on ownership as defined by the Paris Declaration?

The national development strategies, or PRSPs, of Luxembourg's priority partners formed the basis for Luxembourg's dialogue with governments during the preparation of second generation PICs. The annual *Commission de Partenariat* between Luxembourg and priority partners, which is also open to multilateral organisations and other actors, facilitates this dialogue. However, the peer review team heard that a bi-annual meeting might be just as efficient. Equally, many of Luxembourg's priority partners have an aid effectiveness action plan.³² In Burkina Faso, Luxembourg participates in the donor co-ordination groups that support the implementation of the National Action Plan for Aid Effectiveness (PANEA). Nevertheless, Luxembourg is not yet prepared to meet all of the government's demands, especially when it comes to aligning with country systems and using new aid modalities.

Furthermore, Luxembourg is not actively supporting activities to enable local civil society organisations to participate in defining and monitoring national development policies. Luxembourg should consider how its national NGOs could help promote broader democratic ownership of development in partner countries with the aid they receive from the government. Such activities would complement its ownership efforts at other levels.

Alignment

Luxembourg has used the PICs to align with priority partners' development strategies. This alignment is evident in the 2006 survey on monitoring the Paris Declaration, which found that 77% of Luxembourg's aid flows are aligned to national priorities and 100% of aid is untied (Table B.7). However, alignment includes notification and disbursement schedules specific to the partner country timetable, using in-country systems where possible, and seeking to strengthen and improve partner country ability to deliver its development programme. This form of alignment to partners' public financial management systems is a core challenge facing Luxembourg as it implements the Paris Declaration (MAE, 2007g). None of the aid allocated to the three countries covered by Luxembourg in the 2006 monitoring survey uses country public financial management or procurement systems compared to the average country ratio of 33% for use of country systems (OECD, 2006c). Project formulation, procurement and tendering are all conducted by Luxembourg. At the same time, the PICs state that aid should be integrated with partner country and donor programmes in certain sectors. To

³¹ Meeting with at Burkina Faso's Ministry of Economy and Finance, Directorate for Co-operation and Donor Co-ordination.

³² E.g. Burkina Faso, Nicaragua, and Viet Nam.

this end, the Ministry of Foreign Affairs will have to review its convention with Lux-Development, especially in terms of the degree to which Lux-Development should be accountable for aid allocated through new aid modalities, such as budget support and SWAs. There is also a very cautious attitude at headquarters to moving into budget support and SWAs as staff sense that public opinion will not support it.

Luxembourg has started to investigate how it can respond. At the request of the Ministry of Foreign Affairs, Lux-Development has conducted a study of how, and under what conditions, the Agency can use partner country procurement procedures given the existing legislation in Luxembourg, auditing/accountability constraints, and national procedures in partner countries. For the time being, Lux-Development will apply the rules used by the European Development Fund when it cannot rely on national procedures. There are also plans to integrate technical assistance for projects within the national administrations. Kremer (MAE, 2007g) also suggests that national authorities should be entrusted with the implementation of projects and that Lux-Development could evolve from project management mode to become a resource for capacity development.

Steps can also be taken in the current round of PICs. For example, in the case of Burkina Faso, there are a number of possibilities for better alignment. Luxembourg could adapt to national modalities for managing operations, such as tendering and procurement, and use Burkina Faso's monitoring and evaluation indicators. Joint donor projects and increased use of multi-bi are also realistic ways forward. As Luxembourg moves into two priority sectors where the government and donor partners are building a national programme (vocational and professional training, and natural resource management) Luxembourg is in a good position to seize opportunities to create and finance basket funds for the implementation of the new programmes. Moreover, given Luxembourg's prioritisation of capacity development, it could allocate aid for capacity development and the other running costs for projects through the national budget. There is thus some margin for manoeuvres to strengthen alignment to national procedures. The review team also felt that Luxembourg could make some commitments towards budget support in anticipation of the study it plans to conduct on this modality in Burkina Faso's second generation PIC.

Nevertheless, in order to prepare the ground for greater alignment in the future, the Ministry of Foreign Affairs will have to review its *modus operandi* in terms of the mobilisation of necessary expertise. It will need to adapt its operating procedures, and ensure that the roles and responsibilities of both the Ministry and Lux-Development are clarified and adapted to the implementation of the Paris Declaration.

Harmonisation

Luxembourg actively pursues better donor co-ordination. These efforts have been facilitated by a stronger Ministry presence in priority partner countries - recognised good practice for harmonisation and alignment. In Burkina Faso, the government and donors unanimously welcomed this presence which enables Luxembourg to participate actively in policy dialogue and to strengthen relationships with partners. Luxembourg also gains from this. With its limited human resources and country-level experience, it gleans a lot of advice and insights from donors during co-ordination meetings. The accreditation of non-resident ambassadors to priority partner countries should also give Luxembourg additional weight in both donor and donor-partner policy dialogue (Chapter 4).

Headquarters does not provide staff at the country level with formal guidance on procedures or specific incentives for harmonisation. This lack of direction from headquarters can work two ways: (i) country staff are free to engage in donor coordination and harmonisation as they see fit and submit suggestions to headquarters; and (ii) relying on the initiatives of staff at the country level does not

ensure that it will be systematised, as some staff may be more motivated than others. In Burkina Faso, the initiative taken at the country level was positive. Luxembourg used the donor matrix in order to find its niche when preparing the second generation PIC. The lead donor for each sector, as well as Burkina Faso's development co-operation unit and the relevant line ministries, were engaged during project identification. These harmonisation efforts by Luxembourg are positive steps towards the division of labour and identifying comparative advantage. At the same time, proactive and efficient participation in sector dialogues requires specific expertise which Luxembourg does not currently have in all partner countries or even at HQ. Luxembourg will have to consider how the Ministry and Lux-Development can acquire this expertise in the future. One way could be to delegate co-operation to donors that have this expertise, especially in countries where Luxembourg will not have full-time representatives.³³

In 2006, Luxembourg became a lead donor in the education sector in Cape Verde with a specific focus on vocational education and professional training – a sector priority – which has resulted in more intensive co-ordination between the donors. This has been a positive experience for Luxembourg and is something that it would be willing to repeat in another partner country.³⁴

Decentralisation

Even if Lux-Development has done a great deal to decentralise all its processes to its regional offices, delegation of authority to staff in the field is very limited. The division of labour between central and field services is such that almost all decisions are taken in Luxembourg and, for the most part, the sole role of the field office is execution. While it is true that, in Luxembourg's case, decision making does not appear to be cumbersome or time-consuming, Luxembourg could nonetheless consider instituting effective decentralisation. For example, the authority to grant government aid, negotiate agreements and conduct financial transactions could be delegated. Greater decentralisation could also help strengthen local capacities, the on-site office and partners, and would be more effective if a results-oriented management system were put in place.

Box 11. Putting the Paris Declaration into practice in Burkina Faso

The implementation of the Paris Declaration is taken seriously by both the government and donors in Burkina Faso where the government is in the driving seat, strongly supported by the donor community. Donor harmonisation efforts preceded the Paris Declaration. However, the adoption of the Declaration in 2005 has forced donors to consider harmonisation and alignment as a major issue. Burkina Faso has a national action plan for aid effectiveness and a number of support structures to ensure coordination and rationalisation of donor-partner dialogue on the PRSP, budget support, SWAp, the Second Monitoring Survey, etc. Still, new challenges are always on the horizon.

Leadership and ownership

The peer review team met with Burkinabe officials who are well versed on the PRSP and aid effectiveness. The Paris Declaration is used as a negotiating tool with donors and the PRSP is accompanied by a triennial *Plan d'Action Prioritaire* (PAP) which also identifies priorities for donor alignment. Regionally, the Governor for Bobo-Dioulasso was well aware of the PRSP (2004-10) and the need for more effective aid delivery and co-ordination. The Burkina Faso National Action Plan on Aid Effectiveness (PANEA) was adopted in May 2007 for the period 2007-10. The Plan outlines deadlines, indicators and actions.³⁵ From 2008, the government has

³³ Belgium Technical Co operation runs a project for Luxembourg in Ecuador.

³⁴ Memorandum (MAE, 2007c).

³⁵ Government of Burkina Faso (2007), *Plan D'actions National sur l'efficacité de l'aide au Développement, Ministry of Finance and Budget, Burkina Faso*, www.aidharmonization.org/download/256931/PLAN_DACTIONSEffAidefinal.pdf.

designated July-August as a mission-free period so that the national budget can be prepared with minimal interruption.

Architecture for implementing the Paris Declaration

1. The Ministry of Finance and Economy

DGCOOP (General Directorate for Cooperation) and CONEA (*Coordination nationale de l'efficacité de l'aide*), which is attached to DGCOOP, are on the front line for implementing the Paris Declaration, ensuring donor alignment to the PRSP (DGCOOP) and coordination (CONEA). CONEA meets quarterly with all donors. Issues with donors go through STELA (*Secrétariat technique pour l'efficacité de l'aide*) which serves, among other things, as an interlocutor between the government and donors.

2. Donor-partner forums

Donor partners established STELA in 2005 to co-ordinate the implementation of the Paris Declaration in Burkina Faso. STELA is the main donor interlocutor with CONEA, is staffed by UNDP and the World Bank, and is chaired by the lead donor for the donor contact group. STELA meets once or twice between its quarterly meetings with CONEA.

There are six CSTs (*Commissions sectorielles thématiques*): donor-partner coordination mechanisms for sectors, chaired by line ministries. The goal of CSTs is the harmonisation of isolated interventions and joint development of sector programmes and SWAp funds. For sectors where there is no CST, donors co-ordinate among themselves to fix performance indicators and identify a lead donor as spokesperson for all donors in that sector. In some cases this coordination has resulted in a joint basket (e.g. education, health, transport and water). The CSTs feed into the annual progress report which is prepared for the evaluation of the implementation of the PRSP (every April).

Eleven partners are involved in budget support in Burkina Faso. There is a donor protocol with the government on direct budget support and a CGAB (*Cadre général d'organisation des appuis budgétaires*) which is chaired by the Ministry of Finance and Economy. CGAB's technical secretariat meets with two designated donors and the government twice a month and is currently preparing a budget support evaluation grid with a view to enhancing mutual accountability. Non-budget support donors are welcome to participate in CGAB meetings as observers.

Tools: Donor matrix and a future Joint Assistance Strategy

The European Commission started to push for a Joint Assistance Strategy (JAS) in 2005 but met with reluctance from some donors who were not ready for it. In the meantime, some building blocks towards a JAS have been laid. A joint country analysis (EU donors, Canada and Switzerland) was conducted in 2006 and 2007, and a simplified donor matrix was completed in 2007. The majority of donors present in Burkina Faso – 12 bilateral donors, the European Commission, the African Development Bank and the World Bank - have submitted information for the period 2007-09 for 27 sectors. This matrix provides a good overview of how the sectors are supported, where there is donor crowding and where there are sector orphans. The next, more complex step is to decide which sectors donors should support. Donor staff at the country level often encounter difficulties with their own HQs when it comes to changing sectors, not least because they have very different periods for planning and deadlines. Nevertheless, the process has started and donors hope to have a JAS with Burkina Faso by 2010, which will coincide with the new government PRSP.

Challenges

Some challenges to implementing the Paris Declaration were highlighted in Burkina Faso. They include:

- **Alignment:** country procurement procedures are good, but the government lacks the human capacity to apply them. More donor support for capacity development is necessary.
- **Donor decentralisation:** country level operations are often more advanced with harmonisation and alignment than HQ. As such, donor staff in the field may be starting to reach their limits in terms of achieving harmonisation and alignment. The individual, non-harmonised constraints that HQs put on decision-making at the country level are a bottle-neck to a real overhaul in the way donors intervene in the country. For example, donors at country level often reach a consensus on division of labour that is

not supported by their own HQs. They suggest that there should be greater harmonisation between donors at the headquarters' level.

- **Transaction costs** may be diminishing for the national government but they remain very high for donors. This needs to be taken into account in future monitoring of the Paris Declaration.

Source: Peer Review meetings in Burkina Faso, Jan Feb 2008.

Joining forces with other donors

Luxembourg is moving, tentatively, towards more joint work with donors, including the use of joint donor analysis (*e.g.* country reviews) for the PICs. In 2007, Luxembourg participated in the joint evaluation of the Paris Declaration and is financing a joint multi-sector evaluation in Niger with the European Commission, Belgium and France.³⁶ The Czech Republic and Luxembourg have entered a triangular partnership with the government of Mali, in a rural water management project in Barouéli, and the Ministry of Foreign Affairs has signed an agreement with Belgium with a view to working together. Nevertheless, the peer review team heard from donors in Burkina Faso that Luxembourg could enter more joint-financing arrangements (*e.g.* environment and vocational training) if only the executing agency had more freedom to use new aid modalities.

Future considerations

- Luxembourg is encouraged to finalise an aid effectiveness plan in line with the Paris Declaration commitments using its good record in building international support for the Declaration as a lever with key domestic stakeholders.
- Since Luxembourg will continue to finance programmes and projects that will, for the most part, be executed by Lux-Development over the medium term, Luxembourg should ensure that these actions conform to the objectives of the Paris Declaration. They should be well integrated within sector programmes. Luxembourg should also step up other joint activities in evaluation, co-ordinate its technical assistance with other donors, use national procurement systems and limit the creation of new PIUs.
- Luxembourg should seize opportunities to use new aid modalities in partner countries. This should be accompanied by a communication strategy on aid effectiveness to re-assure domestic audiences – auditor general, parliamentarians, public opinion - about proper control and demonstrate the value these modalities add.
- Luxembourg's stronger country presence also provides a basis for considering further decentralisation of aid management to the field level, not least because country offices should have the capacity to take decisions once Luxembourg starts using new aid modalities.

³⁶ Memorandum (MAE, 2007c).

Chapter 6

Special Issues

For the biennium 2007-08, the DAC has decided that all peer reviews must cover two special topics. Examination of the first of these topics, capacity development, is compulsory in all the aid reviews. The Grand Duchy of Luxembourg requested that microfinance be treated as the second topic because it has grown in importance for Luxembourg since the last peer review in 2003.

Capacity development

An objective that already forms part of Luxembourg's co-operation programme

Luxembourg shares with the donor community the conviction that capacity development is essential for successful development in general, while at the same time adding that capacity development is the prime responsibility of partner countries with donors playing a supporting role (Box 12).

In the Memorandum prepared for the peer review, the Ministry of Foreign Affairs divides capacity development into three phases:

- training (initial, vocational),
- strengthening, in the strict sense, of existing capacities (adaptation of knowledge, capitalisation of experience, reorientation, in-career training),
- strengthening of institutions (management, adaptation, results-orientation at organisation level).

According to the Memorandum, each bilateral project contains these three forms of capacity development. It is not clear however, how capacity development is ensured in Luxembourg's other modes of intervention (multi-bi projects, co-financing with NGOs, humanitarian aid).

Box 12. Capacity development at field level in Burkina Faso

The peer review team that went to Burkina Faso was able to see the involvement of all players, public and private, in terms of efforts made to integrate interventions into national systems and to provide support at all levels. Lux-Development introduces into all its projects a component for the training of managers. In certain projects, most of the financial resources are devoted to capacity development (users' associations, municipal services). Infrastructure expenditure is not an end in itself, but a means of making the most of existing skills. The investment contributes to the transfer of responsibilities. Ownership is the natural result of capacity development.

The limitations observed in the field are the use of parallel units for project management, externally provided technical assistance, the failure to use national procedures, the absence of joint projects with other donors, and the lack of operational harmonisation with other donors.

Ministry evaluation requires that, as part of the tender specification, a team of consultants should include at least one national expert (Chapter 4). In the latest round of PICs, capacity development is “the common thread running through the multi-year action plans”. An example of this is given by the new 2007-11 PIC for Mali, which was drawn up in close association with Mali authorities at all levels as well as with multilateral partners and civil society. This modality is clearly to be encouraged. Participation can, in fact, lead to capacity development, but is only the first stage.

Under the heading of “technical assistance”, the Grand Duchy of Luxembourg includes interventions of disparate kinds: JPOs (Junior Professional Officers), JEV (EU volunteers), trainees, and scholarship-holders. The total cost amounted to barely USD 6 million in 2006, or little more than 2% of Luxembourg's official assistance (compared with an average of 15% for EU countries).

For the time being, the directives from the Ministry on capacity development remain largely implicit, and a pragmatic approach is considered to be sufficient. For Luxembourg's co-operation authorities, capacity development is operationalised during implementation (Box 13).

Box 13. Participatory management of natural resources in the Hauts-Bassins region, Burkina Faso

Project BKF/012 (EUR 7.1 million, of which EUR 6 million is provided by Luxembourg, over five years) is aimed at the participatory improvement of the classified forests of Dindéresso and Kou (PAFDK), by extending an earlier project to two other classified forests in the Bobo-Dioulasso region. The project involves managing the interface between forest and town, improvement of peri-urban forest areas, ensuring security of water resources, etc.

The design of the operation, introduction into the local community, activities involving active local participation and modalities of implementation all strengthen the capacities of all concerned, in central and decentralised administration, as well as non-government organisations:

- The aim of the intervention is to strengthen the capacities of the institutional players concerned to play their respective roles effectively. For example, the Ministry of the Environment and of the Quality of Life has based its new sectoral strategy on this project. The Ministry is presenting it as a model for other interventions, such as those of Japan which is proposing to be a new partner in this sector.
- The project takes into account the policy of decentralisation, which aims, among other things, to strengthen regional capacities for planning and co-ordination of development activities. For example, the steering committee will be chaired by the Governor of the Hauts-Bassins region and not, as previously, by the Secretary General of the Environment Ministry, while monitoring and evaluation will back the decentralised services.
- The project contributes to strengthening the capacities and competences of the municipalities to plan and manage classified, municipal or village forests by delegating oversight to the municipalities, to the GGF (*Groupeement de Gestion Forestière*), to stock farmers' groups and women's associations. The intent is to achieve sustainable management of natural resources by the local players (the stock farmers and the women who gather the wood are no longer considered as “predators” on the forest, but as participants in conservation).
- The project will contribute to strengthening the organisational and technical capacities of the management structures, thanks to the financial participation of the Burkinabe authorities, a stronger and largely participatory team, and a repositioning of the role of Principal Technical Adviser, in support of the National Director, the project head.

Capacity development is not the subject of a specifically designed strategy

Luxembourg's co-operation authorities are perfectly aware of the conditions needed to facilitate local ownership, but, like most other donors, have not yet advanced sufficiently to systematically integrate the capacity development dimension in their programmes. Nor have they drawn up a general strategy or guidelines. Capacity development is rarely the explicit aim of a project, even if it is often highly ranked in numerous interventions by Luxembourg. Capacity development is not referred to in the Foreign Affairs Ministry "Strategies and Principles" document. Nor does it appear in the mandates for the formulation of bilateral projects by which the Ministry directs Lux-Development to design and implement a project.

Lux-Development has taken capacity development - in terms of strengthening existing capacities - fully into account in its methodological guide (*Monitoring des résultats et du partenariat*) encouraging its staff, who design operations and draft projects, to include it from the beginning of the intervention. When seeking to strengthen the capacities of participants and institutions, and increase ownership of the project, project designers examine several aspects of capacity, for example, economic, human, political, socio-cultural and defensive. This analysis of the participants, institutions, people and activities concerned forms part of a general concept of capacity development which is in line with the DAC reference document on capacity development (OECD, 2006a), especially the attention that should be given to a series of factors.

Moving towards a vision of capacity development in line with Paris Declaration commitments

The Ministry of Foreign Affairs is prepared to recognise that project aid has not always led to integrated interventions as regards capacity development. It notes that isolated activities are, by definition, less systematically integrated than programme or sector aid. Both the government and Parliament have expressed their desire to explore new forms of intervention and their preference to proceed in stages. The adoption of new methods could help to build capacity.

Lux-Development has adopted an approach to capacity development, which goes no further than project implementation. Projects systematically include a component for training managers. The investment, in terms of financial resources, in most cases involves training to transfer responsibility. It turns out, however, that the agency still operates according to its own norms. Capacity development is implemented mainly through take-over of projects and hence depends on the viability of the operation following withdrawal. The Agency does not take into account the possibility - one that is much more constraining and difficult - of delegating implementation and supporting local managers. The current procedures guarantee complete control, while the recent application of real-time budgetary management of projects by headquarters in Luxembourg has made local implementation even more distant. From this point of view, capacity development is limited (Box 14).

The Ministry of Foreign Affairs should launch a discussion of the general orientations for capacity development, especially in terms of conducting analyses and implementing activities in the field. The Ministry should also examine how to exploit more systematically the lessons learned from its successes and failures as regards capacity development. Directives should give priority to this topic, taking inspiration from the DAC reference document *The Challenge of Capacity Development: Working Towards Good Practice* (OECD, 2006a).

Box 14. Capacity development in the PICs

PICs enhance the relevance of the actions envisaged, provide greater predictability and better consistency with national policies, but, at the same time, constitute a fresh constraint on local players. For example, their workload increases when a request is made to monitor the PIC (noting that the Niger Foreign Ministry “does not receive the flow of information permitting monitoring of the PIC”) and participate in the mid-term review (because “the shortage of human resources meant that the Mali side was unable to participate fully in the process”), or create new structures in addition to those already existing (such as “a technical group for the monitoring of the PICP” in the case of Senegal).

Capacity development is most frequently seen as external support aimed at bringing national competences up to standard and not as an aid for the emergence of local capacity that was merely waiting to be revealed. This approach is still widespread in the documents of Lux-Development, as, for example, in its mid-term review of the Mali PIC: “In order to palliate the limits and constraints observed in connection with project execution, the bilateral and decentralised modes of execution must be further strengthened”.

It also turns out that Luxembourg places limits on their interventions that reflect their own competences, not those of the partner country. This can be deduced, to a certain extent, from the observation that Luxembourg is unable to envisage a sector-wide programme approach of the SWAp type in Nicaragua, because it lacks the capacity to ensure systematic and specialised support.

Source: MAE 2004-2005, *Revue à mi-parcours des Programmes indicatifs de coopération* (Niger, Mali, Sénégal, Nicaragua).

Microfinance

Luxembourg, through the Ministry of Finance and the Ministry of Foreign Affairs, has become more actively engaged in international policy dialogue on microfinance. It has provided support to an increasing number of actors involved in this issue at the national level and increased its financial support through Luxembourg’s development co-operation budget.

Inclusive financial sectors and microfinance – definition and global trends

The OECD publication on promoting pro-poor growth through private sector development (OECD, 2006d) provides donors with some suggestions on how they can support the financial sector’s contribution to pro-poor growth. However, since the DAC has no formal guidelines it may be useful to define microfinance and provide a short overview of the current state of microfinance globally. The 18 DAC members, including Luxembourg, that support microfinance, identify and exchange good practice on inclusive financial sectors and microfinance through their participation in the international Consultative Group to Assist the Poor (CGAP).³⁷ CGAP is a consortium of 33 public and private funding organisations working together to expand poor people’s access to financial services. DAC members also participate in other international forums such as the European Microfinance Platform.

Defining inclusive financial sectors and microfinance

The terms “inclusive financial sectors” and “microfinance” are often used interchangeably, but do not necessarily mean the same thing. The term “inclusive financial sectors” refers to the policy framework for expanding financial services to poor people. According to the UN Capital Development Fund (UNCDF), the vision of inclusive finance begins with this general goal: “supported by a sound policy, legal and regulatory framework, each developing country should have a continuum of financial

³⁷ France (MFA and AFD), Finland, Italy, The Netherlands, Japan, Denmark, US (finance), USAID, NORAD, SIDA, SDC, Germany (BMZ, GTZ and KfW), EC, UK (DFID), Canada (CIDA), Belgium, Australia (AusAID), Spain (AECI) and Luxembourg (MFA and Finance).

institutions that, together, offer appropriate products and sectors to all segments of the population”.³⁸ Microfinance, on the other hand, is about the products and sectors, be they micro-credits, micro-insurances or housing loans, for example. It is important to note that consumer credit is not a microfinance product. Women make up the vast majority of borrowers, especially in Asia. In contrast to commercial banks, microfinance institutions often refrain from taking collateral and use the principle of group lending, which tends to be more successful in rural settings.³⁹ The popularity and global awareness of microfinance has grown considerably since the UN proclaimed 2005 the Year of Microcredit and Professor Yunus and the Grameen Bank were awarded the Nobel Peace Prize in 2006.

Global trends in microfinance

The microfinance sector currently has an estimated total loan volume of USD 25 billion.⁴⁰ Yet it is unable to serve more than a small part (about 100 million beneficiaries) of today’s total sector demand of roughly one billion borrowers. Only a fraction of the 4 billion people – households and micro-entrepreneurs – living on less than USD 1 500 a year have access to basic financial services. This situation translates into an immense funding gap estimated at around USD 250 billion. In order to narrow the gap greater involvement of capital markets is one major medium-term priority. Since 2004, international public and private-sector investors have more than doubled their investments, to USD 4.4 billion in 2006; however, investors have barely started to explore the full potential of microfinance.⁴¹

Bilateral and multilateral international financial institutions, such as the German Development Bank (kfw) or the International Finance Corporation, which lent USD 660 million and USD 379 million in 2005, and a range of private investors, such as NGOs and foundations, are the main types of foreign investors.⁴² The trend is changing, however, from being donor-driven towards an increasing involvement of capital markets.

Inclusive financial sectors and microfinance policy

The rationale and motivation for Luxembourg’s inclusive financial sectors-microfinance policy is founded on its own domestic situation. Luxembourg hosts a world class international financial centre and has solid experience and financial resources in the domain of development co-operation. Luxembourg enjoys a comparative advantage in this sector and has the potential to add value, using small amounts of ODA as seed money for innovative projects.

The Ministry of Foreign Affairs microfinance policy paper states that the potential synergies between microfinance institutions and Luxembourg’s financial centre are evident. Once Luxembourg understood the positive impact of microfinance on poverty reduction - in strengthening the position of women in traditional communities, its complementary character to other development co-operation instruments, and its adaptability to changing cultural realities - it has not ceased to build bridges

³⁸ Building Inclusive Financial Sectors: the Blue Book, UN, 2006, p. 2.
www.uncdf.org/english/Microfinance/pubs/bluebook/pub/06_33065_BB_Executive_Summary.pdf

³⁹ www.db.com/en/content/company/headlines_8228.htm

⁴⁰ Deutsche Bank Research (2007), *Microfinance: An emerging investment opportunity. Uniting social investment and financial returns* www.db.com/en/content/company/headlines_8228.htm

⁴¹ *Ibid* and OECD Development Centre (2006) Policy Insights No.31 *Microfinance: How Bankers Could Buy Back their Soul*, by Lucia Wegner.

⁴² *Ibid.*

between microfinance actors and actors from classical finance.⁴³ Indeed, given that five of the world's top 10 microfinance investment vehicles are domiciled in Luxembourg, and a total of 21 Luxembourg-based microfinance investment vehicles control assets exceeding USD 1.25 billion, the Grand Duchy has good potential in terms of lobbying for greater international financing of microfinance.⁴⁴

In preparing its policy paper on microfinance – the first in a series of planned policy papers – Luxembourg has identified inclusive financial sectors-microfinance as a development sector in its own right. The Ministry of Foreign Affairs considers its role as one of a catalyst for microfinance investment and promotion rather than implementing microfinance investment projects directly. Luxembourg has taken two operational steps for microfinance: (i) financial support for activities in developing countries, and (ii) the promotion of inclusive financial sectors and support for research in microfinance. This plays out in the form of three types of activity:

1. Financing or co-financing, directly or indirectly, the activities of microfinance institutions in developing countries; financing of the innovative activities of Luxembourg NGOs active in this sector.
2. Promoting legislation, adapting rules and institutional capacity development to support the development of international financial sectors.
3. Evidence-based lobbying for the creation of inclusive financial sectors in international forums such as the EU and the UN.

Inclusive financial sectors and microfinance in practice

Policy impact

At the policy level, the Minister for Co-operation and Humanitarian Action and the Director of Development Co-operation actively support and participate in high-level UN meetings to promote inclusive financial sectors-microfinance. This support and participation occurs most notably through participation in the UN Advisors Group on Inclusive Financial Sectors, which Luxembourg currently chairs, and in the work of CGAP. Luxembourg has also been active at the European level. It provided support for the creation of the European Microfinance Platform and a European Microfinance Prize worth EUR 100 000. Luxembourg also ensured that microfinance found its place in the European Consensus on Development.

Activities supported by the development co-operation budget

Luxembourg has been keenly interested in microfinance for over a decade and the Ministry has supported a limited number of microfinance projects through its NGOs (*e.g.* ADA, SOS Faim). According to Lux-Development, microfinance is often a component of its artisanal, rural development and vocational training projects. Lux-Development also serves as the secretariat to Luxembourg's Microfinance Roundtable and it organised the 2007 European Microfinance Week which was hosted by Luxembourg. The Ministry has a five-year (2007-11) framework convention with the NGO ADA - *Appui au Développement Autonome* – and has provided seed funding for the establishment of LUXMINT and LuxFLAG (Box 15). With the exception of the five-year inclusive financial sectors

⁴³ Memorandum (MAE, 2007c) p. 39.

⁴⁴ Presentation by Ken Hay, LuxFLAG during peer review visit to Luxembourg, December 2007.

project that started in the WAEMU zone in March 2008 (Box 16) and the new convention with ADA (approximately EUR 17.4 million), the amount of aid (about 2% of ODA) allocated to inclusive financial sectors-microfinance has been relatively small, but catalytic (Chapter 3).

The Grand Duchy's approach to inclusive financial sectors and microfinance seems coherent with the good practice identified by DAC in its publication on promoting pro-poor growth (OECD, 2006d) and three specific recommendations from the microfinance association PlaNetFinance. These recommendations are that donors can be catalysts for microfinance when they (i) reinforce the institutional capacities of microfinance institutions (this is the objective of ADA and LUXMINT); (ii) develop the capacity of the sector (this is the core objective of the WAEMU zone project); and (iii) facilitate private investment (the objective of LuxFLAG).⁴⁵

Box 15. LUXMINT and LuxFLAG

The Luxembourg Microbanking Intermediary Scheme, commonly known as LUXMINT, is managed by the NGO *Appui au Développement Autonome*. LUXMINT provides loans and bank guarantees to microfinance institutions that are at an intermediate stage of maturity and which have little or no access to financial resources from the financial sector. The ultimate objective is to help the microfinance institutions become autonomous and to diversify their access to financial resources for longer periods of time. This has been achieved with four institutions. In 2006 LUXMINT invested approximately EUR 1.4 million in 19 microfinance institutions in 10 countries. These institutions offered their services to more than 685 000 customers.

The Luxembourg Fund Labelling Agency (LuxFLAG) was established in 2006 with seed-funding from the Ministry of Foreign Affairs (EUR 100 000) and the Ministry of Finance. LuxFLAG is an independent microfinance labelling organisation. The label is awarded to eligible microfinance investment vehicles to assure microfinance investors that the funds invest in microfinance. Since its creation, LuxFLAG has awarded the microfinance label to three investment funds. It has the potential to award the label to microfinance vehicles based in Luxembourg and internationally. In the light of the increasing popularity of microfinance with private investors, LuxFLAG could be a useful tool for investors to be sure that their investments meet internationally recognised standards in the microfinance sector.

Source: <http://www.microfinance.lu/comas/media/rapportannuel2006.pdf> and <http://www.luxflag.org/>

Microfinance: a complementary tool to traditional development co-operation activities

Luxembourg identifies vocational training and professional integration, health and integrated rural development as development co-operation priorities which could benefit from microfinance. In 2006, the Minister for Development Co-operation stated that Luxembourg would like to use microfinance more systematically where access to professional life or some form of financial independence just needs a helping hand. Some activities currently underway match this statement. In 2007, ADA started a pilot project in another priority partner country, Senegal, which targets the integration of young artisans into the labour market via microfinance. The pilot project should identify how to find the right balance between start-up credit and non-financial support, such as follow-up and training for sustainability. A couple of the projects visited by the peer review team in Burkina Faso had a microfinance component (e.g. REPAJE and PAGREN projects), however, the money provided to young trainees to start their businesses tended to be subsidies rather than micro-credits. In 2008, Lux-Development, in collaboration with the Central Bank for West African States, started a five-year inclusive financial sectors project in the WAEMU zone (Box 16).

⁴⁵ PlaNetFinance, 20 juin 2005, "Le rôle catalyseur des bailleurs de fonds" presentation given at the *Conférence internationale de Paris Élargir l'accès à la Microfinance*.

Box 16. Building an enabling environment for inclusive financial sectors in the WAEMU zone

In 2007 Luxembourg committed EUR 18 825 000 (90% of the total budget) for a five-year project, starting in 2008 in the WAEMU zone, that will promote inclusive financial sectors in each member country. The regional dimension of this programme is worth highlighting as well as the strong partnership with the Central Bank for West African States (BCEAO). It builds on, and is integrated into, an existing BCEAO regional programme which supports financial decentralization in its member countries.⁴⁶ The project is Luxembourg's response to exchanges, in 2006 and 2007, between the Grand Duchy, authorities from WAEMU, the *Fonds d'Équipement des Nations Unies* (FENU), le *Centre d'innovation financière* (CIF), ADA and Lux-Development.

Alignment with regional and national priorities for microfinance in the project design

An inventory of ongoing donor support to microfinance to countries in the region showed a predominance of bilateral co-operation. Thus, given the role of BCEAO in supporting financial regulation within the region, Luxembourg decided it could best add value through a regional approach. In addition, the project was designed to complement national microfinance programmes. BCEAO adds value by focusing on common and trans-boundary problems shared by its members in relation to inclusive financial sectors. The project document also states that links will be made with the PICs that have been agreed in four of the member countries through the participation of the head of each country in a steering group and other co-ordination meetings for the project.

Ownership

The project has two main objectives. The first is to adapt and strengthen the supervision of microfinance in the new regulatory framework for finance in the WAEMU zone. This will be executed directly by BCEAO through its regional support programme for decentralised finance. The second objective is to strengthen decentralised financial systems in WAEMU member countries so that they can produce and inspect financial information on microfinance. This work should be coherent with national strategies on microfinance that already exist or are under preparation.

Source: Document de Projet AFR/017 Promotion de Secteurs financiers inclusifs dans la Zone WAEMU, Lux-Development (2007a).

Opportunities to advance microfinance at the country level

Luxembourg has made impressive progress in promoting inclusive financial sectors-microfinance at the international level and domestically. It has helped to establish tools for capacity building within microfinance institutions through the creation of LUXMINT. It may be too early to identify LuxFLAG's achievements, but it is clearly a tool that should promote greater private investment in microfinance funds. The peer review team, however, during its visit to Burkina Faso, found limited evidence of policy engagement or concrete microfinance activities by Luxembourg either at the national or local level. None of the representatives from either the partner government or other donor partners associated Luxembourg with microfinance. The second generation PIC for 2008-12 does not make any explicit reference to the promotion of inclusive financial sectors-microfinance. And, despite the PICs strong focus on vocational training and professional integration - sectors that could benefit from microfinance - little attention is given to microfinance in the project identification report for the PIC.

Further links may also be made between microfinance and the PICs in Burkina Faso, Mali, Niger, and Senegal, once Luxembourg's staff in the country offices are more engaged in the WAEMU zone project through their participation in steering group and other coordination meetings. Headquarters should also ensure that country staff actively participate in this project and that they promote it in their various meetings at the national level.

⁴⁶ The PRAFIDE project (2005-2010).

Future considerations

Capacity development

- The Ministry should prioritise capacity development in its directives, providing guidelines to staff, operators and partners concerning the orientations and practical modalities of capacity development, including in contractual documents with Lux-Development, as well as in the project memoranda of understanding drawn up with partner countries.
- The Ministry should examine how to exploit more systematically the lessons from its successes and failures in the field of capacity development. It could order a specific evaluation on this theme in order to draw conclusions from its own experiences that might be taken up in a global strategy.
- The Ministry is encouraged to broaden its understanding and adapt its modalities in the field of capacity development in line with the undertakings in the Paris Declaration. Project formulation mandates should provide indicators, and terms of reference for evaluations should include an analysis of capacity development in relation to alignment with the partner countries' national development strategies, institutions and procedures.
- The Ministry should introduce capacity development into its relations with Luxembourg NGOs, in its project description documents, in its framework agreements and in the terms of reference for evaluations. Moreover, the Ministry might also envisage debating this theme in working meetings, notably on the occasion of the *Assises de la coopération*.

Microfinance

- Luxembourg is encouraged to continue with its current strategy on inclusive financial sectors-microfinance which is focused on enabling environments for microfinance. It should also reinforce the links between its PICs and the microfinance activities it finances through NGOs and Lux-Development in priority countries.
- Luxembourg is a driving force and an important ambassador for inclusive financial sectors-microfinance in international policy circles, especially at the UN and within the EU. Luxembourg could also be a greater driving force for this issue in its priority partner countries by putting inclusive financial sectors-microfinance on the agenda in policy dialogue meetings between donors and partner governments.

*Annex A***Progress Against 2003 DAC Peer Review Recommendations**

2003 Recommendations	Progress made since 2003
<i>Strategic framework and new orientations</i>	
Maintain, if not bolster, geographic concentration by allocating additional resources to the target countries.	<ul style="list-style-type: none"> • Number of priority partner countries kept at ten with increased resources. • Number of project countries down sharply (by half).
Share with other donors its approach of disengagement from target countries (having a higher level of income).	<ul style="list-style-type: none"> • No significant progress made in terms of disengagement from priority countries having a higher level of income and the approach not shared with other donors. • Management of the Ecuador project transferred to Belgian co-operation authorities.
Be more explicit in stating priorities and allocation criteria amongst multilateral organisations with regard to multi/bilateral activities.	<ul style="list-style-type: none"> • Four multilateral organisations (UNDP, UNICEF, WHO, UNFPA) were selected in harmony with social sectoral choices.
Continued public awareness campaigns, enhancing knowledge of public opinion (surveys on a more regular basis).	<ul style="list-style-type: none"> • Co-operation conference in existence for two years now. • Four NGO framework agreements financed in this area.
<i>Development policy coherence</i>	
Analyse the effects of its policies on developing countries, strengthening of the capacity of the Ministry of Foreign Affairs to undertake the necessary analytical work.	<ul style="list-style-type: none"> • The Ministry has set up missions in selected priority countries, and Lux-Development has opened offices. • Evaluations are being performed. Dissemination of findings and capitalisation of lessons are limited.
Expand the mandate of the Inter-Ministerial Committee for Development Co-operation with a view towards enhanced policy coherence.	<ul style="list-style-type: none"> • The MFA considers that the current mandate enables the Committee to play its role effectively. • Policy coherence was an agenda item at two meetings of the Committee in 2007.
<i>Aid management and implementation</i>	
Strengthen co-operation in the field between the Ministry of Foreign Affairs and Lux-Development, incorporating PRSPs and sectoral approaches (partnership and ownership).	<ul style="list-style-type: none"> • Co-ordination is carried out via physical proximity. • PIC2 prepared jointly with the authorities of the beneficiary countries, based on their PRSPs and MDGs.
Consolidate sectoral coverage in each target country, and revise the number of projects in light of costs, effectiveness and impact.	<ul style="list-style-type: none"> • Partly achieved in a pragmatic manner, but Luxembourg has not yet given this sufficient attention.

Take measures to bring projects further in line with partner-country strategies, and work on sectoral approaches with other donors.	<ul style="list-style-type: none"> • Expansion to six regional offices has made for closer relationships with partner countries. • The sectoral approach will be examined case by case.
Continue moves to increase its presence in target countries, while ensuring an optimal division of tasks between the Ministry of Foreign Affairs and the agency.	<ul style="list-style-type: none"> • Five out of ten countries have an office with regional authority; three countries (Namibia, El Salvador and Viet Nam) are in a transition phase. • Division of tasks requires further consideration in line with new operating procedures.
Pay special attention to staffing requirements and to the nature of staff expertise, especially in priority sectors.	<ul style="list-style-type: none"> • Following an organisational audit, three posts were created at the MFA. • Significant reinforcement of Lux-Development (ISO certification and organisational audit and increase in staff). • Having access to appropriate expertise requires continuous attention.
The Ministry of Foreign Affairs should pursue its efforts to bolster the monitoring/evaluation system in order to better ascertain the effectiveness and impact of achieving cross-cutting objectives (incorporating poverty reduction and gender throughout the project cycle).	<ul style="list-style-type: none"> • Different types of evaluations undertaken. • Strategic and sector evaluations still required. • Evaluations of the health care sector in 2006 led to specific recommendations which management is preparing to implement.

Annex B

OECD/DAC Standard Suite of Tables

Table B.1. Total financial flows

USD million at current prices and exchange rates

Luxembourg	Net disbursements						
	1992-96	1997-2001	2002	2003	2004	2005	2006
Total official flows	59	117	147	194	236	256	291
Official development assistance	59	117	147	194	236	256	291
Bilateral	39	87	116	150	171	187	205
Multilateral	20	30	31	44	64	69	86
Other official flows	-	-	-	-	-	-	-
Bilateral	-	-	-	-	-	-	-
Multilateral	-	-	-	-	-	-	-
Net Private Grants	5	6	2	7	6	8	8
Private flows at market terms	-	-	-	-	-	-	-
Bilateral: of which	-	-	-	-	-	-	-
Direct investment	-	-	-	-	-	-	-
Export credits	-	-	-	-	-	-	-
Multilateral	-	-	-	-	-	-	-
Total flows	64	123	148	201	242	265	299
<i>for reference:</i>							
ODA (at constant 2005 USD million)	73	171	216	227	247	256	269
ODA (as a % of GNI)	0.37	0.66	0.77	0.81	0.83	0.86	0.84
Total flows (as a % of GNI) (a)	0.40	0.70	0.78	0.84	0.86	0.89	0.91
<i>ODA to and channelled through NGOs:</i>							
- In USD million	11	22	2	26	29	38	5
- In percentage of total net ODA	19	17	1	13	12	15	2
- Median DAC percentage of total net ODA	5	7	8	8	8	9	6

a. To countries eligible for ODA.

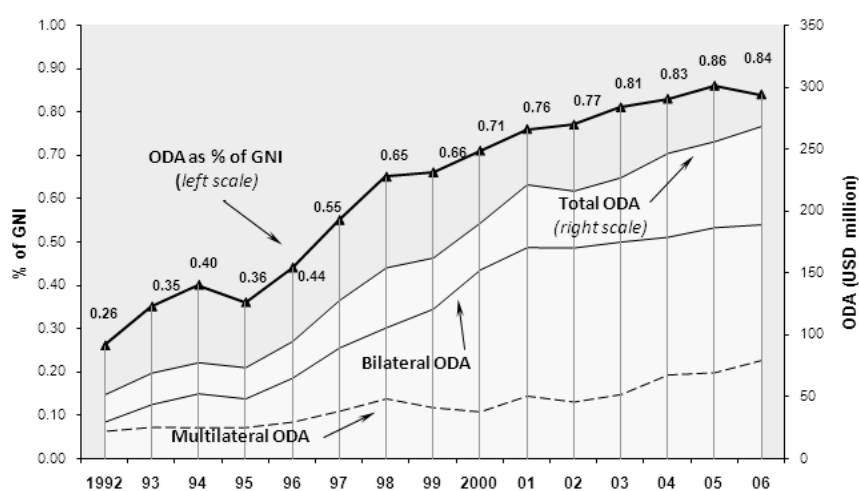
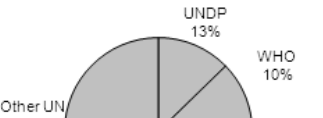
ODA net disbursements
At constant 2005 prices and exchange rates and as a share of GNI

Table B.2. ODA by main categories

						Disbursements					
Luxembourg	Constant 2005 USD million					Per cent share of gross disbursements					Total DAC 2006%
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006	
Gross Bilateral ODA	171	175	179	187	189	79	77	73	73	70	76
Grants	171	175	179	187	189	79	77	73	73	70	68
Project and programme aid	138	116	111	106	124	64	51	45	41	46	15
Technical co-operation	4	4	5	4	5	2	2	2	2	2	19
Developmental food aid	3	3	4	1	7	1	1	2	1	3	1
Humanitarian aid	18	17	23	16	34	9	7	9	6	13	6
Action relating to debt	-	-	-	-	-	-	-	-	-	-	17
Administrative costs	4	4	4	11	12	2	2	2	4	4	4
Other grants	4	32	33	48	7	2	14	13	19	3	6
Non-grant bilateral ODA	-	-	-	-	-	-	-	-	-	-	8
New development lending	-	-	-	-	-	-	-	-	-	-	7
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	1
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	1
Gross Multilateral ODA	46	52	68	69	79	21	23	27	27	30	24
UN agencies	13	14	13	19	24	6	6	5	8	9	4
EC	21	22	21	25	22	10	10	9	10	8	8
World Bank group	7	8	11	10	18	3	4	5	4	7	6
Regional development banks (a)	-	3	11	10	10	-	1	5	4	4	2
Other multilateral	5	4	10	5	5	2	2	4	2	2	3
Total gross ODA	216	227	247	256	269	100	100	100	100	100	100
Repayments and debt cancellation	-	-	-	-	-	<div>Contributions to UN Agencies (2005-06Average)</div> 					
Total net ODA	216	227	247	256	269						
For reference:											
Associated financing (b)	-	-	-	-	-						
ODA to and channelled through NGOs											
- In USD million	3	31	30	38	4						
- In percentage of total net ODA	1	13	12	15	2						
- Median DAC percentage of total net ODA	7	8	8	8	9						

a Excluding EBRD.

b. ODA grants and loans in associated financing packages.

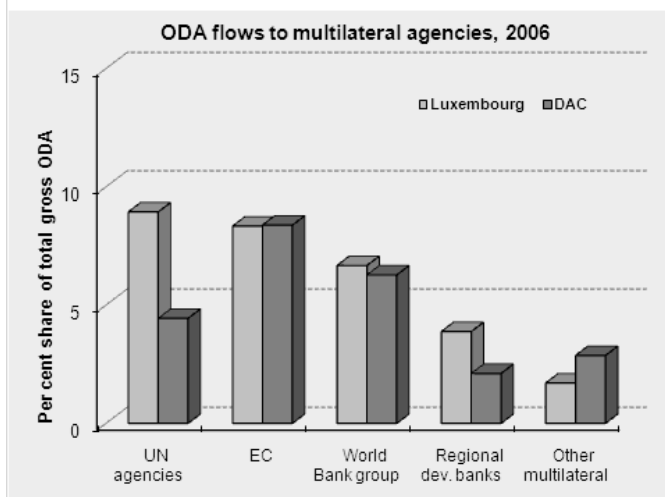
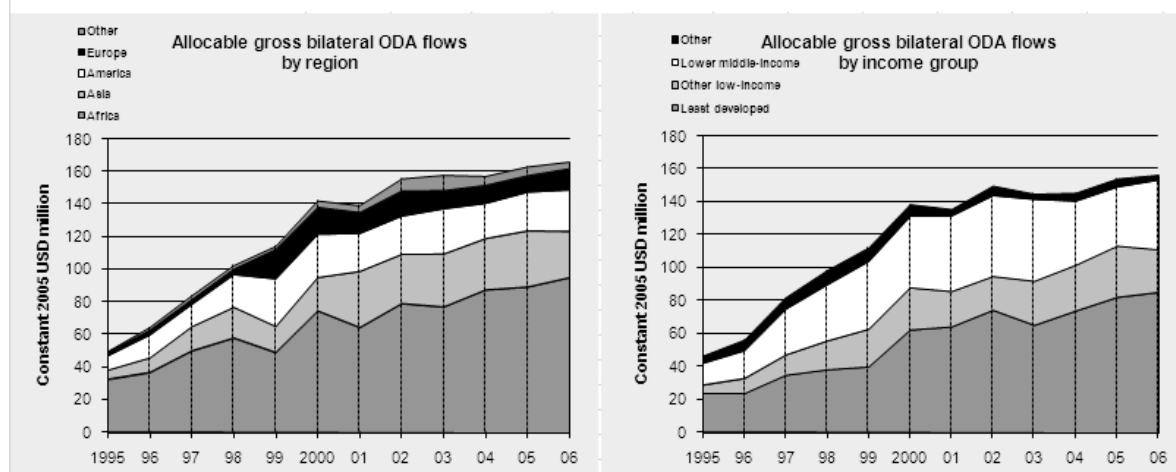


Table B.3. Bilateral ODA allocable by region and income group

Luxembourg	Gross disbursements										
	Constant 2005 USD million					Per cent share					Total DAC 2006%
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006	
Africa	80	78	88	90	96	51	49	56	55	58	46
Sub-Saharan Africa	70	65	82	86	92	45	41	52	53	56	42
North Africa	6	6	4	3	3	4	4	2	2	2	4
Asia	30	33	32	35	28	19	21	20	21	17	25
South and Central Asia	10	8	7	12	8	7	5	4	7	5	11
Far East	18	24	25	23	21	12	15	16	14	13	13
America	24	28	22	24	25	15	18	14	15	15	8
North and Central America	14	15	17	17	19	9	10	11	11	11	4
South America	10	13	5	6	6	6	8	3	4	4	4
Middle East	7	9	5	5	4	5	6	3	3	2	14
Oceania	-	-	-	-	-	-	-	-	-	-	1
Europe	15	11	11	10	13	10	7	7	6	8	5
Total bilateral allocable by region	156	158	157	163	166	100	100	100	100	100	100
Least developed	75	66	74	82	85	50	45	51	53	54	26
Other low-income	21	27	28	31	26	14	18	19	20	17	30
Lower middle-income	49	50	39	36	43	33	34	27	23	27	39
Upper middle-income	6	3	5	5	3	4	2	3	3	2	5
More advanced developing countries	0	-	-	-	-	0	-	-	-	-	-
Total bilateral allocable by income	150	145	146	155	157	100	100	100	100	100	100
<i>For reference:</i>											
<i>Total bilateral</i>	171	175	179	187	189	100	100	100	100	100	100
<i>of which: Unallocated by region</i>	15	17	22	24	23	9	10	12	13	12	15
<i>of which: Unallocated by income</i>	20	30	33	32	32	12	17	19	17	17	21



1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total.

Table B.4. Main recipients of bilateral ODA

Luxembourg	1995-96				Memo: DAC countries' median	2000-01				Memo: DAC countries' median	Gross disbursements, two-year averages 2005-06				Memo: DAC countries' median
	Current USD million	Constant 2005 USD mn.	Per cent share	Current USD million		Constant 2005 USD mn.	Per cent share	Current USD million	Constant 2005 USD mn.		Per cent share				
Cape Verde	5	6	12		Serbia	7	11	8		Cape Verde	15	15	9		
Namibia	3	3	6		Cape Verde	7	11	8		Senegal	12	12	8		
Niger	3	3	6		Nicaragua	7	10	7		Viet Nam	12	11	7		
Senegal	3	3	6		Burkina Faso	6	9	6		Burkina Faso	11	10	7		
Nicaragua	2	3	5		El Salvador	5	8	6		Mali	10	10	6		
Top 5 recipients	16	18	35	35	Top 5 recipients	31	49	36	34	Top 5 recipients	61	58	37	48	
Mauritius	2	2	4		Viet Nam	5	8	6		Nicaragua	9	9	6		
Viet Nam	2	2	3		Mali	4	7	5		Niger	9	9	6		
Rwanda	1	2	3		Laos	4	7	5		El Salvador	9	8	5		
Chile	1	2	3		Namibia	4	6	5		Laos	8	7	5		
India	1	2	3		Niger	3	5	4		Serbia	7	6	4		
Top 10 recipients	24	27	52	53	Top 10 recipients	52	82	59	54	Top 10 recipients	102	98	63	62	
Sts Ex-Yugoslavia unsp	1	2	3		Afghanistan	3	5	4		Namibia	6	6	4		
Tunisia	1	2	3		Senegal	3	5	3		Benin	3	3	2		
Burundi	1	1	3		India	3	4	3		Palestinian Adm. Areas	3	3	2		
Congo, Dem. Rep.	1	1	2		Morocco	2	4	3		Sudan	3	3	2		
Burkina Faso	1	1	2		Palestinian Adm. Areas	2	3	2		Pakistan	3	3	2		
Top 15 recipients	29	34	65	66	Top 15 recipients	65	103	75	68	Top 15 recipients	121	116	74	73	
Mali	1	1	2		Rwanda	2	3	2		India	2	2	1		
Palestinian Adm. Areas	1	1	1		Tunisia	2	3	2		Rwanda	2	2	1		
Brazil	1	1	1		Burundi	2	3	2		Congo, Dem. Rep.	2	2	1		
China	1	1	1		Mauritius	1	2	1		Afghanistan	2	2	1		
Bosnia and Herzegovin	1	1	1		Brazil	1	2	1		South Africa	2	2	1		
Top 20 recipients	33	38	73	74	Top 20 recipients	73	115	83	76	Top 20 recipients	130	125	80	80	
Total (90 recipients)	45	51	100		Total (68 recipients)	87	137	100		Total (93 recipients)	162	156	100		
Unallocated	5	5			Unallocated	15	24			Unallocated	34	32			
Total bilateral gross	50	57			Total bilateral gross	103	162			Total bilateral gross	196	188			

Table B.5. Bilateral ODA by major purposes

at current prices and exchange rates

Luxembourg	<i>Gross disbursements - Two-year averages</i>						
	1995-96		2000		2005-06		2005-06 Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
Social infrastructure & services	23	42	65	72	96	53	33
Education	7	12	22	24	29	16	7
of which: basic education	-	-	8	8	4	2	2
Health	9	16	18	20	32	18	4
of which: basic health	-	-	8	9	18	10	3
Population & reproductive health	-	-	-	-	10	6	4
Water supply & sanitation	1	1	10	11	11	6	4
Government & civil society	1	2	-	-	6	3	9
Other social infrastructure & services	5	9	16	17	8	4	4
Economic infrastructure & services	3	6	-	-	6	3	11
Transport & storage	1	1	-	-	2	1	5
Communications	0	1	-	-	0	0	0
Energy	-	-	-	-	1	0	4
Banking & financial services	1	1	-	-	2	1	1
Business & other services	2	3	-	-	2	1	1
Production sectors	3	6	7	7	9	5	5
Agriculture, forestry & fishing	3	6	4	4	6	3	3
Industry, mining & construction	0	1	-	-	2	1	1
Trade & tourism	-	-	-	-	1	1	1
Other	-	-	-	-	-	-	0
Multisector	2	4	3	3	18	10	6
Commodity and programme aid	1	1	1	2	4	2	3
Action relating to debt	-	-	-	-	-	-	25
Humanitarian aid	9	16	10	11	26	14	8
Administrative costs of donors	2	4	1	1	12	7	4
Core support to NGOs	12	21	2	3	5	3	3
Refugees in donor countries	-	-	-	-	4	2	2
Total bilateral allocable	56	100	90	100	181	100	100
<i>For reference:</i>							
Total bilateral	57	70	93	79	196	72	78
of which: Unallocated	1	1	3	3	15	5	1
Total multilateral	24	30	24	21	78	28	22
Total ODA	81	100	118	100	274	100	100

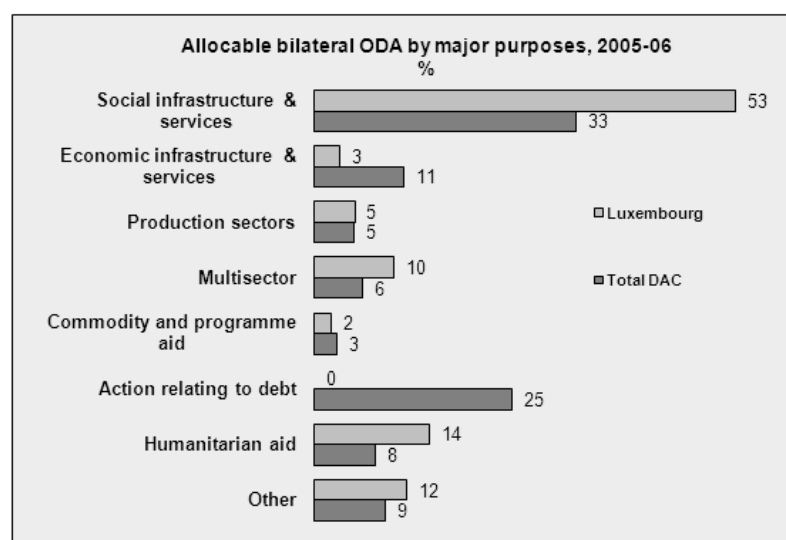


Table B.6. Comparative aid performance

Net disbursements										
Official development assistance				Grant element of ODA (commitments) 2005 % (a)	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies 2005	
2005		99-2000 to 04-05 Ave. annual % change in real terms	2005							
USD million	% of GNI		% of ODA (b)		% of GNI (c)	% of ODA (b)	% of GNI (c)	% of ODA	% of GNI	
Australia	1 680	0.25	1.8	100.0	13.8	0.03			24.9	0.06
Austria	1 573	0.52	12.0	100.0	21.7	7.7	0.11	0.04	15.5	0.08
Belgium	1 963	0.53	9.3	99.7	33.4	14.6	0.18	0.08	31.0	0.16
Canada	3 756	0.34	6.5	100.0	24.6		0.08		27.9	0.09
Denmark	2 109	0.81	-2.9	100.0	35.6	26.4	0.29	0.21	38.6	0.31
Finland	902	0.46	8.6	100.0	33.8	18.3	0.16	0.08	27.2	0.13
France	10 026	0.47	6.8	95.0	27.8	9.7	0.13	0.05	23.9	0.11
Germany	10 082	0.36	5.0	94.8	26.1	4.3	0.09	0.02	18.7	0.07
Greece	384	0.17	3.1	100.0	46.3	5.2	0.08	0.01	20.7	0.04
Ireland	719	0.42	12.8	100.0	32.9	17.4	0.14	0.07	50.7	0.21
Italy	5 091	0.29	10.5	95.5	55.4	30.6	0.16	0.09	27.6	0.08
Japan	13 147	0.28	-1.8	87.3	20.8		0.06		17.7	0.05
Luxembourg	256	0.86	7.4	100.0	27.1	17.4	0.23	0.15	41.2	0.35
Netherlands	5 115	0.82	0.5	100.0	28.0	19.6	0.23	0.16	32.4	0.27
New Zealand	274	0.27	4.4	100.0	18.2		0.05		25.5	0.07
Norway	2 786	0.94	4.3	100.0	27.0		0.25		36.9	0.35
Portugal	377	0.21	12.0	94.9	42.1	8.3	0.09	0.02	55.6	0.12
Spain	3 018	0.27	6.8	94.9	38.3	12.3	0.10	0.03	27.1	0.07
Sweden	3 362	0.94	6.8	100.0	32.9	27.0	0.31	0.25	32.7	0.31
Switzerland	1 767	0.44	5.8	100.0	20.8		0.09		22.9	0.10
United Kingdom	10 767	0.47	12.1	100.0	24.2	12.8	0.11	0.06	25.1	0.12
United States	27 622	0.22	17.1	100.0	8.5		0.02		20.6	0.05
Total DAC	106 777	0.33	7.2	96.9	23.1	14.4	0.08	0.05	24.0	0.08
Memo: Average country effort		0.47								

Notes:

a. Excluding debt reorganisation.

b. Including EC.

c. Excluding EC.

.. Data not available.

Graph B.1. Net ODA from DAC countries in 2006

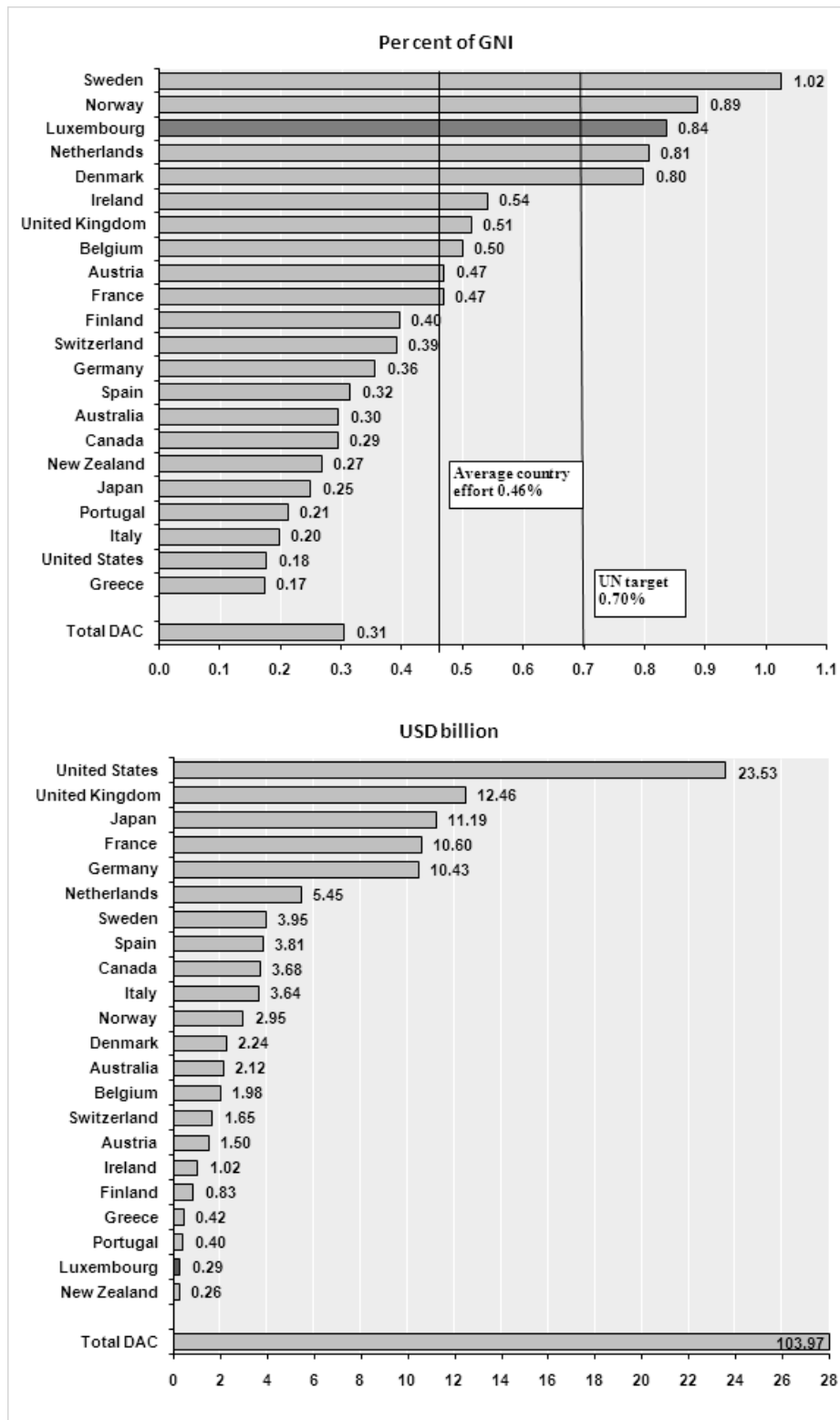


Table B.7. Indicators on aid effectiveness for Luxembourg

Indicators (3-8 alignment, 9-10 harmonisation)		Definitions		2005 Baseline ratio	Average country ratio (a)	Illustrative 2010 targets
3	Aid flows are aligned on national priorities	Aid for government sector in budget (USD m)	26	77%	66%	93
		Aid disbursed for government sector (USD m)	33			
4	Strengthen capacity by co-ordinated support	Coordinated Technical co-operation (USD m)	0	0%	0%	100 (EU target)
		Technical co-operation (USD m)	2			
5a	Use of country public financial management systems	Use of PFM systems (USD m)	0	0%	0%	50 (EU target)
		Aid disbursed for government sector (USD m)	33			
5b	Use of country procurement systems	Use of procurement systems (USD m)	0	0%	0%	50 (EU target)
		Aid disbursed for government sector (USD m)	33			
6	Avoid parallel implementation structures	Number of parallel PIUs	1	1	0.3	3 and no new PIUs (EU target)
		Number of countries	3			
7	Aid is more predictable	Aid recorded as disbursed (USD m)	20	57%	51%	64
		Aid scheduled for disbursement (USD m)	35			
8	Aid is untied	Untied aid (USD m)	91	100%	100%	More than 98
		Total bilateral aid (USD m)	91			
9	Use of common arrangements or procedures	Programme-based approaches (USD m)	14	41%	32%	66
		Total aid disbursed (USD m)	34			
10a	Joint missions	Number of joint missions (number)	2	20%	20%	63 (EU target)
		Total number of missions (number)	10			
10b	Joint country analytic work	Number of joint analyses (number)	2	67%	67%	66
		Total number of country analyses (number)	3			

Note: Information in the table covers data in 3 out of 34 countries and reflects 25% of country programmed aid in 2005.

(a) The average country ratio is the average ratio across all countries where the donor has reported activities.

Annex C

Humanitarian Action

Luxembourg and the Good Humanitarian Donorship Initiative

The Good Humanitarian Donorship (GHD) Principles and Good Practices are widely regarded as benchmark standards for donor behaviour in the domain of humanitarian action. Luxembourg was an original endorsee at the Stockholm Conference in June 2003 and has remained engaged with the GHD initiative during the intervening period. This report represents the first time that Luxembourg has been assessed against the commitments made in Stockholm. The assessment has been conducted in accordance with the approved DAC humanitarian assessment framework.

Notwithstanding the absence of a GHD implementation plan,⁴⁷ Luxembourg has taken several significant steps towards meeting the Stockholm commitments:

- Luxembourg has embraced the broadened definition of humanitarian action advocated by the GHD initiative and authenticated this commitment through specific funding targets for preventive action (at least 5% of the humanitarian aid budget) and early recovery assistance (up to 20%).
- Luxembourg has established multi-year funding agreements with three key multilateral partners and solid working relationships with four humanitarian NGOs.
- Luxembourg played a significant leadership role in the EU response to the Indian Ocean tsunami during its Presidency in the first half of 2005.
- A deployment of civilian helicopter airlift capacity following the Pakistan earthquake has been held up as exemplary civil-military co-operation within the framework of an international humanitarian response.

The following section of the report is structured in line with the four thematic clusters of the GHD document, *i.e.* (a) policy framework; (b) funding; (c) promoting standards and enhancing implementation; and (d) learning and accountability. It concludes with some areas for further consideration by Luxembourg. The report primarily draws on a series of meetings held in Luxembourg in February 2008 between key officials and partners of the humanitarian aid programme and the DAC Humanitarian Aid Adviser.

Policy framework

Luxembourg has not published a policy outlining humanitarian priorities and approaches. Rather, pragmatic action and qualitative aspects of humanitarian aid are cited as the guiding principles for informing humanitarian decision-making. In terms of the latter, Luxembourg has adopted the GHD

⁴⁷ At the 2004 GHD meeting in Ottawa, donors agreed “to develop a domestic framework/action plan or ensure that existing domestic mechanisms account for GHD”.

principles as generic guidance and, in the future, the European Consensus on Humanitarian Action will provide another cornerstone to Luxembourg's humanitarian action.

Luxembourg is currently preparing a humanitarian action strategy, expected to be finalised in mid-2008. This is a positive signal and will provide an opportunity to embed humanitarian action within the broader strategic framework under preparation within the DCD as well as enhance the transparency of Luxembourg's humanitarian action with respect to global commitments, such as GHD Initiative and the European Consensus.

Luxembourg has made some progress in translating the commitment to a broadened humanitarian agenda into practice. For example, the suite of food security activities receiving support in Niger traverses the full spectrum between nutritional surveillance systems through to emergency food aid and longer term agricultural development. The holistic approach adopted in Niger has also been pursued in neighbouring Burkina Faso, though to a lesser degree. In Burkina Faso, humanitarian action has been aimed mainly at remedying new situations of humanitarian vulnerability and preventive measures are confined to backing the system of nutrition surveillance implemented by UNICEF and the WFP. The linkage between development and humanitarian assistance could be strengthened in these priority countries by specifying crisis prevention and preparedness objectives within the principal sectors contained in the PIC. This could perhaps be done under the rubric of assisting partner countries to implement global commitments (like disaster risk reduction in the context of the Hyogo Framework for Action), but also through identifying crisis-related risks to attainment of the MDGs. This would not only serve to draw attention to chronic vulnerabilities among partner governments, but would also provide guidance to field officers on crisis mitigation opportunities within existing portfolios.

Funding

The development co-operation law (1996) does not make specific reference to funding of humanitarian action. Nevertheless, several of the sectors (*e.g.* social action and human rights) are clearly pertinent to the dual goals of humanitarian action (*i.e.* assistance and protection). The legal basis for funding humanitarian action takes the form of a budget line voted annually as part of the law concerning the State's income and expenditure budget.

The 2003 Peer Review (p. 33) noted that "[t]he government decided to limit humanitarian aid to 10% of total ODA, deeming any crisis represents a failure of development and that emergency and humanitarian aid should not be dispensed to the detriment of long-term development". In principle, this limitation remains in place, but, in practice, this target has been consistently exceeded in recent years. For example, most recent data available to the DAC indicate that the average disbursement for humanitarian aid over 2005-06 was 14% of gross ODA – well in excess of the self-imposed limitation and significantly above the DAC average (8%) (Table B.5).

The voted annual budget for humanitarian action has steadily increased in recent years and in 2008 has increased by a further 9.5% to EUR 29 million. However, the regular humanitarian appropriation has been augmented by supplementary budget appropriations in response to the Indian Ocean tsunami as well as allocation of funds from the Development Co-operation Fund (principally for disaster prevention, mitigation and preparedness activities). The supplementary appropriations have served to minimise adverse impacts of these major, sudden onset events on funding commitments

to existing crises. Consequently, actual funding flows for humanitarian action have remained relatively constant at around EUR 31-32 million per annum over the period 2005 to 2007 (Table 2).⁴⁸

Table 2. Luxembourg disbursements for humanitarian action 2005-08

In million EUR

	2005	2006	2007	2008
Voted annual budget for humanitarian action	18.65	23.00	26.50	29.00
Tsunami-related supplementary funding	6.05	1.50	0	0
Funds from development assistance envelopes	7.05	6.70	5.20	..
Cumulative total	31.70	31.20	31.70	..

Source: Ministry of Foreign Affairs, Luxembourg

Luxembourg ranks high against key qualitative indicators of global humanitarian financing, *i.e.* funding flows are generally considered by partners to be predictable, flexible, timely and proportionate to need. Official humanitarian aid is not subject to the same geographic limitations as development assistance. Support to neglected crises, wherever they occur, is a prominent feature of humanitarian aid disbursement.⁴⁹ Much of this assistance is delivered through multi-year Memoranda of Understanding (MoUs) with ICRC, UNHCR and WFP, as well as annual partnership agreements with four prominent NGOs.

Luxembourg's humanitarian funding commitments are predominantly multilateral. In 2006, 82% of the humanitarian budget was allocated to the programmes of United Nations agencies and the ICRC. On a *per capita* basis, Luxembourg was the lead donor to UNHCR and the WFP in 2006 and ranks in the leading cohort of donors to ICRC – with the result that it belongs to the ICRC's Donor Support Group. Multilateral funding within the framework of MoUs is subject to negotiation with partners to ensure consistency with both Luxembourg's global commitments and implementing agency priorities. Furthermore, the UN Office for Coordination of Humanitarian Affairs (OCHA) and, increasingly, the UN Peacebuilding Commission are regarded as key partners and recipients of humanitarian funding. Overall earmarking is minimal and Luxembourg has made significant contributions to the Central Emergency Response Fund (CERF) since its inception that provides coverage for funding shortfalls within UN Consolidated Inter-Agency and Emergency Flash Appeals. Consequently, although modest in absolute terms, Luxembourg's humanitarian expenditure is held in particularly high regard by implementing partners.

A further 16.5% of the 2006 humanitarian budget⁵⁰ was channelled to the programmes of (predominantly) four Luxembourg NGOs (Caritas, MSF Luxembourg, Handicap International and Luxembourg Red Cross) in 2006. Like multilateral partners, these NGOs also benefit from substantive bilateral dialogue with DCD early in the calendar year which provides the surety of a funding

⁴⁸ Discrepancies between these figures and those recorded by the DAC may be attributed to (a) non reporting of tsunami related supplementary funding and (b) difficulties with allocating development related activities (*e.g.* disaster prevention, preparedness and recovery activities) to humanitarian sector codes. In the future, it is anticipated that the new DAC sector coding for humanitarian action, which distinguishes, on one hand, between emergency response and, on the other hand, activities that overlap with development assistance will permit more precise reporting of humanitarian expenditure.

⁴⁹ In 2007, for example, Luxembourg made a total of 143 contributions across 55 crisis situations.

⁵⁰ Remainder of humanitarian budget (1.5% in 2006) was allocated for direct bilateral action.

envelope within agreed parameters. For emergency response activities, full funding (100%) is available for a period of up to twelve months following the onset of a crisis. For protracted relief, prevention and rehabilitation activities, a funding ceiling of 85% is available for up to three years following the crisis. Although NGOs not registered in Luxembourg and civil society groups in developing countries are eligible to receive direct humanitarian funding, this occurs on an exceptional basis.

Promoting standards and enhancing implementation

As with the rest of Luxembourg's development co-operation, responsibility for the official humanitarian aid programme falls within the portfolio of the Minister for Co-operation and Humanitarian Action and is managed on a day-to-day basis by a small team within DCD. Unlike the rest of the development co-operation programme, Lux-Development plays a minor role in the delivery of Luxembourg's humanitarian action which is primarily implemented through strategic partnerships with external agencies. The humanitarian team (currently two persons) has been able to successfully sustain critical working relationships with key partners while maintaining a visible presence in international humanitarian forums. However, compressing responsibilities into such a small group entails significant risk to institutional memory as well as limiting capacity for in-depth engagement across the full breadth of the global humanitarian agenda.

There is also a high level of political support for humanitarian action beyond the Ministry. During the term of the EU Presidency in 2005, Luxembourg played a key role in formulating the EU humanitarian response to the Indian Ocean tsunami. Luxembourg was also instrumental (with Sweden and UK) in helping the UN Emergency Relief Coordinator to reform the Central Emergency Response Fund (CERF). Luxembourg also played an active role in ensuring the recent passage of the *European Consensus on Humanitarian Aid* through the Commission – a role that now imparts a further responsibility to promote good humanitarian donorship among new member states. In the public domain, a robust dialogue occurs with key humanitarian NGOs on key policy decisions, such as the UN humanitarian reform.

The MoUs with ICRC, UNHCR and WFP involve bilateral consultations, which provide nodes for inter-agency policy engagement as well as predictable funding commitments. Luxembourg also participates in the ICRC Donor Support Group and recently joined the UNHCR Executive Committee. Furthermore, as noted earlier, Luxembourg has provided substantial political support to OCHA and participates in the Donor Support Group. In view of the importance placed on this partnership by Luxembourg's development co-operation, consideration could be given to establishing a formal multi-year agreement with OCHA, along the lines of the other MoUs, in order to give further credence to Luxembourg's GHD commitment to “*support and promote the central and unique role of the United Nations in providing leadership and co-ordination of international humanitarian action*”.⁵¹

Within the framework of an international response, direct bilateral action can be initiated by the Development Co-operation Directorate with partners, such as Luxembourg Air Rescue, the Luxembourg Red Cross and the Rescue Services Agency. Deployments generally occur only in exceptional circumstances and in strict accordance with humanitarian principles. For example, following the earthquake in Pakistan in 2005, a civilian helicopter from Luxembourg Air Rescue was chartered to operate alongside NATO military aircraft. This deployment provided the relief operation with a versatile airlift capacity, filling a specific niche that was absent within the NATO forces. The

⁵¹ Principles and Good Practice of Humanitarian Donorship, Article No.10, <http://www.reliefweb.int/ghd/a%2023%20Principles%20EN%20GHD19.10.04%20RED.doc>

success of the three month mission was marked by the ability to carry out designated functions in partnership with NATO, but without compromising core GHD principles, including safeguarding the primacy of civilian authority over humanitarian relief operations.

Learning and accountability

Under the terms of the MoUs, Luxembourg accepts generic reporting from multilateral partners and, more recently, has moved to establish standardized proposal and reporting formats with NGOs. Furthermore, strong communication and information flows with implementing partners ensure that Luxembourg is able to monitor developments in real time and provide prompt advice on programming adjustments.

Nevertheless, evaluation and learning is an acknowledged weakness in Luxembourg's humanitarian action. Representation, for example, on Executive Boards and Donor Support Groups (DSGs) provides some scope to raise structural concerns, but there is little capacity for exhaustive follow-up. Participation in DSG field visits (OCHA and ICRC), independent evaluations (particularly of NGO programmes), contributing to joint evaluations and *ad hoc* monitoring exercises provide some level of accountability, but overall there is a critical requirement to deepen and systematise learning processes within the official humanitarian aid programme.

At an activity level, more systematic performance monitoring would provide a platform for ongoing enhancement of the programme as well as establishing benchmarks for if/when new humanitarian actors emerge within the Luxembourg community. Participation in joint donor evaluation exercises would be a resource-effective option for capturing vital experiences and lessons.

Areas for further consideration

- Build on the credibility accrued through Luxembourg's reputation for flexible and pragmatic approaches in order to provide leadership on good practices, *e.g.* through participation in joint evaluations, and more intense engagement in donor forums.
- Further strengthen the linkage between development and humanitarian assistance at a programme level by, *inter alia*, defining humanitarian objectives (like disaster risk reduction, for example) within the PICs.
- Improve the performance measurement framework, including identification of verifiable indicators to monitor progress against the strategic goals of the forthcoming humanitarian strategy.
- A modest increase in human resources appears warranted to implement these recommendations, but the essential qualities of Luxembourg's current humanitarian action (flexibility, responsiveness etc.) should be preserved.

Annex D

Luxembourg's Aid Programme for Burkina Faso

As part of the aid review of the Grand Duchy of Luxembourg, a review team made up of examiners from Finland, Spain, and the OECD Secretariat visited Burkina Faso between 28 January and 2 February 2008. The group met with Luxembourg development co-operation officials posted in Burkina Faso, along with technical assistants, representatives of central and decentralised Burkina Faso government agencies, officials from bilateral and multilateral organisations, foreign NGOs and local associations. Interviews were conducted in Ouagadougou and during a trip to Bobo-Dioulasso to observe a number of projects in the Hauts-Bassins region.

Overview of Burkina Faso

Burkina Faso is a landlocked Sahelian country of 274 200 sq. km, bordered by six other nations: Mali, Niger, Benin, Togo, Ghana and Côte-d'Ivoire. The estimated population of 14.3 million is growing at a rate of some 3%. With a fertility rate that at 6.4 children per woman is still one of the world's highest, the population can be expected to double by 2050. The country's economy is based on subsistence agriculture, which occupies 90% of the population and accounts for 35% of GDP. Cotton is the primary cash crop and accounts for over 70% of the value of exports, but a scant 6% of GDP and world-market prices for this 'white gold' are continuing on a downward trend.

All social and economic indicators put Burkina Faso in the category of the planet's poorest countries. Per capita GNP in 2005 has been estimated at USD 1 213 (the average for the least developed countries being USD 1 499).⁵² It ranked 176th out of 177 on the United Nations' 2007/08 human development index (UNDP, 2007). The economic and political crisis in Côte-d'Ivoire has put a heavy strain on the Burkinabe economy.

Poverty in Burkina Faso and the country's development strategy

Since the early 1990s, poverty has only been getting worse. It is still an essentially rural phenomenon, with poverty in some regions running between 50 and 60%, but there is also trend towards the pauperisation of urban populations. The GDP growth rate rose from 4.1 in 2004 to 6.1% in 2006. These results, which might appear encouraging, stem essentially from outside factors, and official assistance in particular, since there has been no notable progress towards achievement of the Millennium Development Goals (see below).

In 2000, Burkina Faso became one of the first developing countries to prepare a comprehensive debt-reduction strategy along with a poverty reduction strategy paper (PRSP). Since 1991, the country has been engaged in an earnest economic reform programme whose main objective is to lay the foundations for sustainable economic and social development. While social indicators show a favourable trend, the government has not succeeded in reducing poverty – quite the opposite. A second PRSP (2004-06) was crafted around a programme having four overriding aims: (i) to accelerate

⁵² Note that Luxembourg ranks first, with USD 71 400 in 2006 (*World Factbook*, 2007).

growth and base it on fairness; (ii) to ensure that poor people have access to basic social services; (iii) to expand opportunities for jobs and activities that generate income for the poor; and (iv) to promote good governance. Under the PRSP (2006-08), a National Action Plan for Development Aid Effectiveness (PANEA, 2007-10) ties in directly with the monitoring of the Paris Declaration indicators and stresses the process of ownership by all parties concerned.

In its National Action Plan, Burkina Faso reiterates the baseline indicators and its target goals:

Paris Declaration indicators	Objectives for Burkina Faso	Burkina baseline situation 2005	Paris Declaration targets 2010
Indicator 1: Partners have operational development strategies	For Burkina Faso to have an operational development strategy	Level C	Level B or A
Indicator 2: Reliable country systems	Reliable country public financial management system	4 (according to the WB's CPIA)	4.5
Indicator 3: Aid flows are aligned on national priorities	Align all aid flows on the PRSP	68%	85%
Indicator 4: Strengthen capacity by co-ordinated support	Plan and co-ordinate capacity strengthening	3%	50%
Indicator 5a): Use of country public financial management systems	Get all donors to use country public financial management systems	45%	63%
Indicator 5b): Use of country procurement systems	Get all donors to use country procurement systems	60%	90%
Indicator 6: Strengthen capacity while avoiding parallel implementation structures	Cut the number of parallel structures by two-thirds	131	44
Indicator 7: Aid is more predictable	Increase the predictability of aid flows from all donors	92%	96%
Indicator 8: Aid is untied	Achieve 100% untied aid	93%	Over 93%
Indicator 9: Use of common arrangements or procedures	Get all donors to use common arrangements or procedures	45%	66%
Indicator 10 a): Opt for joint missions	Encourage all donors to opt for joint missions	17%	40%
Indicator 10 b): Encourage shared analysis	Prompt donors to conduct shared analysis	45%	60%

Indicator 11: Results-oriented frameworks	Institute transparent frameworks for evaluation and performance monitoring	C	B or A
Indicator 12: Mutual accountability	Conduct mutual evaluations	-	-

Source: 2006 Survey on Monitoring the Paris Declaration (OECD, 2006).

The above table shows that to achieve the target goals is a joint challenge for partner countries and donors alike. Burkina Faso has made substantial strides towards development and has made significant progress in fighting poverty. Nevertheless, it will be difficult to achieve the MDGs by 2015.

Official development assistance received by Burkina Faso

Burkina Faso is still highly dependent on official development assistance, which in 2006 accounted for some 14% of gross national income (versus 6% for sub-Saharan African countries as a group), or USD 64 per capita (the average for the same region being USD 52). Aggregate aid increased by roughly 50% (at constant prices) between 2003 and 2006.

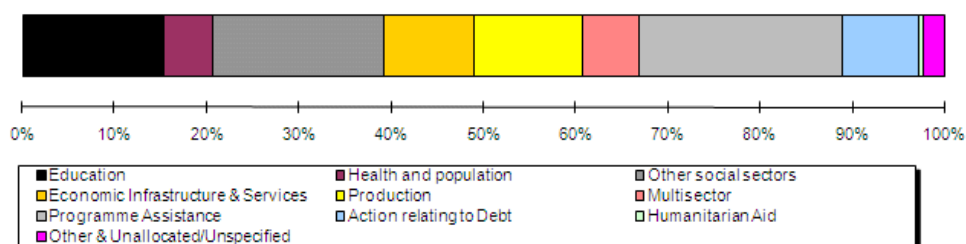
Burkina Faso

Receipts	2004	2005	2006
Net ODA (USD million)	624	681	871
Bilateral share (gross ODA)	51%	49%	21%
Net ODA / GNI	12.2%	12.0%	14.0%
Net Private flows (USD million)	36	28	99

For reference	2004	2005	2006
Population (million)	12.8	13.2	13.6
GNI per capita (Atlas USD)	350	430	460

Top Ten Donors of gross ODA (2005-06 average) (USD m)	
1 IDA	563
2 AfDF	199
3 France	120
4 EC	120
5 Netherlands	54
6 Denmark	42
7 Arab Agencies	40
8 Germany	30
9 United States	21
10 Switzerland	21

Bilateral ODA by Sector (2005-06)



Sources: OECD, World Bank.

Luxembourg's aid to Burkina Faso: an enhanced strategy and presence

Co-operation ties between the two countries, initiated in 1996, have been growing continuously and substantially, especially since 1998, when the Luxembourg Government decided to include

Burkina Faso among its priority partner countries. Luxembourg's only presence in the country had been through the action of Luxembourg NGOs. A Luxembourg Co-operation Mission in West Africa was opened in 2001 in Dakar.

In January 2003, Burkina Faso and Luxembourg signed the first Indicative Co-operation Programme (PIC) agreement, providing for EUR 21.6 million over five years (2003-07), covering three priority sectors: education/technical and vocational training, health care, and craft industries. Exceptionally, both parties also planned to take action in managing natural resources. It will be noted that this sector has been designated as a priority under the new PIC beginning in 2008.

Bilateral co-operation projects in Burkina Faso:

	Name of project	Project duration	Total budget (EUR)
BKF/002	Creation of the National Blood Transfusion Centre (CNTS)	2001-2006	4 350 000
BKF/004	Participatory development of the Dindéresso and Kou reserve forests	2002-2006	2 600 000
BKF/007	Artisanat II – Consolidation of the Ouagadougou craft village	2002-2007	975 000
BKF/009	Support for reduction of poverty among disadvantaged or marginalised youth in the Hauts-Bassins region	2003-2008	2 054 000
BKF/002	Literacy and sustainable development training in the Hauts-Bassins region – Phase II	2004-2008	4 000 000
BKF/010	Support for basic vocational training	2007-2012	5 000 000
BKF/011	Support for participatory management of natural resources in the Hauts-Bassins region – PAGREN/HBS	2006-2011	5 927 000
BKF/012	Support for the National Blood Transfusion Centre – Phase II	2007-2009	1 966 100
BKF/013	Literacy and sustainable development training in the Hauts-Bassins region – Phase III	under preparation	3 000 000

Source: Lux-Development.

The Lux-Development operational aid agency opened an office in Ouagadougou in 2003, and the Ministry of Foreign Affairs also established premises in Burkina Faso's capital in late 2006. The presence of both offices in the same city is making a big contribution to synergy and visibility.

The diplomatic representation of the Grand Duchy of Luxembourg has remained modest. Two of the Bureau's regular officials are working full-time on development co-operation issues, and because of the very great institutional and functional proximity, two Lux-Development officials can be counted in as well. The Ambassador, posted in Luxembourg, presented his letter of credentials in early 2008. Staff are deemed to be open, accessible, dynamic, and competent.

The review team notes that the presence of Lux-Development had already paved the way for regular and constructive dialogue with the local authorities and other stakeholders, and it considers that the opening of the Ministry of Foreign Affairs office has strengthened relations and initiated a policy dialogue at the country level. Luxembourg is now better informed about local realities and in a position to respond to them more effectively.

Table 3. Grand Duchy of Luxembourg co-operation activities in Burkina Faso

In EUR

	2004	2005	2006
Bilateral projects ¹	3 409 232	4 447 349	4 717 059
Technical assistance	167 128	321 629	180 717
NGOs	2 278 916	3 842 679	3 056 601
Humanitarian aid	100 000	245 752	320 000
Total	5 955 276	8 857 409	8 274 377

¹ Multi-bi projects increased from EUR 125 000 in 2005 to EUR 1 887 356 in 2006.

Source: MAE 2007a and MAE 2006.

Pursuant to the co-operation agreement between the two countries, a partnership committee meets annually, alternating between the two capital cities. The committee's fourth session was held on 12 November 2007. At that time, the two countries signed a new five-year agreement (PIC II) with a tripling of resources (to EUR 62.9 million) over another five-year period (2008-12). Along with increased funding for bilateral co-operation, Luxembourg has also bolstered its spending in connection with other instruments, and in the same proportions, making a very significant effort for multi-bi projects. Contributions to Luxembourg NGOs have remained at a particularly high level (averaging three-quarters of bilateral aid) (Table 3).

Co-operation aligned on the partner's priorities and co-ordinated with other donors

A concern for development policy coherence underlies the PIC, whose sectoral concentration reflects national priorities. Coherence also guides dealings with technical and financial partners. In preparing the second PIC, Luxembourg planned its initiatives to fit into a grid of medium-term sectoral actions prepared by the European Delegation. This pragmatic, concerted and coherent approach attracted special attention during the peer review mission.

European Union partners in Burkina Faso gave a favourable assessment of the locations and orientations of Luxembourg's co-operation efforts, which are deemed to be relevant, flexible and reactive. Resources are not spread too thin, and they are focused on carefully selected sectoral niches. Despite its small size and limited (but sharply rising) resources, Luxembourg is a player that is respected by its partner and by the donor community.

The satisfaction expressed by Luxembourg's European partners needs to be qualified in two respects. First, it emerges that the two sectors chosen by Luxembourg co-operation correspond to its previous choices and to general priorities already adopted. Second, the final evaluations of

Lux-Development projects emphasise that relationships with other players in the field have not been cultivated sufficiently.

The challenges of alignment on national procedures and harmonisation

The review team noted that Luxembourg, in spite of its proclaimed desire to enter into a programme approach, is still involved in individual project activities carried out by project management units in which Lux-Development is represented. In many cases, it is Lux-Development procedures which apply. To follow through on this, Luxembourg ought to commit itself effectively to a number of the existing options for applying the Paris Declaration: adapting to national procedures for managing operations, co-financing projects, contributing to common baskets and progressing towards budgetary aid.

The new PIC calls for an appropriation of EUR 100 000 in support of local projects put forward by Burkinabe and Nigerien associations. At this stage, there have been no consultations with other diplomatic representations having these types of instruments. Such would be highly desirable.

On the whole, information would seem to circulate “in real time” between central units and the field, but the centre should ensure that all documents of potentially useful multilateral agencies – and DAC documents of considerable relevance to activities in Burkina Faso – are distributed systematically.

Focus on effective project aid should give way to programme aid

The review team acknowledges that Luxembourg is learning the lessons of past actions and improving project implementation. As desired by the authorities, a repositioning of technical assistance – in the natural-resources project in particular – is strengthening local capacities and fostering ownership. Luxembourg is promoting ownership by the local and national authorities with a pragmatic approach and helping to design sectoral policies (such as management of natural resources). The second PIC with Burkina Faso alludes repeatedly to capacity-building – strategically (decentralisation), with regard to financing methods (budgetary aid) and, above all, operationally (in projects).

Luxembourg and Burkina Faso have stated that they are fully committed to implementing the Paris Declaration action plan. Strategically, and in terms of sectoral orientations, Luxembourg co-operation has aligned itself on the priorities and strategies of Burkina Faso development. Alignment is far from complete in terms of implementation in the field. This is attributable to Burkina Faso’s delay in crafting sectoral strategic frameworks, but in equal measure to hesitation, reticence and a certain indecisiveness on the part of the Luxembourg authorities.

Without ruling out the possibility of intervening in Burkina Faso via budgetary aid (a method that is in fact provided for in the PIC II, which is getting underway, “both parties pledge to study...”), Luxembourg was rated poorly in the Survey on Monitoring the Paris Declaration in respect of the use of new methods (national systems, common procedures).

Monitoring action in Niger

Luxembourg has gradually established missions and Lux-Development regional offices in the target countries (six out of ten countries). These offices often cover two countries. In West Africa, a mission was opened in Dakar, Senegal in 2001. By 2003, Lux-Development had set up shop in

Ouagadougou, Burkina-Faso – initially having authority over operations in Mali and Niger as well. Since then, the Dakar office has taken over the monitoring of activities in Mali.

The Mission staff were unable to assess the activities carried out by the Ouagadougou offices with respect to the monitoring of Luxembourg's actions in Niger. In Niamey, Luxembourg has a very limited logistical base (an office, a vehicle and one local employee). Regular missions (averaging one per month) are carried out by the Development Co-operation Bureau or the regional office of Lux-Development. The persons interviewed in Ouagadougou estimated that half of their time was spent on monitoring projects in Niger.

At the end of its visit to Burkina Faso, the review team deemed that the opening of a co-operation office in Ouagadougou constituted a distinct improvement for Luxembourg as compared with its previous Dakar-based initiatives. The mission also felt that this should prompt consideration of a heightened presence in the other priority countries in which Luxembourg does not have a permanent presence, and that this should be shaped in a suitable and innovative fashion.

Future challenges

At the end of its visit, the review team presented its overall impressions to Luxembourg's Co-operation Office and Lux-Development. The main challenge, of which Luxembourg officials are well aware, remains implementation of the Paris Declaration, more particularly with regard to alignment on national procedures and harmonisation.

The cross-cutting themes (gender issues, the environment, local governance, capacity building) are present in practice. That said, the question is whether these themes are factored in comprehensively, in a long-lasting and coherent manner. The internal appraisal carried out by Lux-Development cannot replace the external appraisals which must be able to proceed with real independence, with national participation, and ensure transparency. Micro-finance, proclaimed as a new area of priority, is not present in Burkina Faso (the review team having been informed that a regional project was being prepared). Luxembourg must make this strategy operational in the field.

Box 17. The main characteristics of Luxembourg's aid in Burkina Faso

1. Effective and valued targeting on relevant sectoral niches, reflecting well on a small-sized donor (1.3% of ODA in Burkina Faso in 2005, but rising very significantly and expected to triple).
2. Successful alignment to the country's orientations and priorities, contributing to dialogue amongst donors, while retaining considerable operational autonomy. The very sharp growth in multi-bi projects from 2006 demonstrates a change in this predisposition to independence.
3. A highly esteemed presence in the field with the opening of an MAE office and a Lux-Development regional office fostering dialogue and making initiatives more effective.
4. Luxembourg perfectly matches the Paris Declaration monitoring Indicators for aligned, predictable and untied aid. But it needs to meet challenges in order to fulfil other indicators, such as use of national systems, common systems and shared procedures.
5. Results and evaluation-based management fall short of expectations.

Description of Key Terms

*The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information.*⁵³

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with other official or private funds to form finance packages.

AVERAGE COUNTRY EFFORT: The unweighted average ODA/GNI ratio of DAC members, *i.e.* the average of the ratios themselves, not the ratio of total ODA to total GNI (cf. ODA/GNI ratio).

DAC (DEVELOPMENT ASSISTANCE COMMITTEE): The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its members are given at the front of this volume.

DAC LIST OF ODA RECIPIENTS: The DAC uses a List of ODA Recipients which it revises every three years. From 1 January 2005, the List is presented in the following categories (the word "countries" includes territories):

LDCs: Least Developed Countries. Group established by the United Nations. To be classified as an LDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LDC group.

Other LICs: Other Low-Income Countries. Includes all non-LDC countries with per capita GNI USD 825 or less in 2004 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 826 and USD 3 255 in 2004. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 3 256 and USD 10 065 in 2004.

DEBT REORGANISATION (ALSO RESTRUCTURING): Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, or rescheduling or refinancing.

DIRECT INVESTMENT: Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of ODA Recipients. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

DISBURSEMENT: The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. Disbursements may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (the gross amount less any repayments of loan principal or recoveries of grants received during the same period).

53. For a full description of these terms, see the *Development Co-operation Report 2007*, Volume 9, No. 1.

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

GRANTS: Transfers made in cash, goods or services for which no repayment is required.

GRANT ELEMENT: Reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to the first repayment of capital). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* as an indication of the opportunity cost to the donor of making the funds available. Thus, the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest.

LOANS: Transfers for which repayment is required. Data on net loan flows include deductions for repayments of principal (but not payment of interest) on earlier loans.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on the DAC List of ODA Recipients and multilateral agencies active that are undertaken by the official sector; with the promotion of economic development and welfare as the main objective; at concessional financial terms (if a loan, having a grant element of at least 25%).

ODA/GNI RATIO: To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, *i.e.* the weighted ODA/GNI ratio of DAC members (*cf.* Average country effort).

OTHER OFFICIAL FLOWS (OOF): Developmentally relevant transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as official development assistance.

TECHNICAL CO-OPERATION: Includes both a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and b) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

TIED AID: Official grants or loans where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all aid recipient countries.

VOLUME (real terms): The flow data are expressed in United States dollars (USD). To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. This means that adjustment has been made to cover both inflation in the donor's currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period.

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Lux-Development: www.lux-development.lu/

LUXFLAG: www.luxflag.org/

MAE (Ministry of Foreign Affairs and Immigration): Luxembourg co-operation: <http://www.mae.lu/cooperation>

Economic and social portrait of Luxembourg (by STATEC): <http://www.portrait.public.lu/en/index.html>



The Development Assistance Committee welcomes your comments and suggestions.

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