

DAC Peer Review of

LUXEMBOURG

Development Assistance Committee



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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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.

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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 efforts of each member are critically examined approximately once every four years. Five or six programmes are examined annually. The OECD's Development Co-operation Directorate (DCD) 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. A recent innovation is to organise "joint assessments", in which the activities of several members are reviewed in a single field mission.

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 posed by DAC members led by the examiners. These questions are formulated by the Secretariat in association with the examiners. The main discussion points and operational policy recommendations emerging from the review meeting are set out in the Main Findings and Recommendations section of the publication.

ACRONYMS

ADA	Appui au Développement Autonome (“Support for Autonomous Development”)
BAT	Bureau d’assistance technique (“Technical Assistance Bureau”)
CAP	Common Agricultural Policy
CGAP	Consultative Group to Assist the Poorest
EU	European Union
GNI	Gross national income
HIPCs	Heavily indebted poor countries
IMF	International Monetary Fund
LDCs	Least developed countries
NGO	Non-governmental organisation
ODA	Official development assistance
SAEDEV	Service d’appui à l’éducation au développement (“Service for Support to Development Education”)
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commission for Refugees
UNDCP	United Nations International Drug Control Programme
WHO	World Health Organization
WTO	World Trade Organization
WFP	World Food Programme

Signs used:

EUR	Euro
USD	United States dollar
()	Secretariat estimates 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.

Exchange rate of the Luxembourg franc against the dollar (LUF per USD):

1996	1997	1998	1999	2000	2001
30.98	35.76	36.30	37.86	43.77	45.04

Exchange rate of the euro against the dollar (EUR per USD):

2001	2002
1.12	1.06

Luxembourg's aid at a glance

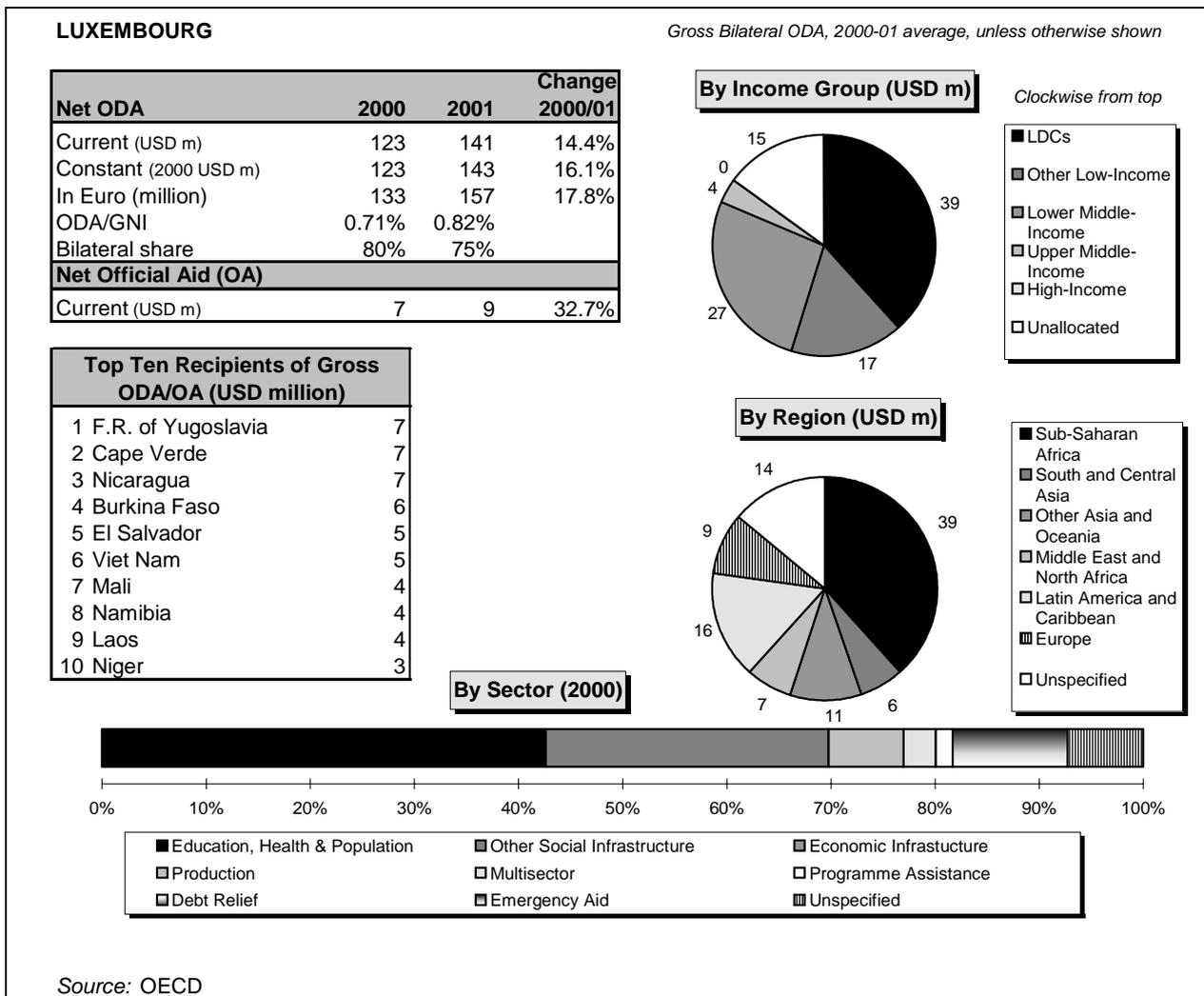


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DAC'S MAIN FINDINGS AND RECOMMENDATIONS

Luxembourg's development co-operation increased significantly throughout the 1990s and continues to do so today. In 2000, Luxembourg joined the group of countries which devote at least 0.7% of their Gross National Income (GNI) to official development assistance (ODA). Since the last DAC review in 1998, Luxembourg's ODA has grown from USD 99 million to USD 143 million in 2001, corresponding to an ODA/GNI increase from 0.65% to 0.82%. This remarkable growth in Luxembourg's ODA – amounting to an annual average increase of volume in real terms of 18% between 1995-96 and 2000-01 – has been possible thanks to sustained economic growth¹ together with solid political and public support for development co-operation. Luxembourg's ODA is made up exclusively of budget resources allocated for development co-operation in accordance with clearly defined development objectives. Since 1989, successive governments have drawn up detailed and binding schedules for the systematic increase of ODA. Given the current government's objective of 1% which it hopes to reach by 2005, the growth in the volume of Luxembourg's ODA looks set to continue.

Overall framework and new orientations

Recent developments

Luxembourg has made substantial progress in the field of development co-operation since the last DAC review. Efforts have been made to ensure that budget growth has gone hand in hand with a better quality of aid. Important achievements include: i) the adoption of a strategic framework for bilateral planning with the preparation of indicative multi-annual co-operation programmes for target countries those countries to which Luxembourg has given priority as regards co-operation; ii) the deployment of Luxembourg officials in the field; iii) improved collaboration with non-governmental organisations (NGOs); and iv) the introduction of a monitoring and evaluation system. In 1999, political responsibility for development co-operation was given to a fully-fledged Minister for co-operation and humanitarian action.

Measures to reduce poverty

Luxembourg has made sustainable development and the fight against poverty the main objectives of its development co-operation policy. Luxembourg's commitment to reducing poverty can be seen first of all by its desire to work with the poorest developing countries. "Target countries" have been selected by reason of their low level of human development; more than half of these belong to the category of least-developed countries. Another demonstration of Luxembourg's policy to reduce poverty is the very clear priority given to social infrastructure and services (82% of total ODA in 2001), in particular, education and basic health as well as water supply and sanitation. Luxembourg should be congratulated for its work in this domain given the obvious links between measures to support basic social sectors and achievement of many of the "Millennium Development Goals".

1. Between 1995 and 2000, gross domestic product grew by an annual average of 5.8%.

Geographic selectivity

Geographic concentration is a key element of Luxembourg's policy, and important progress has been achieved in this respect. The number of target countries has been reduced to 10 and are amongst the 12 major recipients of Luxembourg's bilateral ODA. However, the discipline required to achieve geographic concentration is a permanent challenge for Luxembourg: the share of total bilateral ODA given to target countries (43% in 2001) is falling; the existence of a list of "project countries", including some 20 countries and accounting for nearly 25% of bilateral ODA, makes for a certain amount of dispersion. In order to strengthen its presence and its critical mass in a limited number of countries, Luxembourg should endeavour to focus additional resources on its 10 target countries.

As part of its co-operation with Namibia, which is a middle-income country, Luxembourg has adopted an interesting phasing-out approach. Namibia continues to face major inequalities in resource distribution, and Luxembourg has decided not to withdraw too quickly from this country in order to help it consolidate the progress achieved. Luxembourg is concentrating its assistance on the country's least favoured regions, and requires a contribution from the Namibian Government which may be as much as 50% of total project cost.

Multilateral co-operation

Multilateral aid accounts for one quarter of Luxembourg's total ODA. Multilateral co-operation has intensified in recent years and accounts for a growing share of bilateral ODA paid in the form of "multi-bilateral" contributions in target countries (14% of total ODA in 2001). These mostly take the form of the co-funding of projects of United Nations organisations, an approach which may have been an effective way of using part of the sharply increasing aid budget. Luxembourg seems to have used this approach judiciously, looking for complementarity with its own activities. In a number of concrete cases, particularly well-targeted multi-bilateral activities have helped ensure the viability of bilateral activities, notably in the field of health.

Educating public opinion

The Luxembourg Government has just launched for the first time a vast campaign to make the public more aware of the challenges of development. The objective is to better inform the public about the policy conducted by the Government, and to encourage its support for development co-operation. The Government, which plans to continue this type of campaign, could include opinion polls, which for the moment are only carried out on an occasional basis.

Recommendations

- i) Luxembourg is encouraged to maintain, if not reinforce, its policy of geographic concentration by allocating additional resources to target countries in order to maximise their impact.
- ii) Luxembourg is invited to continue and to share with other donors its strategic approach regarding phasing-out in target countries.
- iii) Given the intensification of multi-bilateral activities, Luxembourg could indicate more clearly its priorities and criteria for allocating resources to different recipient organisations.
- iv) Luxembourg is encouraged to continue its public information campaign, which implies a better understanding of the level of public support, and therefore the organisation of more regular public opinion polls.

Policy coherence for development

The Luxembourg authorities recognise that the impact of development aid depends largely on the degree of coherence of trade, agricultural, environmental and financial policies. Luxembourg is committed to promote the interests of developing countries in the multilateral trade negotiations in Doha. In this context, Luxembourg has supported a review of the rules of the World Trade Organization (WTO) so as to allow developing countries access to medicines at affordable prices. Luxembourg supported European Union (EU) endeavours to open up its markets to developing countries' exports. A working group has been created to analyse the effects of trade distortions which result from the Common Agricultural Policy on the agriculture, livelihoods and food security of developing countries. The flight of capital from developing countries and its laundering constitute policy coherence problems of which Luxembourg is mindful. Its efforts to combat the risk of abuse of its financial sector are welcome and Luxembourg's authorities are encouraged to continue the fight against money laundering.

The quest for more coherent development policies could, however, benefit from a more systematic approach aimed at identifying, analysing and following up policy-changes and their implications for developing countries. The Ministry of Foreign Affairs could consider enhancing its analytical capability to be in a better position to conduct and influence discussions with the ministries responsible for sectors other than aid. The Inter-Ministerial Development Co-operation Committee could play a useful role, notably when Luxembourg is establishing its position on EU policies in the field of trade and agriculture, in which development objectives may conflict with national interests.

Recommendations

- v) Luxembourg should make more effort to analyse the effects of its various policies on developing countries, which requires strengthening the capability of the Ministry of Foreign Affairs to carry out the analytical work required.
- vi) The mandate of the Inter-Ministerial Committee for Development Co-operation could be extended to give it a more active role in promoting debate on policy coherence for development.

Aid management and implementation

Internal co-ordination

The Ministry of Foreign Affairs has political responsibility for development co-operation and is, at the same time, the principal actor within the government in this field since it administers some 85% of Luxembourg's ODA. The Inter-Ministerial Committee for Development Co-operation ensures co-ordination and exchanges of information on the major orientations of development co-operation policy. Closer co-ordination could be established between the Ministries of Foreign Affairs and of Finance so as to strengthen the links between bilateral and multilateral policies, notably for the preparation of indicative co-operation programmes in target countries and the positions taken by Luxembourg regarding the policies and programmes of international financial institutions. Within the Ministry of Foreign Affairs, co-operation with Central and Eastern European countries is the responsibility of the Directorate for International Economic Relations. Following the experience of other DAC Members, such co-operation could benefit to a greater extent from the lessons learned from co-operation with developing countries through closer links with the Development Co-operation Directorate.

Luxembourg

Relations between the Ministry of Foreign Affairs and Lux-Development – the Luxembourg agency responsible for implementing development co-operation – are regulated by an agreement which is currently being reviewed. Responsibility for the formulation and execution of the projects of the Ministry of Foreign Affairs is given to Lux-Development on the basis of mandates which are also being reviewed as part of the work to strengthen the monitoring and evaluation system.

Partnership and local ownership

Luxembourg's development co-operation is based to a great extent on individual projects which so far have often been of a stand-alone nature. Their relatively large number raises questions of transaction costs for partners and might make it more difficult to assess their relevance and impact in terms of reducing poverty. Luxembourg supports the principle of partnership and local ownership, and endeavours to transfer responsibility for administering the projects it finances to partner countries. Luxembourg's aid is untied, and Luxembourg has also made an effort to associate partner countries in the procurement process.

Luxembourg has begun preparing indicative co-operation programmes with target countries, reflecting a desire to change from an approach based on individual projects to a more programmatic and strategic one. The action taken by Luxembourg is based on country-led poverty reduction strategies, but like other donors, Luxembourg must ensure that such strategies are integrated properly within its own programme. Efforts are made to ensure that each project is incorporated within the sectoral policies and programmes of partner countries in such a way as to support their development strategies. Since Luxembourg is active in almost all its priority sectors in each target country, the indicative co-operation programmes could help ensure a more selective sectoral targeting. Furthermore, it could be useful to prepare strategic orientation notes for the priority education and health sectors so that the objectives pursued and the indicators to measure results can be defined more clearly. Lastly, Luxembourg should think about engaging in sector approaches in collaboration with other donors, in a selective fashion and when circumstances are favourable.

Representation in the field and staff

Luxembourg has begun to establish field representation in order to be closer to local situations and to be able to participate better in policy dialogue and co-ordination. In 2001, the Ministry of Foreign Affairs opened a co-operation office in Senegal with regional jurisdiction for West Africa, and a co-ordination office in Cape Verde. The establishment of field representation in Asia and Central America is planned for 2003-04. Lux-Development is also thinking about decentralising its activities in a number of countries. Such a development inevitably raises questions as to the division, between the two institutions, of roles and responsibilities in the field.

Numbers of staff in the Development Co-operation Directorate of the Ministry of Foreign Affairs and in Lux-Development have increased sharply. At present, there are 27 individuals (including five in the field) working for the Development Co-operation Directorate, whereas some 50 persons (including seven in the field) work for Lux-Development. Nevertheless, given the rapid growth in ODA, the question of whether staff numbers are adequate remains open. Moreover, Luxembourg does not for the moment possess sectoral and thematic expertise, which could be useful in dealing with the many challenges posed by development co-operation, including policy coherence for development.

Monitoring and evaluation

The efforts being made by the Ministry of Foreign Affairs to set up a system of monitoring and evaluation are welcomed. As conceived, this system aims to integrate evaluation more fully

throughout the project cycle, endeavouring to improve *ex ante* the quality of co-operation activities through a better preparation and initial assessment of projects. The system has the merit of covering the projects and programmes of Luxembourg NGOs cofinanced by the government. Given the increased volume of multilateral co-operation, Luxembourg could participate more actively, in collaboration with other donors, in evaluating the performance of international organisations.

One of the first evaluation reports available shows that because of the lack of a preliminary analysis of poverty reduction and gender equality, satisfactory results were not obtained despite the fact that these were the objectives of Luxembourg's development co-operation. In the absence of performance indicators, it is difficult to measure the impact of Luxembourg's co-operation, hence the need to make improvements at this level, particularly in priority sectors.

Recommendations

- vii) The strengthening of the co-ordination in the field between the Ministry of Foreign Affairs and Lux-Development should take account of the strategies being adopted in developing countries, notably poverty reduction strategy papers and sector approaches, which aim at promoting partnership and local ownership.
- viii) As part of the preparation of its annual co-operation programmes, Luxembourg should envisage consolidating its sectoral selectivity in each target country, or even limiting its involvement to one sector per country, and review the number of projects in light of transaction costs, managerial efficiency and likely impact.
- ix) Luxembourg could better align its projects with partner country strategies and envisage participating, selectively, in sectoral approaches in collaboration with other donors.
- x) Luxembourg is encouraged to continue its endeavours to increase its representation in target countries, while at the same time seeking an optimum allocation of activities in the field between the Ministry of Foreign Affairs and Lux-Development and to match this to the volume of work involved.
- xi) The Ministry of Foreign Affairs should continue to pay particular attention to needs in terms of staff and the nature of expertise required, notably with regard to priority sectors for Luxembourg's development co-operation.
- xii) The Ministry of Foreign Affairs is encouraged to continue its endeavours to strengthen the follow-up and evaluation system. Follow-up could be enhanced so as to ensure that the objectives of poverty reduction and gender are properly taken into account throughout the project cycle.

CHAPTER 1

OVERALL FRAMEWORK AND NEW ORIENTATIONS

The foundations of Luxembourg's development co-operation

Luxembourg's development co-operation, which until the late 1980s had been limited to mandatory contributions within European and multilateral frameworks, was given considerable new impetus throughout the 1990s, and it continues to this day. This impetus has led not only to a substantial change in the volume of official development assistance (ODA), but also to adjustments to the strategic foundations of development co-operation policy—in particular with the adoption in 1996 of the Development Co-operation Act (*Loi sur la coopération au développement*)—and an increase and strengthening of the resources needed to administer and implement aid.

A new thrust was given to development co-operation with the installation of the new government in 1999. In its programme, the government pledged to maintain Luxembourg's development co-operation effort at a high level, setting a target of raising ODA to 1% of gross national income (GNI) and to near that goal by 2005. Development co-operation is a major instrument of Luxembourg's foreign policy and is an integral part of the outreach strategy in which Luxembourg has been actively engaged ever since the process of European construction got underway. In recent years, the government has set a foreign policy objective of pursuing international co-operation, through which it intends to carry out a policy of presence, participation and solidarity. This desire for international commitment has translated into more active participation in the main international organisations in which Luxembourg, subject to the resources at its disposal, endeavours to promote values such as the defence of human rights, respect for democracy and the rule of law, good governance and sustainable development.

The spectacular increase in the volume of Luxembourg ODA corresponding to an average annual growth rate of 18% in real terms between 1995-96 and 2000-01 was made possible by sustained economic performance and solid political and public support for development co-operation. Since 1989, successive governments have set precise and binding timetables for systematically expanding ODA. In 2000, Luxembourg joined the vanguard of countries that devote at least 0.7% of their GNI to ODA. Given Luxembourg's goal of 1%, the volume of its ODA should continue to expand.

Recent Ministerial statements at the International Conference on Financing for Development, which was held in Monterrey in 2002, and at the Conference on the Least Developed Countries in Brussels in 2001, explained that Luxembourg's conception of development co-operation incorporates the promotion of policy coherence for development. In the context of a globalisation process that is continuously widening inequalities, policy coherence is seen as a necessary condition if relations between rich countries and poor countries are to progress. Repeatedly, the Ministry for Co-operation and Humanitarian Action has spoken out in favour of crafting and conducting trade, agricultural, environmental and financial policies, conducted at European and international levels, in such a way as to help achieve development co-operation policy objectives and give more consideration to the interests of the developing countries.

General principles of Luxembourg's development co-operation policy

The general principles underpinning Luxembourg's policy, as set forth in the Development Co-operation Act that the country enacted in 1996, are as follows:

- Sustainable economic and social development in the developing countries, and especially in the most disadvantaged amongst them;
- Harmonious and gradual integration of the developing countries into the world economy;
- Poverty reduction in the developing countries.

The strategy of geographic concentration is a linchpin of Luxembourg policy which was implemented in 1994 following the DAC's recommendations in connection with its first review of Luxembourg. The notion of concentration was endorsed by the current government when it incorporated the list of ten priority countries ("target countries") into its programme in 1999 (see Chapter 2, Box 2). At the sectoral level, the government's programme stipulated that the concentration would be in the realms of health, education and integrated rural development, and it reaffirmed the importance of equal opportunity for men and women, whereas the 1996 Act had been fairly broad in its designation of the areas in which development co-operation could be undertaken².

The level of financial effort granted by Luxembourg for development co-operation and the emphasis on basic social sectors testify to Luxembourg's commitment to the goals set forth in the Millennium Declaration adopted at the special session of the United Nations General Assembly in 2000. Luxembourg has incorporated those same goals into its planning framework and uses them as a basis for policy dialogue with its partners in the target countries.

Recent orientations

Luxembourg has made considerable efforts to accompany growth in the volume of its aid by an enhancement of the quality of its interventions. The notable changes since 1998 have to a great extent been in response to the DAC's recommendations at the previous review of Luxembourg (see Annex 1). The strengthening of the structures of the development co-operation system, as it is designed, demonstrates the Luxembourg authorities' concern for moving beyond a development co-operation approach and adopting a genuine development policy. The most important initiatives and measures have been the following:

- **Appointment of a Minister solely for development co-operation.**
- **Introduction of a strategic framework for bilateral planning.** A carefully considered process of change has transformed Luxembourg's co-operation from an approach based on individual, stand-alone projects to one that aims to be more strategic and multi-annual in its planning. The introduction of indicative co-operation programmes, performing the same function as country strategy papers, demonstrates Luxembourg's intention to strengthen and institutionalise relations with the target countries in a spirit of partnership.

2. Namely: social action (including health, housing, education, vocational training and promotion of women); technical assistance; economic and industrial co-operation; co-operation in the realm of the environment; regional co-operation; cultural and scientific co-operation; actions in the realm of human rights and democratisation; development education.

- **Deployment of Luxembourg's presence in the field**, with the opening of a co-operation mission in Senegal and a co-operation co-ordination office in Cape Verde.
- **Strengthening of collaboration with non-governmental organisations (NGOs)**. A new multiyear financing instrument was adopted for NGOs with proven experience in implementing and administering projects co-financed by the Ministry of Foreign Affairs. A technical assistance bureau was created to provide NGOs with project management support.
- **Introduction of a monitoring and evaluation system**. The system that was introduced reflects a determination to bolster project management throughout each phase of a project's life cycle so as to enhance project quality from the outset.
- **Increased staffing levels for development co-operation**, paying special attention to the need to enhance expertise and professionalism.

Support for development co-operation

Policy dialogue

Development co-operation policy is discussed at least twice a year in the Chamber of Deputies (the Luxembourg Parliament) during the annual debate on development co-operation, in the presence of the Minister for Co-operation and Humanitarian Action, and, to a lesser extent, during the foreign policy review presented by the Minister of Foreign Affairs. The Parliament is in general highly favourable to co-operation, and all political parties support the government's objective of increasing ODA to 1% of GNI.

Although the Parliamentary Commission on European and Foreign Affairs and Defence does not seek to exert too great an influence on the government's chosen orientations, it would deem useful to institute closer consultation on certain themes involving geographical selectivity, such as the graduation process and the future of co-operation in countries that exceed the threshold of eligibility. Parliament has wielded a certain influence by proposing the development of a project monitoring and evaluation system, and more recently an organisational audit of Lux-Development (Luxembourg's operational development co-operation agency) and an awareness-building campaign to sensitise public opinion to the complexity of development issues.

The Minister for Co-operation and Humanitarian Action presents Parliament with an annual report on development co-operation, which is distributed to NGOs and the general public. The report, which is prepared by the Ministry of Foreign Affairs, provides a good overview of Luxembourg development co-operation and what it seeks to accomplish. It includes a detailed accounting of activities in each beneficiary country. A further advantage of the report is that it covers all development co-operation activities in Luxembourg, including those of the Ministry of Finance and of NGOs.

Since 2000, the government has been organising annual "Co-operation Days", which bring together the various agents of development from the government and Lux-Development, co-operation agents stationed in the field, NGOs and MPs and local elected officials interested in development issues. This event provides an opportunity to take stock of Luxembourg development co-operation policy, and of particular issues.

Lastly, the government has exhibited outreach by inviting MPs to accompany the Minister for Co-operation and Humanitarian Action on official travel to target countries. More recently, the

government has invited NGOs to assist in preparations for international conferences. Representatives of two NGOs accompanied the Luxembourg delegation to the World Summit on Sustainable Development, which was held in Johannesburg in 2002.

Sensitising public opinion to the importance of development

Development co-operation enjoys solid support from the population, which is attributable in part to the strong economic growth of recent years. The spirit of solidarity can also be explained by a certain outreach to the rest of the world because of Luxembourg's small size and large foreign population (38% of the total) from some one hundred different countries³. Like other countries that have reached or exceeded the United Nations' objective of 0.7%, Luxembourg shows a substantial correlation between internal social cohesion—reflected in one of the lowest human poverty indicator scores of the industrialised countries⁴—and external solidarity.

The government does not take regular surveys of the population, but it does maintain a budget line with which to finance public opinion awareness-building campaigns conducted by NGOs. A 1998 EU-wide survey by the European Commission⁵ states that a majority of the Luxembourg population is in favour of development aid: 75% of the persons questioned thought that development aid was important. The results of a 2002 survey by TransFair Minka, an NGO that advocates fair trade in Luxembourg, are revealing of the extent to which the population of Luxembourg is aware of the problems of developing countries (see Box 1). It would perhaps be useful if the government considered carrying out its own surveys, on a periodic basis, in order to ascertain perceptions and shifts in public opinion in greater detail.

A vast awareness-building campaign, has just been launched in order to keep the public better informed of the government's development co-operation policy and to encourage them to support it. A further goal is to spark greater knowledge and understanding of the realities of developing countries, in order to promote tolerance and a spirit of solidarity vis-à-vis their disadvantaged populations.

Box 1. Fair trade in Luxembourg

In 2002, TransFair Minka conducted a survey of public opinion vis-à-vis sustainable development and fair trade. The results of the survey show that the population of Luxembourg is heavily steeped in a sense of injustice regarding North-South economic relations: 95% of the people think that more equitable economic relations ought to prevail between the industrialised countries and the developing ones. A majority of respondents (88%) said they believed the government ought to purchase products through fair trade. After ten years, coffee sales from fair trade have reached a market share of 3.5%—one of the highest levels in Europe. Other products, such as bananas, orange juice and chocolate, also enjoy a certain degree of success.

3. Nationals of Cape Verde constitute the largest “minority” from the developing countries (1% of Luxembourg's total population).
4. The human poverty indicator assesses how the level of human development breaks down within a given country. The dimensions taken into account are similar to those of the human development indicator (health, education and living standards), with the added dimension of exclusion, as measured by the long-term unemployment rate. See *Human Development Report 2002: Deepening Democracy in a Fragmented World*.
5. *Eurobarometer 50.1: Europeans and Development Aid*, report by the International Research Agency (INRA) for DG8 (“Development”) in collaboration with the Public Opinion Analysis Unit of DG10 (“Information, Communication, Culture and Audiovisual Media”).

Challenges for the future

Managing budgetary growth and seeking to make aid more efficient may entail additional efforts in terms of:

- Maintaining discipline as regards geographical and sectoral concentration
- More programmatic in aid management, based on a sectoral approach supporting partner countries' strategies and programmes and in co-ordination with other donors
- Increased staffing and staff expertise
- Continued efforts to enhance the monitoring and evaluation system so as better to ascertain the effectiveness and impact of Luxembourg's development co-operation activities
- Striving for policy coherence through a more systematic process of identification, analysis and monitoring of policy developments and their implications for the developing countries;
- Continued public awareness campaigns, entailing better knowledge of the level of public support and thus organisation of public opinion surveys on a more regular basis.

CHAPTER 2

AID VOLUME, CHANNELS AND ALLOCATIONS

Volume of official development assistance

Since the early 1990s, Luxembourg has regularly increased its budget for ODA. At the United Nations Conference on the Environment and Development, which took place in 1992 in Rio de Janeiro, the Prime Minister of Luxembourg announced his government's decision to increase ODA so as to reach the United Nations' objective of 0.7% by the year 2000. This pledge was honoured by succeeding governments and even surpassed with the current government's intention of raising ODA to 1% of GNI by 2005. This objective is even more remarkable in view of the fact that Luxembourg has experienced substantial economic expansion, with the gross domestic product (GDP) rising at an average annual rate of 5.5% since 1985, and at significantly higher rates in recent years.

In 2000, with a ratio of 0.71%, Luxembourg joined the vanguard of countries that earmark at least 0.7% of their GNI for ODA (see Annex II, Figure II-1). In 2001, Luxembourg's ODA/GNI ratio was 0.82%, ranking the Grand Duchy fourth among the 22 DAC Member countries and thus well above the average effort of 0.40% per country. In volume terms, Luxembourg's commitment has meant an increase in ODA from USD 99 million in 1998 to USD 143 million in 2001 (see Annex II-2). In real terms, Luxembourg's ODA rose by an average rate of 18% per year between 1995-96 and 2000-01. In 2001, Luxembourg ranked 21st (ahead of New Zealand), up one in the ranking since the previous DAC review. Luxembourg's contribution is also far from negligible in terms of ODA per capita, for which it ranked second among DAC Member countries with USD 300 in 2000-01.

Because of the government's 1% goal, Luxembourg's ODA will continue to grow in the years ahead, although not at as brisk a pace as in the past few years. The outlook for economic growth was in fact slashed in 2002. Real GDP growth in 2002 was a mere 0.5% according to the latest estimates of the Luxembourg Central Service for Statistics and Economic Studies (STATEC).

Luxembourg's ODA comprises grants only and consists exclusively of expenditure in respect of development co-operation. Unlike some other DAC Members, Luxembourg does not retroactively include other expenses such as the cost of refugees during their first year's stay in the host country.

The volume and composition of Luxembourg aid are reported to the DAC by the Ministry of Foreign Affairs' Development Co-operation Directorate. The Directorate collects data from each entity involved in (public or private) financial transfers to developing countries listed in Part I or Part II of the DAC list and records them by major category in accordance with the DAC reporting rules. Reporting these contributions is one of Luxembourg's obligations as a member of the DAC and of the OECD (Article 3 of the OECD Convention), and the figures are vital to any comparative analysis of Member country efforts. To date, Luxembourg's reporting in respect of DAC questionnaires has remained very terse, incomplete and tardy, despite numerous exchanges of

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communication between the DAC Secretariat and Luxembourg statistical correspondents for the purpose of improving the reporting of statistics to the DAC. For example, a sectoral breakdown of ODA is available in Luxembourg's annual report, but the data were not reported on the DAC questionnaire in 2001, and Luxembourg has never reported private contributions, which are vital to measuring the total receipts of aid beneficiaries. The Development Co-operation Directorate does not have a statistical unit, nor does it have a centralised statistical database, thus requiring an *ad hoc* data collection effort at the beginning of each year. Nevertheless, the need to institute a central statistical system to facilitate preparation of DAC reporting has been raised, but a lack of resources has so far precluded development of any such system.

Bilateral aid

Overall allocation and instruments

In 2001, bilateral aid accounted for 75% of Luxembourg's aggregate ODA (see Annex II-2). This proportion has increased steadily since Luxembourg acceded to the DAC in 1992, and it is above the DAC average, which in 2001 was 70%.

The Luxembourg government has established no firm percentages for allocating bilateral and multilateral aid and has adopted a pragmatic approach. Moreover, the government considers that the current mix of instruments is fairly good (see Table 1 below). Only humanitarian aid is capped at 10%, as a matter of policy, insofar as Luxembourg prefers to give priority to long-term aid (see Chapter 3). The amounts of ODA channelled through Luxembourg NGOs (excluding humanitarian aid) account for 13% of Luxembourg ODA, or USD 20 million, thanks to a relatively generous co-financing system (see Chapter 5). Most bilateral activities are financed through the Development Co-operation Fund a budget device that allows the Ministry of Foreign Affairs to manage development projects flexibly over a number of years thanks to the option of carrying unspent allocations forward from one year to the next.

Table 1. ODA allocation by major categories in 2001

Category	As a % of total ODA
Bilateral ODA:	75
• Direct bilateral co-operation with partner countries	35
• Multi-bilateral projects	14
• NGO co-financing	13
• Humanitarian aid	10
• Technical assistance, training and evaluation	3
Multilateral ODA	25

Source: Ministry of Foreign Affairs/OECD.

Geographical allocation and allocation by income level

As mentioned in Chapter 1, Luxembourg has opted for a geographical concentration approach, which was instituted in 1994 following recommendations from the DAC in connection with its first peer review of Luxembourg. Luxembourg relies primarily on the human development indicator⁶ in

6. See *Human Development Reports*, published by the United Nations Development Programme.

selecting its target countries, which are all on the bottom half of the list. The final choice rests on neither a firm policy decision nor an absolute scientific process, and changes are possible. The current list (see Box 2) shows a certain preference for small countries⁷, and for French-speaking ones in the case of Africa. Whereas in 1998 only a third of the target countries were least developed countries (LDCs), today six out of ten target countries belong to that category. The geographical concentration of Luxembourg's action does not preclude it from intervening in a series of so-called "project countries" as well.

The Ministry of Foreign Affairs acknowledges that Luxembourg co-operation benefits some countries with a relatively high level of per capita income, as in the cases of El Salvador, Cape Verde and Namibia. The relevance of Luxembourg's co-operation with such countries has been the subject of scrutiny, and the government justifies its actions there primarily on the grounds of vulnerability to climate (El Salvador), disparities in the distribution of resources (El Salvador and Namibia) or dependency on remittances from migrant workers (Cape Verde). With regard to Namibia in particular, Luxembourg has opted for an interesting approach that would warrant assessment in the context of donor community discussions on aid graduation processes. Indeed, Luxembourg has decided to maintain its co-operation with Namibia in order to consolidate the strides already taken, while at the same time requiring the country to co-finance 30 to 50% of the costs of projects funded through Luxembourg development co-operation.

Box 2. Priority countries for Luxembourg's co-operation

The list of **target countries** comprises the following ten countries (the figure in parentheses indicates the country's rank in 2002 according to the indicator of human development, out of 173 countries):

- Africa: Burkina Faso (169), Cape Verde (100), Mali (164), Namibia (122), Niger (172) and Senegal (154).
- Latin America: El Salvador (104) and Nicaragua (118).
- Asia: Laos (143) and Viet Nam (109).

In addition to the countries on the list, the Palestinian Administered Areas are considered a quasi-target country.

The list of **project countries** comprises the following 20 countries:

- Africa: South Africa, Burundi, Guinea, Morocco, Mauritius, Rwanda, Sao Tome and Principe, and Tunisia.
- Latin America: Brazil, Chile, Ecuador and Peru.
- Asia: China, India, Mongolia and East Timor.
- Europe: Albania, Bosnia and Herzegovina, Croatia, and the Federal Republic of Yugoslavia.

The geographical dispersion of Luxembourg aid across a large number of countries was evoked at the two previous DAC reviews. Since then, a number of steps forward have been taken:

- The number of target countries was cut in 1999 from 14 to 10: Tunisia, Mauritius and Ecuador were removed from the list because of their human development performance, and Burundi because of its political situation.

7. With the exception of Viet Nam, the target countries have populations of less than 12 million.

- The target countries are now all amongst the greatest beneficiaries of bilateral Luxembourg ODA. Only Yugoslavia and Afghanistan, which are not included in the group of target countries, were among the ten leading beneficiaries in 2001, due to the large amount of humanitarian aid provided to both these countries. Concerning Yugoslavia, humanitarian aid benefited mainly Kosovo.
- Disbursements, which in 1995-96 had been made in 90 countries, were reduced to approximately 60 countries in 2000-01 (see Annex II-4). Disbursements to the top ten beneficiaries accounted for 59% of allocable bilateral aid in 2000-01, which was also up by 52% as compared with 1995-96. As a rule, ODA payments per country have been on the rise, as has the number of countries obtaining more than USD 5 million.

The required discipline in terms of geographical concentration represents an ongoing challenge for Luxembourg, despite the strides already taken. The proportion of bilateral ODA earmarked for target countries has dropped considerably (from 54% in 2000 to 43% in 2001⁸) while the project countries' share has remained more stable (down from 27% to 25%). Moreover, the list of project countries, by its size, represents a significant opportunity cost, and more attention should be paid to prioritising within the list. The question arising in the context of a sharply rising budget is the extent to which geographical concentration is still a necessary and desirable objective. In other words, Luxembourg should consider the possibility of keeping additional resources concentrated in the target countries in order to further strengthen its presence and critical mass in a number of countries, and thus to enhance its participation in policy dialogue and co-ordination with donors.

The geographical breakdown shows the priority that is given to Africa (46% of allocable bilateral ODA in 2001), which is clearly above the DAC average (32%) (See Annex II-3). Regarding the breakdown by income level, the statistics do in fact reflect the priority accorded to countries that are most disadvantaged. The proportion of bilateral aid payments going to LDCs was 46% in 2001 well over the DAC average (26%). The corresponding share for other low-income countries, however, was 19% in 2001, below the DAC average (34%). Payments to lower middle-income countries were relatively substantial (32% in 2001), but scarcely less than the DAC average (35%), because of two target countries (Namibia and El Salvador) and efforts to assist Yugoslavia.

Sectoral breakdown

From Luxembourg's standpoint, geographical concentration goes hand-in-hand with sectoral concentration, insofar as Luxembourg co-operation is focused on the category of sectors that the DAC designates as social infrastructure and services, which includes such sectors as education, health care, water and sanitation. In 2001, according to Luxembourg's annual report⁹, an 82% share of bilateral aid was allocated to the category of infrastructure and social services, including education (26%), health care (28%), water distribution and sanitation (11%) and other social services (17%), such as employment and housing, for example. The figures seem to indicate a substantial rise in the proportion allocated to health care (from 20% in 2000 to 28% in 2001). The second category, in order of size, is that of production sectors (15%), mainly in agriculture, as well as trade and tourism.

8. Disbursements to the ten target countries plus the Palestinian Administered Areas also declined in absolute value (from USD 53 to 47 million), with a growing share of unallocated ODA (from 9% to 21%) (see Annex II-3).

9. The sectoral breakdown of bilateral ODA was not reported to the DAC in 2001 although data seem to be available insofar as they are mentioned in Luxembourg's annual report.

Luxembourg stands out in particular for its commitments to the 20/20 Initiative launched in connection with the 1995 World Summit for Social Development in Copenhagen, which called for setting aside at least 20% of development co-operation resources for basic social services. A substantial share of Luxembourg's bilateral ODA is in fact allocated to primary education (9% in 2001) and basic health care (13% in 2001).

Official aid

Co-operation with the Central and Eastern European countries has also increased in scope, with official aid rising in 2001 to USD 9 million (see Annex II-1). A third of that aid consisted of bilateral co-operation, which can be considered relatively dispersed, insofar as payments totalling USD 3 million are spread out over seven countries, the largest beneficiaries being Romania, Ukraine and Russia.

Multilateral aid

In Luxembourg, the proportion of multilateral aid was 25% in 2001 (see Annex II-2). Co-operation with multilateral bodies has been stepped up in recent years, with a rising share of bilateral ODA paid in the form of multi-bilateral contributions¹⁰ in the target countries. These contributions totalled EUR 21 million in 2001 (or 14% of total ODA). To this amount could be added another EUR 8 million (or 6% of total ODA), representing the share of humanitarian aid channelled through international organisations such as the World Food Programme (WFP) or the United Nations High Commission for Refugees (UNHCR).

As in the case of many other Member States of the European Union (EU), Luxembourg's contribution to the European Commission including its share of the European Development Fund (EDF) and of the general budget earmarked for development activities accounts for its largest multilateral contribution (nearly half of aggregate multilateral aid and 11% of total ODA in 2001).

Luxembourg's contributions to multilateral bodies reflect a clear preference for United Nations organisations, and especially those active in the realm of health care, such as the World Health Organization (WHO), the United Nations Population Fund (UNFPA) and the Joint United Nations Programme on HIV/AIDS (UNAIDS). The WHO is Luxembourg's leading multilateral partner, and Luxembourg is the WHO's 12th-largest contributor. In 2001, Luxembourg's contributions to the Organisation amounted to nearly EUR 7 million (of which EUR 5 million in respect of multi-bilateral projects). The strengthening of Luxembourg's humanitarian action in recent years has fed through to a rise in its voluntary contributions to the budgets and programmes of the various United Nations agencies active in the humanitarian sphere. Nearly half of Luxembourg's contributions to the United Nations system do not show up in detailed DAC statistics but represent a considerable input to other important programmes, such as UNAIDS, the United Nations Development Fund for Women (UNIFEM), peacekeeping operations, and so forth. Luxembourg is also a major contributor to the United Nations International Drug Control Programme (UNDCP), thanks to financing from the Anti-Drug Trafficking Fund (see Box 3), which covers roughly USD 0.5 million of Luxembourg's annual commitments (but which cannot be reported to the DAC as ODA).

10. These involve the co-financing of projects of international organisations, and primarily of organisations in the United Nations system.

Box 3. Anti-Drug Trafficking Fund

The Anti-Drug Trafficking Fund was created in 1992 to follow up on the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. The Convention contains a provision inviting the Member States to use the proceeds from confiscations in drug trafficking cases, along with funds seized in connection with related money laundering operations, to combat drugs. Luxembourg is the first and for the time being the only country to have put that provision into effect. Since it was established, the Fund has provided roughly EUR 6.6 million in financing for projects, the bulk of which abroad (primarily in South-East Asia and Latin America) and, to a lesser extent, for actions in Luxembourg (treatment and rehabilitation of drug addicts and prevention campaigns). Over half of the funding to date has contributed to alternative development projects instituted by UNIDCP.

Luxembourg's contributions to the Bretton Woods institutions are concentrated in the following areas: reducing debt burdens; improving the investment climate in developing countries; support for the banking system needed to finance the real economy; exploration of investment opportunities in the environmental sector based on the Kyoto Protocol (own development mechanism and joint implementation) and agricultural research. The largest contributions are earmarked for the Poverty Reduction and Growth Facility (PRGF) (USD 10 million) and for the Global Environment Fund (GEF) (EUR 5.7 million). With regard to the Heavily Indebted Poor Countries (HIPC) Initiative, Luxembourg has made a contribution of EUR 0.52 million to benefit three target countries (Burkina Faso, Niger and Nicaragua). It should be noted that this commitment was made even though Luxembourg has no bilateral claims vis-à-vis HIPCs. Luxembourg does not belong to any regional development bank, apart from the European Bank for Reconstruction and Development (EBRD) (contributions to which are not included as ODA, however). Luxembourg has, however, begun taking steps to join the Asian Development Bank (ADB). A bill setting forth the financial implications of joining the Bank including Luxembourg's contribution to its capital and to the Asian Development Fund was approved by the government and will soon be submitted to Parliament.

Future considerations

- Luxembourg is encouraged to maintain, if not reinforce, its discipline with regard to geographic concentration by allocating its additional resources to the target countries in order to maximise their impact.
- Luxembourg is invited to pursue and intensify its strategic thinking regarding the phasing out of its assistance in target countries having a higher level of income.
- Given the intensification of multilateral as well as multi-bilateral activities, Luxembourg could be more explicit in stating its priorities and allocation criteria amongst the various beneficiary organisations. It could also participate more actively, in collaboration with other donors, in assessing their performance.

CHAPTER 3

MAIN SECTORS AND CROSS-CUTTING ISSUES

Poverty reduction

Luxembourg has made poverty reduction and sustainable development the major objectives of its development co-operation policy. These objectives, which form an integral part of the Development Co-operation Act of 1996, are reaffirmed in the governmental programme of 1999. A number of recent Ministerial statements about policy coherence for development (see Chapter 4) confirm the existence of a vision and a high-level policy commitment to reduce global poverty.

Luxembourg's commitment to poverty reduction is demonstrated first by its desire to work with developing countries that are most disadvantaged; six of Luxembourg's ten target countries are LDCs having the lowest level of human development, and which face substantial challenges in their efforts to achieve the Millennium Development Goals. Moreover, in most of the target countries, and especially those with higher levels of income, such as Namibia, Cape Verde or El Salvador, Luxembourg endeavours to focus its efforts on the regions that are most disadvantaged. In addition, Luxembourg's poverty reduction actions reflect the very clear priority given to basic social sectors (see Chapter 2), which face a chronic lack of resources in a large number of developing countries because of the debt service burden or a lack of political will. Luxembourg should be congratulated for its notable efforts in this area, given the obvious correlations between deployment of resources for basic social services and achievement of many of the Millennium Development Goals. Lastly, Luxembourg also supports a number of initiatives in the realm of micro-financing, whereby poor people can get increased access to the means of production and be able to engage in income-generating activities.

Luxembourg views its co-operation with developing countries in a spirit of partnership and endeavours to promote ownership at the local level, in particular through a sharing of responsibilities and joint administration of co-operation programmes. Luxembourg has always favoured a participatory approach, which allows partner countries gradually to take the helm of their development process. Moreover, the fact that Luxembourg aid is untied has enabled a great many businesses and consulting firms in the developing countries to take part in project implementation. Preparation of annual co-operation programmes on a multi-year basis has enhanced not only policy dialogue, but also the transparency and predictability of Luxembourg development co-operation (see Chapter 6).

Many characteristics of Luxembourg development co-operation policy are consistent with poverty reduction efforts as recommended in the *DAC Guidelines for Poverty Reduction*. A number of suggestions are presented below, and Luxembourg might explore them in order to make its efforts more explicit and systematic than they have been to date.

First, the targeting of beneficiaries should be reinforced at the project formulation stage in order to improve the identification and selection of poor people. The ongoing work on evaluation (see Chapter 5) calls for inclusion of socio-economic indicators and outcome objectives so as to facilitate subsequent project evaluation. The results of a recent evaluation of Luxembourg's support for the

handicraft sector in Niger show that the project has had no direct impact on poverty reduction, primarily because project beneficiaries were not targeted sufficiently. Insofar as the project document had not in fact cited poverty reduction specifically as an objective, the beneficiaries were selected on the basis of technical and professional, rather than socio-economic, criteria. The project has therefore helped to raise the income level and improve working conditions for craftsmen living above the poverty threshold and not belonging to the most vulnerable categories.

More generally, in parallel with the upgrading of strategic planning through indicative co-operation programmes, Luxembourg could enhance its strategic approach at the sectoral level. Preparation of strategic orientation papers might prove useful, especially in the all-important education and health care sectors, but also in respect of poverty reduction, gender equality and micro-financing. The ongoing nature of certain undertakings may have to be reconsidered due to the fact that individual projects, formulated on an *ad hoc* basis, do not sufficiently factor in the overall context or the lessons learned from the experience of Luxembourg and other donors in the areas in question. In addition, the objectives being pursued need to be identified more clearly, along with indicators whereby subsequent progress in priority sectors of Luxembourg development co-operation can be identified. Clearly, investment in basic social sectors alone is not enough to reduce poverty; it must be supported by initiatives favouring the poor and involving appropriate services and equitable financing mechanisms. This could also provide an opportunity for Luxembourg to refer more specifically to the Millennium Development Goals and how it intends to use them as performance indicators.

A logical step in the growth of Luxembourg development co-operation might be to continue exploring ways to shift from an individual project-based approach to a more integrated one that would put more emphasis on institutional support and policy dialogue in certain sectors. With many DAC members adopting a sectoral approach in support of the strategies and sectoral plans of the partner countries, in the realms of education and basic health care in particular, it would be useful for Luxembourg to assess the advantages of taking part in such approaches. In this context, Luxembourg should consider the possibility of strengthening its capabilities, which for the moment appear limited, in respect both of the Ministry of Foreign Affairs and of Lux-Development. As mentioned above, neither of these institutions have sectoral strategies or specific sectoral expertise. Luxembourg has expressed an interest in collaborating more closely with other donors on poverty reduction strategies in developing countries, but to date this intention has scarcely been translated into concrete actions. Only the Ministry of Finance has contributed to the funding of an International Monetary Fund (IMF) technical assistance project to enhance the statistical capacities of a number of West African countries in connection with the introduction and monitoring of Poverty Reduction Strategy Papers.

Establishing a field presence ought to help ensure that realities in the field are incorporated more fully into aid planning and implementation. The quest for greater poverty reduction efficiency could be supported by appropriate training activities.

Lastly, Luxembourg's efforts to enhance the evaluation of its activities (see Chapter 5) are welcome. Progress at this level is vital to a clearer assessment of whether the activities supported by Luxembourg are making a real impact in terms of poverty reduction.

Gender equality

Promoting the status of women in the developing countries is one of the priorities that Luxembourg intends to pursue through all of its programmes and projects. In its 1997 annual report, Luxembourg proposed operational guidelines to promote human rights on the basis of gender equality. In the context of policy dialogue with the partner countries, these guidelines call for Luxembourg to make reference to gender equality and, in the field, to encourage meetings with representatives of civil

society and, more particularly, with women's organisations. Other measures call for the incorporation of gender into project formulation, including NGO projects co-financed by the government, the encouragement of policies to foster women's access to the means of production via micro-financing activities, and the assurance that women and men have equal access to health care, and girls and boys to education.

Nevertheless, these principles remain at a very general level and cannot, by themselves, ensure that gender considerations will be systematically taken into account when Luxembourg development co-operation activities are formulated and carried out. The evaluation of the project to support the handicraft sector in Niger showed that even though women, who were very active in certain crafts, had access to credit, the loans they received were substantially lower, on average, than the ones granted to men¹¹. The evaluation therefore showed the need for special gender analysis at the project design stage in order to identify the practical and strategic needs specific to women, as well as the process of sharing and controlling resources between men and women.

To bolster the extent to which gender considerations are factored into its activities, Luxembourg ought to provide for a number of concrete measures to assist in decision-making and performance evaluation. The formulation mandates assigned to Lux-Development include a general clause regarding the incorporation of cross-cutting issues. Because of its resource limitations, however, the agency does not conduct systematic preliminary analysis regarding gender equality and must still acquire the necessary methodological tools and operational practices. Creation of a specific post at the agency level could be useful as a catalyst to facilitate systematic application, as could increase staff training in the realm of gender equality. The Ministry of Foreign Affairs should also pay greater attention to the incorporation of development co-operation priorities at the operational level. Incorporating gender equality into the monitoring and evaluation manual being prepared by the Ministry of Foreign Affairs (see Chapter 5) should constitute an important stage in this process.

Health care

As mentioned in Chapter 2, the category of social infrastructure and services accounts for the bulk of Luxembourg's bilateral aid. Most co-operation programmes in the target countries comprise health care aspects. The health care sector alone uses up 28% of bilateral aid, whereas water distribution and sanitation, which have a direct impact on health, take 11%. While the projects financed by Luxembourg have traditionally consisted essentially of support for the development of health care infrastructure and the supply of medical equipment, projects are increasingly taking the form of projects to support the health care sector at the provincial or district level. In Viet Nam, for example, Luxembourg did not limit its aid to the construction of a provincial hospital but endeavoured to take health care needs into consideration in a more integrated fashion so as to promote the general level of health on a province-wide basis. In Laos, the second phase of a health care project is seeking to improve health care and to formulate a provincial health plan, after the first phase dealt with renovating and equipping health care centres.

At the multilateral level, Luxembourg is also very active in the realm of health care. The WHO is Luxembourg's main partner, and Luxembourg recognises the effectiveness, in terms of their multiplier effect, of some of the organisation's initiatives, especially in reducing or eradicating certain diseases. Luxembourg is thus one of the leading contributors to a number of WHO research programmes on tropical diseases, combating tuberculosis, promoting transfusion safety and battling

11. It must be noted, however, that the project began in 1991 and was extended in 1995 at a time when the principle of gender equality, like that of poverty reduction, was not yet cited amongst the goals explicitly pursued by Luxembourg co-operation projects.

onchocerciasis—a programme carried out by the WHO in collaboration with the World Bank, and which has already achieved a measure of success in the countries of West Africa, where the disease has been virtually eradicated. Luxembourg also lends substantial support to the UNFPA, because of the Fund's important role in demographic and health care issues.

In addition, Luxembourg has bolstered its resources in the fight against global epidemics, pledging in 2001, for example, to take part in the Global Fund to Fight AIDS, Tuberculosis and Malaria. Luxembourg, along with France, Italy and Spain, was one of the first countries to support the ESTHER initiative against AIDS (see Box 4), in which the United States takes part as well.

Box 4. The ESTHER Initiative

(Ensemble pour une Solidarité Thérapeutique Hospitalière En Réseau contre le sida)

The ESTHER Initiative of hospital networking and therapeutic solidarity to combat AIDS is a co-operative programme to combat the AIDS epidemic, especially in Africa, which facilitates care for AIDS patients and their access to drugs. The shortage of medicine, insufficient staff training and dysfunctional health care establishments are amongst the main shortcomings of the African countries.

This initiative was launched in 2001 by the French Minister of Health and was presented that same year to the European Council of Ministers of Health, and to the United Nations General Assembly Special Session on HIV/AIDS. The goal is to forge a network of solidarity through partnerships between European hospitals and health care facilities in developing countries to enable exchanges of knowledge and provide logistical support to participating establishments. The initiative demonstrates that it is possible to promote access to drugs for patients in developing countries while at the same time reinforcing medical facilities, in contrast to a prevention-oriented approach stemming from a lack of local resources for prescribing treatment. Effective care for the sick entails bolstering hospital capacities and patient monitoring to ensure that drugs purchased with the funds made available are delivered under the proper conditions. Outcomes are to be evaluated in all of the participating countries after the initiative has been underway for two years. There are also plans to set up an international ethics and science council.

Luxembourg decided to take part in ESTHER, focusing its efforts on Rwanda, which is ravaged by AIDS, and in which Luxembourg has experience of fighting the disease. The twinning of two Luxembourg hospitals with two hospitals in Rwanda will enable the treatment of opportunistic infections as well as anti-retroviral treatment and will endeavour to demonstrate the feasibility of an African hospital's dispensing wide-scale anti-retroviral therapies. A further aim of the programme is to improve the biological laboratory monitoring of AIDS patients.

Micro-financing

Luxembourg supports micro-financing activities at a variety of levels. In 1997, during its presidency of the European Union, Luxembourg took the initiative of placing the issue of micro-financing on the agenda of the Council of Ministers of Development. A resolution was adopted that emphasised the importance of strengthening the financial viability of micro-financing, while giving poor people access to credit. The Luxembourg government co-finances projects of Luxembourg NGOs in various countries and is funding the micro-financing aspects of a rural development project of the International Fund for Agricultural Development (IFAD) in Laos. Seeking to enhance the strategic dimension of its action, the Ministry of Foreign Affairs signed a five-year co-operation convention in 1999 with ADA (*Appui au Développement Autonome*, "Support for Autonomous Development"), a Luxembourg NGO specialised in micro-financing (see Box 5).

Luxembourg also supported a micro-financing project of the United Nations Conference on Trade and Development (UNCTAD) with a contribution of USD 1.5 million providing the necessary

leverage for loans that enabled the creation of some 20 000 jobs. The aim of the project was to strengthen the capacities of micro-financing institutions and expand their scope of action in order to increase the volume of credit available to entrepreneurs with no access to formal banking channels. The project set up an investment fund for micro-financing institutions along with an Internet-based virtual market enabling them to locate financial partners. Given its success and effectiveness, the World Bank has expressed an interest in taking over the system so as to develop it on a greater scale.

Given Luxembourg's expertise in the financial sector and its capacities in the realm of bank training, it would be useful for Luxembourg to take stock of its various activities in this area in order to fine-tune the strategic orientations it would like to promote. Moreover, Luxembourg could consider playing a more active role in donor co-ordinating in this area.

Box 5. Luxembourg Microbanking Intermediary Scheme (LUXMINT)

LUXMINT is a non-profit fund established in 1999 thanks to a feed capital grant by the Luxembourg government. Drawing on its micro-financing experience, the Luxembourg NGO ADA initiated the fund. The main challenge faced by micro-financing institutions in many developing countries is to offer long-term quality services to millions of poor people while remaining viable and profitable. The survival and growth of these institutions depend on their ability to improve their performance and, lastly, to mobilise additional resources. LUXMINT aims to help micro-financing institutions gain access to capital markets through financial support in the form of medium-term (two to five-year) loans or loan guarantees. It is not just a financing mechanism but an instrument of learning as well, since other services, such as counselling, training and performance analysis support, are offered as well. Striving to reduce poverty, LUXMINT contacts effective, institutionalised micro-financing establishments with a proven social vocation, in particular through their commitment to the process of encouraging new business creation. At the present time, 11 micro-financing institutions in Africa and Latin America are taking part in the LUXMINT programme. Numerous individual testimonials highlight the jobs that have been created and the improvements to beneficiaries' income and living conditions. The fund is expected to break even by the end of 2003, thanks to the net financial income generated by its activity and a variety of additional donations.

In addition, ADA takes active part in methodological development in the realm of evaluating the performance of micro-financing institutions, and it spearheads a pilot programme financed by a number of donors,¹² the European initiative for evaluating the performance of African micro-financing institutions. ADA, which also administers CEREM-LUX, a research and documentation centre, also plays a key role in training, institutional support and exchange of experience in this area.

Humanitarian aid

Humanitarian aid takes up a relatively large share of Luxembourg ODA. Moreover, the States of the former Yugoslavia and Afghanistan were the primary beneficiaries of Luxembourg ODA in 2001. The bulk of Luxembourg humanitarian aid is channelled through the main international humanitarian organisations (58% of the total), NGOs (36%) and bilateral action (6%). An exceptional effort was made in 2001 on behalf of Afghanistan, totalling USD 6 million, in support of emergency programmes, reconstruction and the campaign against landmines. A programme to protect women and children includes substantial support for the UNFPA. The government decided to limit humanitarian aid to 10% of total ODA, deeming that any crisis represents a failure of development and that emergency and humanitarian aid should not be dispensed to the detriment of long-term development.

12. Belgium, the Netherlands, the European Commission, the European Investment Bank and the Consultative Group to Assist the Poorest (CGAP).

Luxembourg

Luxembourg is seeking to consolidate its approach in the humanitarian sphere and to respond to crises in a more organised manner. A project is under study to identify the resources and the structures that would enable Luxembourg to improve the way its human resources and logistics are deployed in response to humanitarian crises or longer-term civil initiatives. In 2001, memoranda were signed for the first time with three international humanitarian organisations — the International Committee of the Red Cross (ICRC), the WFP and the UNHCR. The objective of the initiative is to strengthen dialogue with these organisations, giving priority to the so-called “forgotten” conflicts that persist in regions like the horn of Africa, southern Africa, the Great Lakes region and West Africa. This collaboration was accompanied in 2002 by a 50% increase in Luxembourg’s budgetary contribution to these organisations.

Future Considerations

- To enhance the effectiveness of Luxembourg aid and its impact in terms of poverty reduction, Luxembourg must proceed in a more explicit manner by adopting a more rigorous approach to the formulation, implementation and monitoring of its activities.
- It might be useful to define strategic orientations in the priority sectors of Luxembourg development co-operation in order to ascertain desired outcomes and the indicators that could be used to measure subsequent progress towards achieving them.
- An enhanced monitoring system could be developed by the Ministry of Foreign Affairs and Lux-Development in order to ensure that gender considerations are effectively incorporated into all of Luxembourg’s development co-operation activities.

CHAPTER 4

POLICY COHERENCE

Achieving a sustainable reduction of global poverty requires OECD Member countries to seek coherence of their policies in the interests of development. Promoting overall coherence of non aid policies, in respect of their impact on efforts to combat poverty, is now a major issue for the OECD and other international organisations. When agreeing to *Action for a Shared Development Agenda* in 2002, the OECD countries recognised the importance of giving increased attention to the impacts of their policies on developing countries. The statement built on earlier efforts by the DAC to make policy coherence a general concern in areas other than aid and to develop the means necessary to promote this issue in international forums.

Approaches and mechanisms for promoting policy coherence at national level

The *DAC Guidelines on Poverty Reduction* suggest a number of ways of promoting policy coherence for development. A key step is a commitment by governments to see that public policies with an impact on economic prospects and poverty reduction in developing countries are coherent. The DAC Guidelines also recommend: establishing a political mechanism for exchange and consultation, within and across government ministries; developing a government-wide policy brief on poverty reduction; systematically vetting legislation for its consistency with reducing poverty; and devoting adequate staff resources to the undertaking of analyses on policy coherence issues.

Luxembourg's commitment to policy coherence is undeniable and its efforts to raise public awareness deserve mention. Development co-operation receives unanimous support in the Luxembourg government. When it came to power in 1999, the present government put development co-operation on its political agenda. The Luxembourg Prime Minister himself takes an active interest in development policy. In the context of the International Conference on Financing for Development held at Monterrey in 2002, the Prime Minister subscribed to a joint initiative by donor countries having attained or exceeded the UN target of 0.7%¹³ to promote a commitment by rich countries to poverty reduction and policy coherence¹⁴. More recently, the Prime Minister personally participated in the launching of an extensive campaign to alert public opinion to development co-operation issues. Concerned by the widening inequalities between industrialised countries and developing countries and the latter's increasing marginalisation, the Luxembourg authorities have voiced their resolve to help poor countries to meet the challenges of development in the context of globalisation. The commitment to policy coherence is thus closely linked with a concern to promote a caring form of globalisation with social and ethical dimensions, to seek new rules of world governance, to make poverty reduction central to policy action and to preserve the environment.

13. The other countries, in addition to Luxembourg, are Denmark, the Netherlands, Norway and Sweden.

14. Declaration appearing in the International Herald Tribune of 21 March 2002.

Recent ministerial statements show that Luxembourg recognises that the impact of aid on developing countries depends largely on the degree of coherence of trade, agricultural, environmental and financial policies, and that these policies must reinforce the efforts made through development co-operation. Luxembourg has thus undertaken to promote consideration of developing-country interests in the new round of multilateral negotiations launched at the Doha ministerial conference of the World Trade Organization (WTO) and in other international meetings of major importance. Luxembourg has also pronounced itself in favour of a review of WTO provisions to enable developing countries to purchase medicines at affordable prices.

Nevertheless, a specific approach still has to be devised in order to mobilise the government's efforts at different levels more systematically. The mandate of the principal co-ordinating body, the Interministerial Committee for Development Co-operation (see Chapter 5), could be amended to include treatment of policy coherence issues. The committee has increased its activity considerably since the last DAC review. In 2002 it focused its attention on policy coherence for the first time, initiating a cross-ministry discussion of the implications of the proposed common agricultural policy reforms for developing countries, this discussion being subsequently extended to include Luxembourg NGOs. The committee could be used as a forum for exchanges of views and consultations with a view to adopting an approach with a more systematic focus on identifying and resolving policy inconsistencies. In particular, the committee could be given a mandate to vet draft legislation and assist government decision-making in general in such a way as to ensure better consistency with developing-country interests.

It will also be necessary to strengthen analysis capabilities so as to be able to determine the impact of Luxembourg's policies on poverty reduction and make more allowance for the interests of developing countries. This presupposes that the Ministry of Foreign Affairs acquires the capacity to undertake the necessary analyses that will enable it to inform other ministries and, where appropriate, propose guidelines. This increase in capabilities could be achieved by assigning human resources to the Development Co-operation Directorate of the Ministry of Foreign Affairs or by collaboration with a suitable research institute. Here it would be useful for Luxembourg to refer to the DAC Guidelines on Poverty Reduction, which contain an indicative list of strategic questions deserving in-depth analysis. The key policy areas are: international trade and foreign direct investment, international finance, food and agriculture, natural resources and environmental sustainability, social issues, and governance and conflicts.

Examples of the challenges posed by policy coherence at the national level

Luxembourg, which has one of the highest rates of CO₂ emission in the OECD area, has pledged under the Kyoto Protocol to reduce its greenhouse gas discharges by 28% for the period 2008-12 from their 1990 level. This is an ambitious goal which cannot be achieved without very stringent policies and measures and which deserves to be saluted, given the vulnerability of the poor populations of developing countries to the possible consequences of climate change.

The flight of capital from developing countries and its laundering constitute policy coherence problems of which Luxembourg is mindful. Promotion of good governance and action to combat bribery are two objectives of development co-operation. At the same time, Luxembourg is a major financial centre¹⁵, where banking secrecy and favourable tax treatment are major factors of competitiveness likely to attract capital of suspect origin from developing countries. This means that

15. Luxembourg is the world's eighth largest financial centre and the second largest centre for investment funds. The economic weight of Luxembourg's financial sector is very considerable, its contribution to the country's value added being 22% in 2001.

Luxembourg must be constantly on its guard against misuse of its financial services. Luxembourg passed a law on money laundering back in 1989, which has been amended several times since. In respect of international judicial co-operation on criminal cases, the legislation was revised in 2000 so as to accelerate and simplify procedures. Banking secrecy does not apply to criminal cases. The Luxembourg regulations provide for measures of prudential surveillance and criminal sanctions in line with the recommendations of the Financial Action Task Force (FATF). In 2002, under the IMF/World Bank Financial Sector Assessment Program, Luxembourg lent itself to an experimental methodology for assessment of observance of the standards applicable to action to combat money laundering and the financing of terrorism. The IMF found that Luxembourg's financial sector complies fully with the standards and that it is sound, efficient and well overseen. Effective surveillance of financial transactions poses a permanent challenge to the Luxembourg authorities because of changing methods of money laundering.

Pursuit of coherence in the context of the EU

Luxembourg being a Member State of the EU, competence for major policy coherence areas like trade and agriculture rests with the European Commission more than with Luxembourg itself. Promoting coherence of EU policies in those areas is a complex and difficult undertaking and the subject of many debates at the national and European levels and in the international forums concerned. However, Luxembourg can perform a constructive role in this context and influence the decision-making process in such a way as to take more account of developing-country interests.

Luxembourg should plan to make policy coherence one of its priorities in relations with the European institutions and to strengthen the links between Luxembourg's development policy and its general policy towards the EU. This would be entirely in line with the course that the government has chosen, since its 1999 programme of action, designed in light of the growing complexity of European affairs, focused on the establishment of clearly identified priorities, better cross-ministry co-ordination, and a strengthening of bilateral relations with European partners in order to achieve a closer match between European and national policies. For Luxembourg to make its contribution to common policy coherence, it is important for the government to emphasise poverty reduction in its statements at discussions on policy action to be taken. It would also be appropriate for Luxembourg to make systematic evaluations of the effects of contemplated measures on developing countries when preparing its positions on European policies and strategies. For this purpose, the Ministry of Foreign Affairs, and more particularly its Development Co-operation Directorate, would have to be more closely associated with the decision-making process.

Examples of the challenges posed by policy coherence at the European level

Luxembourg does not hesitate to take positions favourable to the interests of developing countries, as shown by its refusal to approve the directive on chocolate which the EU adopted in 2000 by qualified majority. This directive authorises the use of non-cocoa vegetable fats in the making of chocolate. But the measure could be very prejudicial to cocoa bean producers in developing countries, whose incomes could be severely reduced as a result of diminished European demand and lower world cocoa prices¹⁶. On this occasion the Ministry of Foreign Affairs organised a round table for representatives of the NGO Transfair Minka, active in the promotion of fair trading in Luxembourg, and representatives of the chocolate-making industry and the confectionery trade. The participants

16. The International Cocoa Organization has estimated that application of the European directive could cause annual demand for cocoa beans to decrease by between 125 000 and 200 000 tonnes. And for each 10 000 tonne reduction in demand the earnings of cocoa bean producers would fall by 1%, making an overall earnings loss of between 12.5% and 20%.

unanimously agreed on the need to try to lighten the impact of the EU directive's implementation on the developing countries concerned. Subsequently they took active part in the Ministry's organisation of an awareness-raising campaign designed to encourage consumption of pure chocolate.

The case of the Common Agricultural Policy (CAP) shows the importance of improving policy coherence for development. Agriculture in the majority of developing countries, on which a very large share of their population depends, is extremely vulnerable because of the farm support measures adopted in the industrialised countries. The trade distortions created by the CAP's import barriers and export subsidies are arousing criticism because of their negative impact on developing-country agriculture, means of subsistence and food security. The present system of EU farm subsidies tends to stimulate domestic production and drive world prices down, thus creating unfair conditions of competition for farmers in the developing countries. Moreover, the tariff and non-tariff barriers that protect the EU market are limiting the export and diversification opportunities of developing countries, a problem that DAC Members aim to tackle through development co-operation. The European Commission has recently obtained the support of Member States for its proposal concerning agricultural negotiations within the WTO. This initiative reflects the EU's commitment to reform the agricultural trading system with allowance for the need to accord special treatment to the developing countries and to take account of environment and rural development considerations. The proposed reforms aim to make European agriculture more competitive and more market-oriented, to encourage sustainable farming practices, to ensure a fairer and more transparent apportionment of direct income support for farmers, and to provide a better response to the expectations of consumers and taxpayers. On the other hand, the Commission's proposals for CAP reform have met with strong resistance from many Member States, which shows the difficulties that the EU is up against in this area.

The Ministry of Foreign Affairs is mindful of the vulnerability of developing countries, especially the LDCs, to the liberalisation of agricultural trade. It has engaged in consultation with the Food and Agriculture Organization of the United Nations (FAO). In this connection, one of the questions posed has been the opportunity for developing countries to create protected regional agricultural markets with the aim of ensuring more remunerative prices for their producers. In the context of the CAP reform process, a working group has been established to analyse the impact of proposed measures on developing countries. Luxembourg should continue the analytical process and discussion within the government and with the different parties involved, so as to be able to define a position that will ensure policy coherence. A statement in favour of more allowance for developing-country interests during the talks on the future of the CAP might mean that Luxembourg will have to make some difficult trade-offs to prevent domestic farm policy interests from getting the better of the objectives guiding its development policy.

Future considerations

- Luxembourg's declared resolve to ensure policy coherence for development needs to be backed by a more systematic approach. The aim should be to mobilise the efforts of the government at different levels and to influence the decision-making process – particularly as regards EU policies for trade and agriculture – so as to make more allowance for developing-country interests.
- Luxembourg should make further efforts to analyse the effects of its different policies on developing countries, which would necessitate a strengthening of the capacity of the Ministry of Foreign Affairs to undertake the necessary analytical work.
- The mandate of the Interministerial Committee for Development Co-operation could be expanded to allow that body to play a more active role in promoting debate on policy coherence.

CHAPTER 5

ORGANISATION, STAFFING AND MANAGEMENT SYSTEMS

Overall responsibility for development co-operation in Luxembourg rests with the Ministry of Foreign Affairs, Foreign Trade, Co-operation and Defence (referred to hereafter as the Ministry of Foreign Affairs). This ministry is the leading player within the government, since it manages about 85% of Luxembourg ODA and covers bilateral co-operation, co-operation with NGOs, technical assistance, humanitarian aid, and multilateral co-operation with the United Nations system and the European Development Fund. The Ministry of Finance handles co-operation with international financial institutions, which represents 5.5% of ODA. Five other ministries (see Table 2) manage a number of activities covered by ODA (mainly contributions to international organisations), but these account for scarcely 1% of total ODA.

Table 2. ODA allocation by major categories in 2001

Ministry	% of total ODA
Foreign affairs	85.4
Finance	5.5
service	0.64
Culture	0.14
Health	0.14
State/Communications	0.02
Economy	0.01
Contribution to the EU general budget for assignment to development aid (see note below)	8.15
Total	100.00

Note: Since this is essentially a budgetary transfer involving no substantial management tasks, the contribution is not attributed to a specific ministry.

Source: Ministry of Foreign Affairs.

Ministry of Foreign Affairs

Within the Ministry of Foreign Affairs development co-operation activities are handled mainly by the Development Co-operation Directorate. Two other directorates are involved to a lesser degree: the Political Affairs Directorate, for human rights questions, and the International Economic Relations Directorate, for relations with the Central and East European countries.

A number of recent institutional developments testify to the resolve of the Luxembourg authorities to increase aid effectiveness. The makeover of the Co-operation Service in 1998 into the Development Co-operation Directorate, headed by a full-time director, has contributed to professionalization and greater stability of staff. In 1999 the government decided to entrust political responsibility for development co-operation to a minister for co-operation and humanitarian action, this responsibility having hitherto been exercised by a state secretary under the supervision of the

Minister of Foreign Affairs. In parallel with the increase in Luxembourg ODA, the government has also increased staff numbers for the implementation of its development co-operation policy.

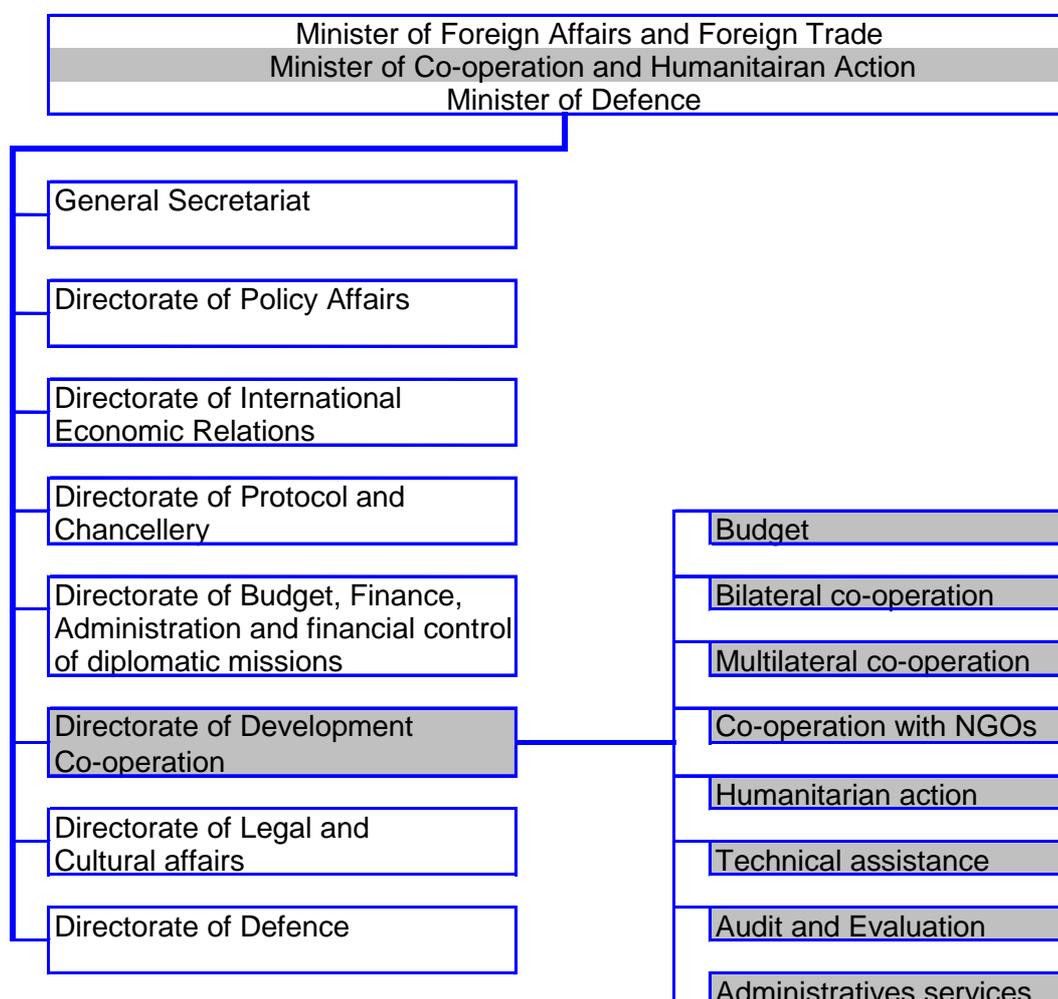
The organisation of the Development Co-operation Directorate has been strengthened by the creation of separate units (see Organisation Chart 1). The staff assigned to the directorate has been increased from 17 persons in 1999 (16 persons based in Luxembourg and one person in the field) to 27 persons in 2002 (22 based in Luxembourg and 5 in the field) (see Chapter 6 for questions concerning Luxembourg's field presence). In addition, a growing number of persons (172 in 2001 compared with 105 in 1999) are being mobilised for purposes of technical assistance. The human resources assigned to development co-operation fall into the following categories: technical co-operation personnel, who implement Luxembourg's development co-operation programmes and projects in the field or who work in the Development Co-operation Directorate; volunteers who are placed at the disposal of NGOs; trainees and grant holders; young professionals and associated experts financed through various UN agencies, and young experts financed through the European Commission.

The problem of insufficient staffing has already been raised at the two previous DAC reviews. Despite the recent staff increases, this problem continues to pose a challenge to the government, given the rapid growth of ODA. For one thing, the possibilities of creating additional civil service posts are limited by budgetary constraints. For another, the use of technical co-operation personnel, large numbers of whom have been recruited to meet additional staffing needs and who are remunerated from the co-operation budget, is being called in question by the Court of Audit. In addition to the staff increases, progress has been made as regards hiring profiles. The Ministry of Foreign Affairs is trying to hire persons with prior experience gained from Luxembourg's technical assistance programme. However, the ministry should also consider taking on staff with sector and thematic expertise (see Chapter 3) in order to be able to meet the new challenges posed by development co-operation and ensure maximum effectiveness of its activities.

Lux-Development

Lux-Development is the implementing agency of the Luxembourg government's development co-operation. As such, it is responsible for the implementation of bilateral projects, mostly those of the Ministry of Foreign Affairs. Recently the agency has also been dealing with projects for the Ministry of Finance. In 2001 Lux-Development managed nearly EUR 41.5 million in aid on behalf of the government, representing some 25% of Luxembourg's total ODA. The agency's portfolio comprises about one hundred on-going projects and about forty in the course of preparation. Lux-Development also has an accounting mandate for humanitarian aid.

Chart 1. Ministry of Foreign Affairs, Foreign Trade, Co-operation, Humanitarian Action and Defence



Source : OECD/Ministry of Foreign Affairs.

Lux-Development is a limited liability company in which the government has a majority holding (61%). The other shareholders are trade associations, consulting firms, banks, industrial companies, as well as employees of the agency. However, it is now proposed that the Luxembourg State shortly become the only shareholder of Lux-Development along with a public corporation, *Société Nationale de Crédit et d'Investissement*, which is already a shareholder. This restructuring of the agency's equity capital should bring Luxembourg into line with the European legislation on public service contracts¹⁷. The agency is headed by a board of directors meeting three or four times a year, and its day-to-day management is in the hands of a chief executive officer. The government wanted

17. The quasi-monopolistic position of Lux-Development in the Luxembourg development co-operation market has been called in question by the European Commission, which is asking for application of the rules of tender in conformity with the European Directive of 1992 on the award of public service contracts.

private-law legal status for Lux-Development when it was set up, so that the agency would have autonomy and a flexible style of management. But the agency is not for profit and its earnings are not distributed to shareholders but reinvested in development activities.

Relations between the Ministry of Foreign Affairs and Lux-Development are governed by a contractual agreement. This agreement, which was signed in 1998 for a period of five years, is currently being renegotiated to take account of certain recent developments, including the recommendations of the financial and organisational audit requested by the Luxembourg Parliament. As regards the division of tasks, the Ministry defines the policy stance and general principles, establishes the annual and multi-year programmes and selects the projects to be implemented. Lux-Development designs and implements the projects on the basis of specific mandates, which are now being reviewed in order to improve the quality of the instructions they contain.

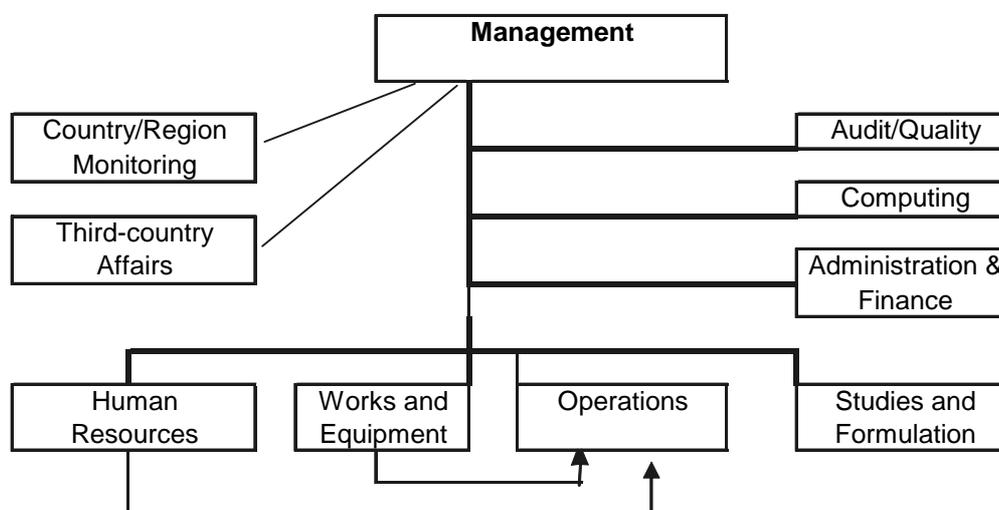
Lux-Development works almost exclusively for the Luxembourg government. It is authorized to obtain mandates from other donors, provided that the projects contracted are complementary to the agency's principal activities. However, the mandates obtained from other sources are few in number, accounting in 2001 for no more than EUR 61 500 in earnings¹⁸. With the revision of its status, Lux-Development has decided not to answer any more international calls for tender.

Payment for the agency's services is in the form of a flat-rate commission based on the amount of funds disbursed for projects being implemented. The commission is currently set at 8% and in 2001 amounted to EUR 3 million of the administrative costs borne by the Ministry of Foreign Affairs. To this should be added the cost of providing six full-time staff to work on Luxembourg bilateral projects, for which an amount of EUR 210 500 was booked in 2001, plus project design staffing expenditure booked at cash cost, amounting to EUR 375 000 in 2001.

Lux-Development is a facility that has expanded considerably over the past few years. The number of staff rose from 23 in 1998 to 53 at end-2001. The agency's operational activities are also assisted by a hundred or so national and international experts and consultants. In 2001 the organisational structure of Lux-Development was overhauled (see Organisation Chart 2). The Operations department now plays a central role and accounts for nearly half the agency's staff. The creation of support departments (Human Resources and Works & Equipment) should enable the Operations department to obtain a comprehensive view of projects for which it will have final responsibility. The agency is also set to develop a common approach for all its activities, to standardise certain methodological tools and processes and to build an increasing fund of knowledge and experience to draw upon. Managing this process of overhaul poses a considerable challenge for the agency, given its increasing workload.

18. Essentially mandates from the European Commission (organisational audit in the ACP countries, basic education in Morocco, and surveillance of territorial waters in southern Africa), the Namibian government (geomatics project) and the Swiss government (drinking water in Cape Verde).

Chart 2. Lux-Development



Source : Lux-Development.

Co-ordination

The Interministerial Committee for Development Co-operation was set up under the Development Co-operation Act of 1996. It comprises representatives of a dozen or so ministries¹⁹ and its chair and secretariat are provided by the Ministry of Foreign Affairs. Its chief assignment is to give its opinion on the thrust of development co-operation policy and on a number of technical matters concerning development co-operation personnel. As mentioned in Chapter 4, the committee's role could be expanded so that it might take a more active part in promoting the debate on policy coherence for development.

Given the small size of the Luxembourg administration, much co-ordination is *de facto*. A large number of public officials perform more than one function and meet frequently on a formal or informal basis. On visits abroad, the Minister for Co-operation and Humanitarian Action is often accompanied by officials from other ministries and sometimes by members of Parliament and representatives of NGOs.

However, co-ordination could be improved at several levels:

- **Co-ordination between the Ministry of Foreign Affairs and the Ministry of Finance.** The Ministry of Finance, which is responsible for co-operation with the international financial institutions, makes a material contribution to an increasing number of their activities, by co-financing projects that have a direct link with traditional co-operation

19. In addition to Foreign Affairs, the Committee includes the following ministries: Agriculture, Viticulture and Rural Development; Economic Affairs; Education and Vocational Training; Environment; Finance; Civil Service and Administrative Reform; Advancement of Women; Health; Social Security; Treasury. Since the Committee's inception, two further ministries have been invited to take part in its meetings: Communications and Labour.

activities²⁰. In the interests of complementarity with the activities of the Ministry of Foreign Affairs, the Ministry of Finance is trying increasingly to select activities in target countries. Here it might be useful if the Ministry of Finance were more closely associated with the framing of indicative co-operation programmes, which should cover all of Luxembourg's cooperation activities. Co-ordination between bilateral and multilateral co-operation could also be improved so as to enable Luxembourg to better define its position on assistance to target countries from the international financial institutions, a responsibility that continues to rest with the Ministry of Finance. The field knowledge and experience acquired by the Ministry of Foreign Affairs could be put to better use if the process of consultation were made more rigorous. An interesting practice used by an increasing number of DAC countries is to require field personnel to monitor the activities of international institutions and their approaches to partner countries, so that the reality of the field will be reflected in the discussions of the executive bodies of the different international organisations, especially on Poverty Reduction Strategy Papers.

- **Co-operation with the Central and East European countries.** Like other DAC Members, Luxembourg should consider whether co-operation with the transition countries might not derive more benefit from the lessons of co-operation experience with developing countries if its management were transferred to the Development Co-operation Directorate.
- **Relations between the Ministry of Foreign Affairs and Lux-Development.** The contractual agreement governing relations between the Ministry of Foreign Affairs and Lux-Development and the mandates for project design and implementation are being reviewed. In that context it would be appropriate to take account of the trend of development co-operation, which is becoming more partnership-oriented and aims to promote increased local ownership.

Monitoring and evaluation systems

The previous DAC review expressed doubts concerning progress on quality control, which remained a major challenge to Luxembourg co-operation. The government recognises that more remains to be done to build evaluation into Luxembourg's administrative culture with its traditional focus on financial control. In its 1999 programme the government undertook to conduct a periodic evaluation of development aid. As of that year the Ministry of Foreign Affairs has had a special budget appropriation for monitoring, control and evaluation, amounting in 2003 to some EUR 750 000 or twice the amount for 1999. This should finance the evaluation of four bilateral projects, one country programme and two framework agreements with NGOs.

Measures to provide for *ex post* independent evaluation, in line with the *DAC Principles for Evaluation of Development Assistance*, are being set in place. An 'evaluation and audit' unit was created in 2002 to cover all governmental co-operation activities, including co-financing of the activities of Luxembourg NGOs. One of the tasks of the new unit was to draw up, with the help of external consultants, a manual on project monitoring and evaluation. The new system uses an interesting approach designed to better integrate evaluation into the entire project cycle, improving *ex ante* evaluation at the stage of formulation and assessment of project proposals, which hitherto was fairly limited and conducted on an *ad hoc* basis. For example, sets of criteria are being prepared to improve decision-making at the project identification and approval stage; these cover cross-cutting

20. Such activities include the HIPC Initiative, the Consultative Group on International Agricultural Research (CGIAR), the Consultative Group to Assist the Poorest (CGAP), the Global Environment Facility (GEF), the Foreign Investment Advisory Service (FIAS), etc.

themes like good governance, gender equality, environment, impact on poverty reduction, and project sustainability. This should also serve to improve the mandates for project design and implementation issued to Lux-Development by the Ministry of Foreign Affairs.

The evaluation unit is under the direct authority of the head of the Development Co-operation Directorate of the Ministry of Foreign Affairs but works in close association with the operations officers. The unit proposes, in consultation with those officers, an annual programme of projects for evaluation, which is submitted for approval to the Development Co-operation Director and to the Minister for Co-operation and Humanitarian Action. For the purpose of recruiting evaluation experts, the unit prepares the relevant terms of reference and issues a call for tenders in the Luxembourg press and with the evaluation units of other DAC countries. The tenders are judged according to the relevant standards of the European Commission by a board comprising the evaluation unit and the different geographic units, including the one directly concerned. Project evaluation is conducted on a participatory basis with project beneficiaries. The evaluation findings are returned first to Luxembourg, to the Development Co-operation Director, the evaluation unit and the operational team concerned, and then in the partner country to the project beneficiaries and the local authorities responsible. At the different meetings to discuss the evaluation report, efforts are made to reach common conclusions that reflect the comments and reactions at different levels, notably concerning the implications of the recommendations made. These comments are not designed to change the actual content of the evaluation report, which remains self-standing, and are grouped in an annex to the report.

Although Lux-Development is principally concerned with monitoring projects during their implementation, the agency generally commissions an evaluation at the time of completion. Each project has a special budget for this purpose, and the evaluation exercise is carried out by independent experts. Lux-Development is also introducing an ISO 9001 certification system designed to improve quality control of its activities²¹. The report on the financial and organisational audit carried out in 2002 states that the agency should develop mid-term review of its activities. An evaluation conducted in Niger in 2002 regarding a project for support to the handicraft sector also shows that monitoring was not systematic despite the fact that the project document contained indicators of implementation for the different activities envisaged. Moreover, the evaluation showed that the monitoring process was geared more to the requirements of Lux-Development and provided only a limited input in terms of synthesis and strategic orientation that could be useful to the government of Niger and to the Ministry of Foreign Affairs. The evaluation report recommended that more account be taken in future of the general thrust of co-operation between Luxembourg and Niger, a task that should be facilitated by the framing of an annual programme of co-operation. The report also made recommendations on project design and implementation practices, notably a simplification of procedures, a decentralisation of responsibilities and greater empowerment of local structures.

On the whole, the measures adopted have considerably improved the monitoring and evaluation system. It might be useful for Luxembourg to consider making further efforts in the following areas:

- As yet, too few evaluations have been conducted to have a very clear idea of the outcomes and impact of Luxembourg's development co-operation. In the present context of introducing measures to strengthen evaluation, it is important to define precisely the criteria for selection of the activities to be evaluated. For example, sectoral and thematic evaluations

21. Finalisation of this initiative, already mentioned in the 1999 review, has been delayed for various reasons. The present management of the agency has undertaken to complete the exercise as soon as possible.

might be useful as a means of better identifying the progress made in certain priority areas like basic education, primary health care and microfinance.

- Luxembourg still needs to define performance indicators to measure the impact of its development activities. For this, programming and implementation would have to become more results-oriented, which might be possible with the transition from a project-based to a programme-based approach (see Chapter 6). Framing of sectoral strategies might be useful in order to identify expected outcomes and monitor performance by reference to established indicators – in particular, indicators related to the Millennium Development Goals.
- To ensure transparency, but above all to improve the management of knowledge and experience outside the Luxembourg context, evaluation results should be circulated as widely as possible. The list of projects to be evaluated and the evaluation reports of the Ministry of Foreign Affairs and Lux-Development should be accessible on the latter's Internet sites.
- Given the increasing importance of multi-bilateral activities, these should also be monitored and evaluated. Moreover, the Ministry of Finance could be associated with the efforts to improve monitoring and evaluation being made by the Ministry of Foreign Affairs.

Non-governmental organisations

Luxembourg NGOs are very active in development co-operation. The financial resources put at their disposal by the Ministry of Foreign Affairs are very considerable: disbursements have doubled since 1998 to reach EUR 21 million and represent about 13% of ODA. Unlike the case with other DAC countries, financing is not confined to a relatively small number of NGOs and 76 Luxembourg organisations have received entitlement to state funding. Recognising the useful contribution made by NGOs, which are close to the local realities and populations in developing countries, the government respects their autonomy and initiative and does not try to use them as implementing agencies.

Luxembourg has a comparatively generous system of NGO project co-financing. Luxembourg NGOs can receive co-financing from the Ministry of Foreign Affairs for up to 75% of a project's total cost. The government is trying to get NGOs to work in the target countries by limiting co-financing to 66.7% of total project cost when the projects are located outside the target countries. The more experienced NGOs can receive block grants, whereby the government does not co-finance one project but a series of projects of restricted range, for up to 75% of total cost. The government provides for the administrative expenses of NGOs on a flat-rate basis of 4% of the volume of their activities or on the basis of incurred expenses for up to 10% of the volume of activities. In 2001 the provision for administrative expenses of NGOs amounted to nearly EUR 800 000. In addition, the Ministry of Foreign Affairs contributes towards the operating expenses of the Circle of NGOs, the umbrella organisation that covers the main Luxembourg NGOs, and towards those of the Technical Assistance Bureau (BAT) – and the Bureau for North South Education – formerly the Service for Support to Development Education (SAEDEV), which operate as services of the Circle of NGOs.

In 2000 a new instrument was introduced, the framework agreement, which is an agreement concluded for a period of two to five years on the basis of an action programme submitted by an NGO to the Ministry of Foreign Affairs. Such an instrument has the advantage of introducing a strategic dimension into the dialogue between the ministry and the NGO that goes beyond the negotiation of funding. The NGO's action programme has to reflect a single, clear and coherent strategy that may have a geographic, sectoral or thematic dimension (which includes development education). This is the most generous arrangement, since the Ministry of Foreign Affairs finances up to 85% of the

proposed programme's budget, irrespective of whether the programme's activities are located in a target country or not. It is reserved for the most experienced NGOs, which have qualified for a given level of co-financing during the three preceding years. Experience in the implementation and management of co-financed projects has to be certified by financial audit and evaluation. In 2001 twelve NGOs, including a consortium of two NGOs, received state subsidies under framework agreements – representing government contributions in the range of EUR 0.1 million to EUR 2.6 million – which accounted for more than half of total disbursements to NGOs.

In order to improve collaboration with NGOs, the following measures have been taken with the support of the Ministry of Foreign Affairs:

- **Creation of the BAT in 2000.** The mandate of the Bureau is to assist NGOs with the preparation, management and evaluation of projects. The aim is to improve Luxembourg's co-operation activities, enhance the professional competence of NGOs and facilitate their collaboration with the Ministry of Foreign Affairs. The Bureau's activities are mainly to provide theoretical training and customised support and counselling. This assistance has proved very useful, especially for NGOs that depend essentially on volunteers. The Bureau is integrated into the Circle of NGOs and is run by two professionals and a management committee comprising representatives of the Ministry of Foreign Affairs and the Circle of NGOs.
- **Creation of the SAEDEV in 2000.** The mandate of this service is to promote policies for development education and public awareness-raising, with the focus on youth at primary and secondary education levels. Its activities are mainly to organise training courses, workshops and exhibitions, and to design learning modules and continuous teacher training in matters of development co-operation. SAEDEV works in close association with the NGOs active in the field of development education. The service, which is integrated in the circle of NGOs, is staffed by three teachers on part-secondment from their schools and one full-time professional who is also responsible for the administrative management.
- **Dialogue between the Ministry of Foreign Affairs and NGOs.** A working group comprising the Development Co-operation Director and representatives of NGOs meets regularly. A sub-group has been set up specifically to monitor the practical implementation of framework agreements. In addition, a general assembly chaired by the Minister for Co-operation and Humanitarian Action was reintroduced in 2001 to permit broader consensus-building.

Future considerations

- In the context of growth of the volume of ODA, the Ministry of Foreign Affairs should continue to pay particular attention to staffing requirements and the nature of the expertise required, notably in the priority sectors of Luxembourg co-operation.
- The Ministry of Foreign Affairs should aim for better integration between co-operation with the countries of Central and East Europe and co-operation with developing countries.
- Co-ordination between the foreign and finance ministries could be improved, notably as regards the framing of indicative co-operation programmes for target countries and the preparation of Luxembourg's positions regarding the international financial institutions.

Luxembourg

- The strengthening of the co-ordination in the field between the Ministry of Foreign Affairs and Lux-Development should take account of the strategies being adopted in developing countries, notably poverty reduction strategy papers and sector approaches which aim at promoting partnership and local ownership.
- The Ministry of Foreign Affairs is urged to continue its efforts to strengthen the monitoring and evaluation system for all Luxembourg's co-operation activities.

CHAPTER 6

FIELD ACTIVITIES AND LOCAL OWNERSHIP

Country-specific strategies and aid programming

Considerable progress has been made in aid programming, notably through the indicative co-operation programmes which Luxembourg has begun to draw up progressively with its target countries. These multi-year programmes are intended to serve as a guide for Luxembourg's co-operation with the target countries, defining basic principles and areas of action. They aim to achieve a better match with the development priorities of partner countries, along with greater transparency and predictability in the marshalling of all Luxembourg's development co-operation resources. They reflect Luxembourg's will to introduce a strategy-based as opposed to project-based approach in order to enhance the quality of its aid. The annual co-operation programmes will serve as a guide for the identification and selection of the projects that Luxembourg agrees to finance. Co-operation with target countries has also been strengthened by the establishment of partnership committees that enable Luxembourg and its partner countries to annually review their co-operation activities and to determine policy settings for the future.

The annual co-operation programmes are drawn up by the Luxembourg authorities in close co-operation with their partner countries. Once Luxembourg has stated the manner in which it intends to work in the priority sectors, it is for the partner country to show how the Luxembourg input fits into its own strategies and contributes to the achievement of the Millennium Development Goals. The annual co-operation programme provides for continued policy dialogue with the aim of promoting observance of democratic principles, notably advancement and safeguarding of human rights, strengthening of the rule of law and good governance, and action to combat poverty. More specific themes may be added, such as regional integration and globalisation, social cohesion, or taxation measures, as in the case of El Salvador. The programme document is the subject of consultations with the ministries concerned, other donors, civil society and NGOs, including Luxembourg NGOs. The document is finalised at a meeting with the partner country. The indicative co-operation programme for Vietnam, for example, is intended to be consistent with the framework agreement of the European Commission, which was the subject of in-depth strategic reflection and extensive consultation among Member States.

The annual co-operation programmes seem on the whole to constitute a good approach, even though there is still room for improvement in their framing at a number of levels. First of all, despite a good sectoral concentration globally, in nearly each of the target countries Luxembourg is active in the area of health and education as well as in one or more other sectors. The number of projects is also relatively high in a number of target countries in relation to the scale of Luxembourg's country programmes. Consolidation in a smaller number of sectors in each target country and a smaller number of projects would probably enable Luxembourg to increase the critical mass of its financial input and expertise in a given sector. This would also help to simplify aid management and reduce transaction costs, particularly for partner countries, while making it easier to evaluate the overall coherence and relevance of Luxembourg's strategy in a given country, together with that strategy's effectiveness and potential impact on poverty reduction.

In view of the increasing resources at the disposal of NGOs and the concern with strengthening the strategic dimension of co-financing through the system of framework agreements (see Chapter 5), it would be desirable to try to create more synergies between the activities of the Ministry of Foreign Affairs and those of the NGOs, particularly the ones that receive funding from the Luxembourg government. The question that arises, as for other donor countries, is that of the role that Luxembourg NGOs can play in strengthening the participation of civil society in the formulation and implementation of national development strategies, through the support they bring to their partners in developing countries.

Finally, now that the recent experience of certain developing countries shows that sector-specific approaches carefully designed in close consultation with partners and progressively introduced can yield favourable results, Luxembourg might consider how, in certain countries and in certain sectors – notably primary health and basic education – it could increase the strategic dimension of its aid. This presupposes close participation in the joint efforts of donors to support national strategies in certain sectors, by way of projects or budget support. The result might be a useful contribution to present endeavours to harmonise procedures and apply more efficient and responsible methods of public management in partner countries, both for aid programming and for aid management, with a consequent easing of the constraints that partner countries experience when they have to deal with each donor individually and report to them separately according to many different procedures.

Approach to relations with partner countries

Luxembourg attaches great importance to local ownership and is trying to put measures in place that ensure real empowerment of partner countries in the management of aid. Transfer of management responsibilities to local partners – including at the financial level – has become a reality in some countries, even when project management has been entrusted to Lux-Development. That agency, which assumes responsibility for project execution, generally delegates implementation of activities to experts or specialised consultants. In the case of Senegal, on the other hand, a number of projects are put in hand on the sole operational responsibility of the local authorities, without recourse to an external project team. For a few projects in Mali and Nicaragua, the Ministry of Foreign Affairs has opted for national execution, without even going through Lux-Development or other external agents. In principle, Luxembourg aid is untied.²² Lux-Development is trying to bring partner countries into the tendering system so that service contracts can be awarded locally as much as possible, the result being a large market share for engineering firms and consultancies in developing countries.²³

Hitherto, for want of an overall programming framework, which is now being provided by the annual co-operation programmes, Luxembourg aid tended to be a patchwork of individual stand-alone projects with no nationwide scope or institutional support. The isolated nature of such projects poses a risk to their technical, institutional and financial sustainability, in case they are not sufficiently embedded in national development policies and plans. Luxembourg realises the limitations of this type of project and has therefore sought complementarities through multi-bilateral projects. In Laos, for example, Luxembourg financed a healthcare support project for one of the country's provinces. The first phase of the project focused on the creation of infrastructures. The second concentrated on implementing a healthcare system that would ensure the project's sustainability, through enhanced quality of the services provided, but above all through co-financing with the International Labor

22. Only 15% of the financial volume of contracts awarded by Lux-Development are with engineering companies and consultancies of Luxembourg origin.

23. Since management of these contracts is decentralised, further information about them is not yet available in the central database of Lux-Development.

Office (ILO) to establish a social security system that ensures access to healthcare for the neediest segments of the population. In Laos, Luxembourg is also financing, through the WHO, a project to develop a national policy for maintenance and management of medical equipment. Another original approach by Luxembourg has been to require a higher-income country, like Namibia, to provide up to 50% co-financing (see Chapter 2). The resulting level of commitment by the partner country makes for increased local ownership of Luxembourg development co-operation activities and hence their sustainability.

The annual co-operation programmes reflect Luxembourg's resolve to move progressively from a project-based to a programme-based approach. This is undoubtedly a useful and necessary first step towards bringing individual projects into a consolidated framework that permits more strategic action by way of complementary activities. Efforts are made to ensure that each project is really integrated into the sectoral plans of partner countries and contribute to the strengthening of national capacities in the sectors concerned. One approach that could be tried in this context would be to formulate sector-specific multi-year mandates for Lux-Development. Luxembourg is prepared in principle to consider modes of implementation that will involve partners to a greater extent and is following with interest the experiences of other donors with regard to sector approaches and budget support. In the Luxembourg context, a move to budget support might necessitate efforts to enlighten Parliament, given that the legislation in force requires precise accountability as to the use of aid.

Field presence

To increase the effectiveness and visibility of its co-operation, Luxembourg has established a field presence for the first time with the opening in 2001 of the Co-operation Mission at Dakar in Senegal and the Bureau for Co-ordination of Co-operation at Praia in Cape Verde. The deployment of a regional presence in Asia and Central America is scheduled for 2003. As a rule, this presence is limited to one Luxembourg co-operation officer with local logistical and administrative support. In the case of Senegal, the Luxembourg representative at this stage covers two other target countries in the region: Burkina Faso and Mali. However, the Ministry of Foreign Affairs plans to set up branch units in those two countries and in Niger so that Luxembourg may play a larger part in local co-ordination. The form and nature of the branch units have yet to be determined.

Although decision-making ultimately rests with the Ministry of Foreign Affairs, the local representative seems to have considerable latitude as far as actual operations are concerned. Ease of communication with Luxembourg and the system's flexibility enable the representative to operate efficiently and respond rapidly to the requests of local partners.

Lux-Development likewise has a field presence in a number of countries²⁴. This presence, in some cases consisting of one or more project teams, has been deployed *ad hoc* according to the needs for foreign technical assistance. It has been deployed more markedly in a number of target countries in the form of co-ordination bureaux with remits focusing on logistical and administrative support for projects. Lux-Development is now planning to increase its field presence and decentralise responsibilities in order to draw closer to local realities and ensure better monitoring of its activities. This will raise a number of questions, including the increase in administrative costs and, above all, the division of roles and responsibilities in the field between the Ministry of Foreign Affairs and Lux-Development. It should be pointed out that partner countries often do not distinguish between the representatives of the ministry and those of the agency, treating them alike as representatives of the Luxembourg government. The deployment of human resources in the field by the Ministry of Foreign

24. It has offices in Cape Verde, Niger, Namibia, Rwanda, Nicaragua, Laos and Vietnam.

Luxembourg

Affairs and by Lux-Development should therefore continue with due regard for their separate roles and exploiting the possibilities of economies of scale as far as possible. Above all, it is important to turn the fund of knowledge and experience of both bodies to maximum account, possibly with a pooling of available resources.

Future considerations

- With regard to the framing of its annual co-operation programmes, Luxembourg should consider narrowing its sectoral coverage in each target country, even down to one sector per country, and revising the number of projects in light of transaction costs, management effectiveness and prospective impact.
- Given its commitment to local ownership, Luxembourg could take measures to bring its projects still more in line with national strategies and consider working selectively on sectoral approaches with other donors.
- Luxembourg is encouraged to continue its moves to increase its presence in target countries, while seeking an optimum allocation of activities in the field between the Ministry of Foreign Affairs and Lux-Development and the match between activity volume and costs.

ANNEX I

PROGRESS MADE BY LUXEMBOURG SINCE THE 1998 DAC REVIEW

Main problems	Recommendations	Progress made
Geographic concentration	Maintenance of a restricted number of target countries.	Considerable progress has been made with the reduction of the number of target countries to ten, all of them among the chief recipients of Luxembourg's bilateral ODA. However, the share of bilateral ODA to target countries fell from 54% in 2000 to 43% in 2001. The list of project countries could be more selective.
Partnership	Strengthening of dialogue with target countries.	The indicative co-operation programmes and Luxembourg's new field presence have served to strengthen dialogue with partner countries.
Co-ordination	Tighter co-ordination between the Ministry of Foreign Affairs, Lux-Development and NGOs.	The contractual agreement between the Ministry of Foreign Affairs and Lux-Development is being reviewed, as are the formulation and implementation mandates. Co-ordination will continue to necessitate attention being given to the trend of development co-operation with its emphasis on partnership and local ownership.
Co-financing of NGO activities	Concentration on experienced NGOs and search for different forms of co-operation with small NGOs.	The introduction of framework agreements has made it possible to diversify co-financing arrangements. The creation of the Technical Assistance Bureau has proved useful for the small NGOs.
Monitoring and evaluation	Introduction of an evaluation strategy, reinforcement of monitoring and increased <i>ex post</i> external evaluations.	Efforts have been made to strengthen the monitoring and evaluation system. It is too early as yet to draw any conclusions.
Quality control	More rigorous project selection and greater attention to project sustainability.	The monitoring system aims to strengthen project management from the moment of project identification. The indicative programmes of co-operation provide a useful frame of reference for project selection. Multi-bilateral activities in the target countries have made it possible to take more account of the different aspects of project sustainability.
Personnel	Increase in staff numbers and training.	Staff numbers of the Ministry of Foreign Affairs and Lux-Development have increased considerably, but both bodies are still short of sectoral and thematic expertise.

ANNEX II

OECD/DAC STANDARD SUITE OF TABLES

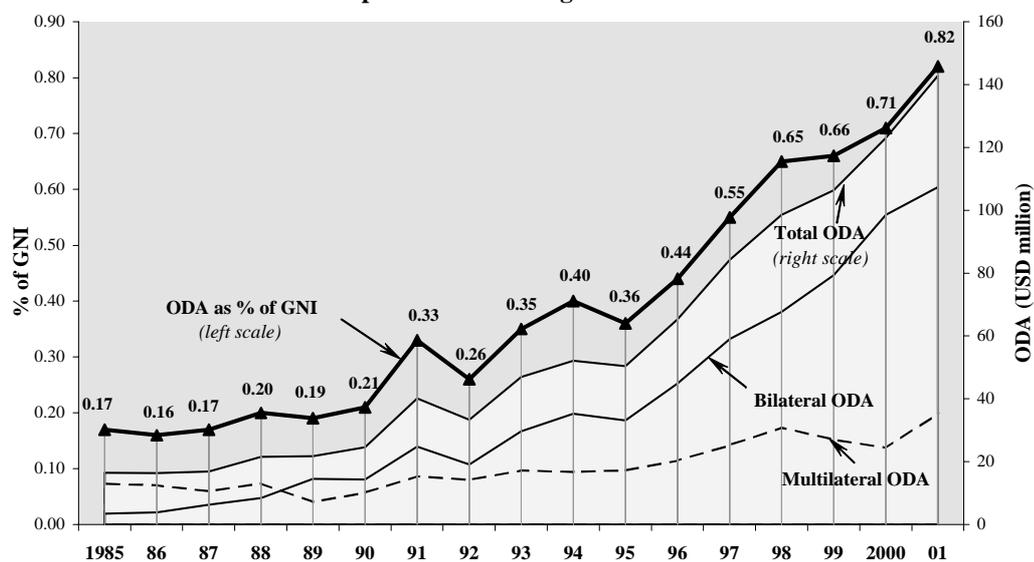
Table II-1. Total financial flows

USD million at current prices and exchange rates

Luxembourg	Net disbursements						
	1985-86	1990-91	1997	1998	1999	2000	2001
Total official flows	10	36	97	114	121	130	149
Official development assistance	10	34	95	112	119	123	141
Bilateral	2	20	66	77	89	99	106
Multilateral	8	13	28	35	30	24	35
Official aid	n.a.	3	2	3	3	7	9
Bilateral	-	-	2	3	3	3	3
Multilateral	-	3	-	-	-	4	6
Other official flows	-	-	-	-	-	-	-
Bilateral	-	-	-	-	-	-	-
Multilateral	-	-	-	-	-	-	-
Grants by NGOs	-	2	6	6	6	6	5
Private flows at market terms	-	-	-	-	-	-	-
Bilateral: of which	-	-	-	-	-	-	-
Direct investment	-	-	-	-	-	-	-
Export credits	-	-	-	-	-	-	-
Multilateral	-	-	-	-	-	-	-
Total flows	10	38	103	121	127	136	154
<i>for reference:</i>							
ODA (at constant 2000 \$ million)	16	32	84	99	106	123	143
ODA (as a % of GNI)	0.17	0.27	0.55	0.65	0.66	0.71	0.82
Total flows (as a % of GNI) (a)	0.17	0.29	0.58	0.68	0.69	0.75	0.85

a. To countries eligible for ODA.

ODA net disbursements
At constant 2000 prices and exchange rates and as a share of GNI



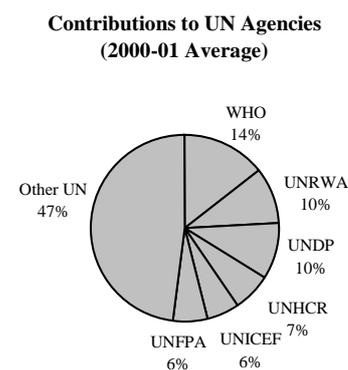
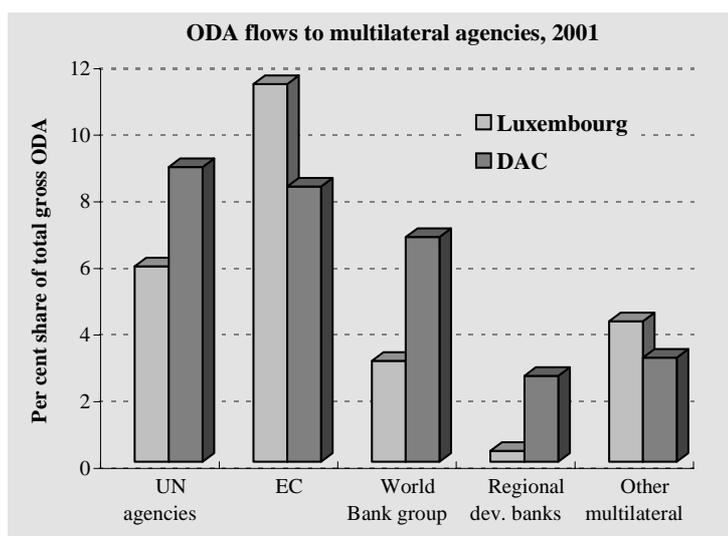
Source: OECD.

Table II-2. ODA by main categories

Luxembourg	Constant 2000 USD million					Per cent share of gross disbursements					Total DAC 2001%
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
	<i>Disbursements</i>										
Gross Bilateral ODA	59	68	79	99	107	70	69	75	80	75	70
<i>Grants</i>	<i>59</i>	<i>68</i>	<i>79</i>	<i>99</i>	<i>107</i>	<i>70</i>	<i>69</i>	<i>75</i>	<i>80</i>	<i>75</i>	<i>56</i>
Project and programme aid	46	54	51	75	86	54	55	48	61	60	13
Technical co-operation	2	2	1	2	5	2	2	1	2	3	23
Developmental food aid	1	1	2	1	1	1	1	1	1	1	2
Emergency and distress relief	7	9	21	10	13	9	9	20	8	9	5
Action relating to debt	-	-	-	1	-	-	-	-	1	-	4
Administrative costs	2	1	2	1	1	3	1	2	1	1	5
Other grants	1	1	2	8	2	1	1	2	6	1	4
<i>Non-grant bilateral ODA</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>14</i>
New development lending	-	-	-	-	-	-	-	-	-	-	13
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	1
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	0
Gross Multilateral ODA	25	31	27	24	35	30	31	25	20	25	30
UN agencies	8	9	7	7	8	9	9	6	6	6	9
EC	13	17	14	11	16	15	17	13	9	11	8
World Bank group	4	6	5	4	4	5	6	5	4	3	7
Regional development banks (a)	-	-	-	-	0	-	-	-	-	0	3
Other multilateral	0	-	1	2	6	0	-	1	2	4	3
Total gross ODA	84	99	106	123	143	100	100	100	100	100	100
Repayments and debt cancellation	-	-	-	-	-	-	-	-	-	-	-
Total net ODA	84	99	106	123	143	-	-	-	-	-	-
<i>For reference:</i>											
<i>ODA to and channelled through NGOs</i>	<i>16</i>	<i>20</i>	<i>21</i>	<i>28</i>	<i>20</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Associated financing (b)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

a Excluding EBRD.

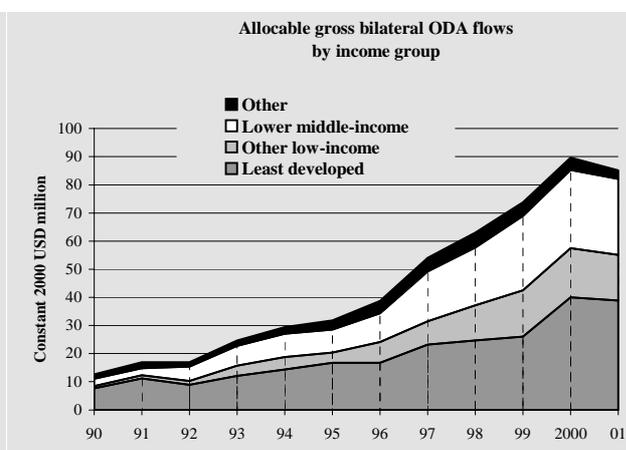
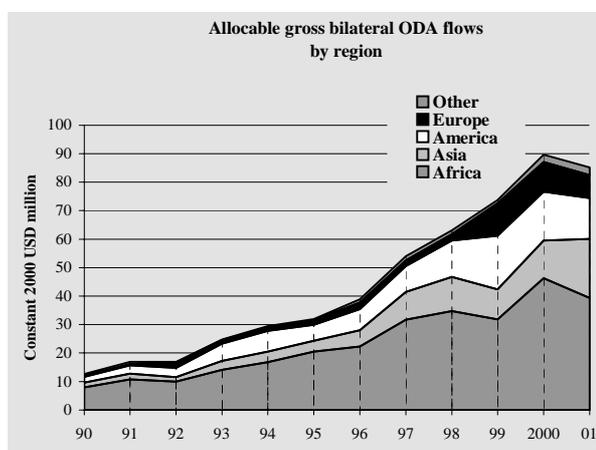
b. ODA grants and loans in associated financing packages.



Source: OECD.

Table II-3. Bilateral ODA allocable by region and income group

Luxembourg	Constant 2000 USD million					Per cent share					Total DAC 2001%
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
						Gross disbursements					
Africa	32	35	32	46	39	59	55	43	52	46	32
Sub-Saharan Africa	27	30	29	43	34	50	48	39	48	40	25
North Africa	5	5	3	4	5	8	8	4	4	6	7
Asia	10	12	10	13	21	18	19	14	15	24	41
South and Central Asia	5	4	5	3	10	9	6	6	4	11	18
Far East	5	8	6	10	11	9	13	8	11	13	23
America	9	13	19	17	14	17	20	26	19	17	15
North and Central America	4	7	15	13	11	7	11	21	15	13	7
South America	5	6	4	4	4	9	9	5	4	4	8
Middle East	1	1	1	3	3	3	2	2	3	3	4
Oceania	-	-	-	-	-	-	-	-	-	-	2
Europe	2	2	11	10	8	4	3	15	12	9	6
Total bilateral allocable	54	63	74	90	85	100	100	100	100	100	100
Least developed	23	25	26	40	39	43	39	35	45	46	26
Other low-income	8	13	16	17	16	15	20	22	19	19	34
Lower middle-income	18	20	26	28	27	33	33	36	31	32	35
Upper middle-income	5	5	5	4	3	9	8	7	5	4	5
High-income	-	-	-	-	-	-	-	-	-	-	0
More advanced developing countries	0	0	-	-	-	0	0	-	-	-	-
<i>For reference:</i>											
<i>Total bilateral</i>	59	68	79	99	107	100	100	100	100	100	100
<i>of which: Unallocated</i>	5	5	6	9	22	8	7	7	9	21	23

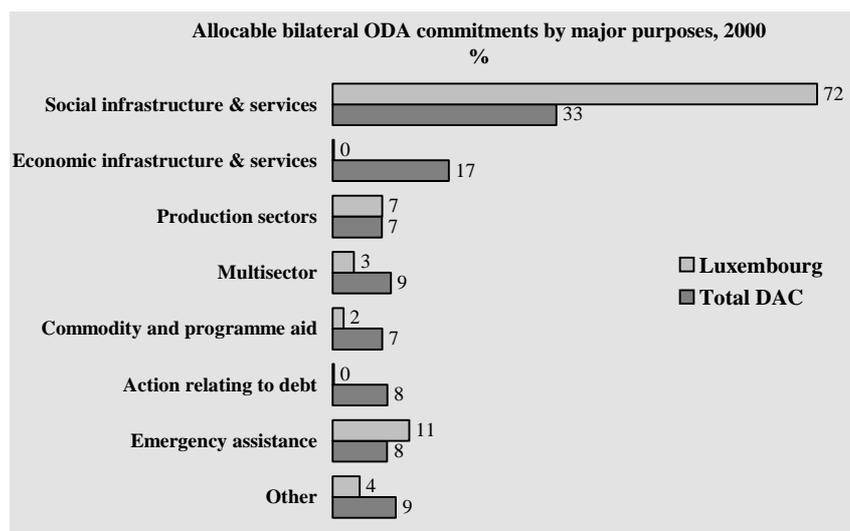


Source: OECD.

Table II-5. Bilateral ODA by major purposes

at current prices and exchange rates

Luxembourg	Gross disbursements						
	1990-91		1995-96		2000		Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
Social infrastructure & services	-	-	23	41	65	72	33
Education	-	-	7	12	22	24	8
of which: basic education	-	-	-	-	8	8	2
Health	-	-	9	16	18	20	4
of which: basic health	-	-	-	-	8	9	2
Population programmes	-	-	-	-	-	-	2
Water supply & sanitation	-	-	1	1	10	11	7
Government & civil society	-	-	1	2	-	-	5
Other social infrastructure & services	-	-	5	9	16	17	7
Economic infrastructure & services	-	-	3	6	-	-	17
Transport & storage	-	-	1	1	-	-	9
Communications	-	-	0	1	-	-	1
Energy	-	-	-	-	-	-	3
Banking & financial services	-	-	1	1	-	-	1
Business & other services	-	-	2	3	-	-	4
Production sectors	-	-	3	6	7	7	7
Agriculture, forestry & fishing	-	-	3	6	4	4	5
Industry, mining & construction	-	-	0	1	-	-	2
Trade & tourism	-	-	-	-	3	3	0
Other	-	-	-	-	-	-	0
Multisector	-	-	2	4	3	3	9
Commodity and programme aid	-	-	1	1	1	2	7
Action relating to debt	-	-	-	-	-	-	8
Emergency assistance	-	-	9	16	10	11	8
Administrative costs of donors	-	-	2	4	1	1	7
Core support to NGOs	-	-	12	21	2	3	3
Total bilateral allocable	-	-	56	100	90	100	100
<i>For reference:</i>							
Total bilateral	-	-	57	70	99	80	73
of which: Unallocated	-	-	1	1	9	7	5
Total multilateral	-	-	24	30	24	20	27
Total ODA	-	-	81	100	123	100	100



Source: OECD.

Table 3. Table II-6. Comparative aid performance

	Official development assistance		Grant element of ODA (commitments) 2001 % (a)	Share of multilateral aid 2001 % of GNI			ODA to LDCs Bilateral and through multilateral agencies 2001 % of ODA % of GNI	Official aid 2001	
	2001	95-96 to 00-01 Ave. annual % change in real terms		%				USD million	% of GNI
				(b)	(c)	(c)			
Australia	873	0.6	24.3	0.06	21.4	5	0.00		
Austria	533	0.2	35.9	0.10	18.8	212	0.11		
Belgium	867	3.5	42.1	0.15	32.4	88	0.04		
Canada	1 533	-2.6	21.7	0.05	15.1	152	0.02		
Denmark	1 634	4.4	36.7	0.38	32.4	181	0.11		
Finland	389	5.0	42.3	0.14	28.5	61	0.05		
France	4 198	-6.6	38.2	0.12	24.7	1 334	0.10		
Germany	4 990	-1.2	42.8	0.12	22.1	687	0.04		
Greece	202	8.2	59.1	0.10	11.3	9	0.01		
Ireland	287	11.9	35.7	0.12	50.0	0	0.00		
Italy	1 627	-2.3	72.8	0.11	27.4	281	0.03		
Japan	9 847	3.0	24.3	0.06	18.1	84	0.00		
Luxembourg	141	18.1	24.8	0.20	31.9	9	0.05		
Netherlands	3 172	5.0	29.9	0.25	30.8	214	0.06		
New Zealand	112	5.6	24.1	0.06	26.0	0	0.00		
Norway	1 346	1.7	30.1	0.25	33.5	32	0.02		
Portugal	268	6.7	31.7	0.08	42.9	28	0.03		
Spain	1 737	7.3	33.8	0.10	11.1	14	0.00		
Sweden	1 666	4.4	27.7	0.22	27.7	119	0.06		
Switzerland	908	3.0	29.0	0.10	28.5	63	0.02		
United Kingdom	4 579	5.8	42.7	0.14	34.8	461	0.03		
United States	11 429	3.2	27.5	0.03	14.8	1 542	0.02		
Total DAC	52 336	1.8	33.1	0.07	22.5	5 574	0.02		
Memo: Average country effort			0.40						

Notes:

a. Excluding debt reorganisation.

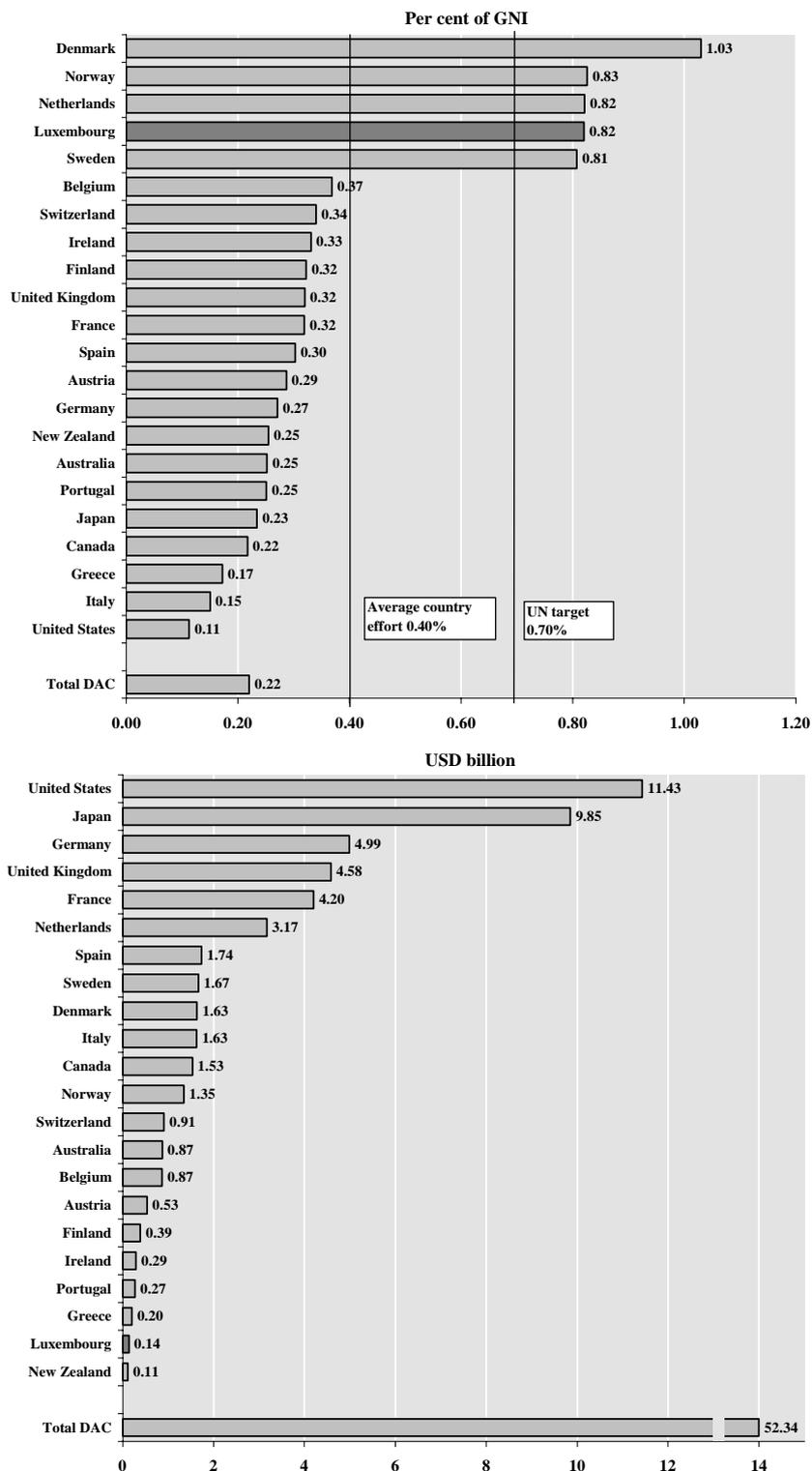
b. Including EC.

c. Excluding EC.

.. Data not available.

Source: OECD.

Figure 1. Chart II-1. Net ODA from DAC countries in 2001



Source: OECD.

PRESS RELEASE OF THE DAC PEER REVIEW OF LUXEMBOURG

Luxembourg has significantly increased both its official development assistance from USD 99 million (0.65% of GNI) in 1998 to USD 143 million (0.82% of GNI) in 2001 - and the quality of the aid it gives, according to the Development Assistance Committee's (DAC) review of its development co-operation. Luxembourg is on track to reach the government's objective of 1% of GNI by 2005. It now ranks 4th out of the 22 Development Assistance Committee (DAC) member countries in terms of ODA/GNI and 21st in volume terms. The DAC pays tribute to Luxembourg's aid contribution.

During the review of Luxembourg's development co-operation policies and programmes on 18 March 2003, the DAC noted its orientation to poverty reduction in support of the Millennium Development Goals. More than half of Luxembourg's 'target' list of 10 countries fall in the least-developed category and 82% of its ODA supports social infrastructure and social services: education, basic health, water supply and sanitation. Measures are being taken to improve the quality of this aid: long-term co-operation programmes with target countries, deploying Luxembourg officials in the field, improved collaboration with non-governmental organisations, and the introduction of a monitoring and evaluation system.

The DAC Chairman, Jean-Claude Faure, summarised the Committee's main findings and its key recommendations to Luxembourg:

- Continue to focus on a limited number of target countries and maintain efforts to integrate projects into wider strategic programs. The DAC noted the reduction in the number of target countries and encouraged Luxembourg to maintain efforts in this direction. Luxembourg is reinforcing its support for poverty reduction – and is re-configuring its co-operation with several middle-income partner countries, concentrating on the poorest regions and requiring an increased financial contribution from the partner governments.
- **Enhance the coherence of national policies with aid policies.** Luxembourg's commitment to ensure policy coherence for development needs to be backed by a more systematic approach for a better mobilisation of efforts at different levels of the government. Luxembourg supports developing countries' interests in numerous fora: the Doha trade negotiations, EU efforts to open markets to their exports, and access to affordable medicines. It is concerned about the trade-distorting effects of developed country agricultural subsidies which negatively affect the agriculture, livelihoods and food security of developing countries. It also draws attention to the problems of productivity and development of the agricultural sector in developing countries, as well as problems of access to credit by rural populations. The flight of capital from developing countries and its laundering constitute policy coherence problems of which Luxembourg is mindful. Efforts by Luxembourg to combat the risk of abuse of its financial sector are welcomed and the DAC encourages the Luxembourg authorities to continue the fight against money laundering.
- **Co-ordinate intra-government responsibilities for development.** Development co-operation falls within the purview of the Ministry of Foreign Affairs. Coordination among the Luxembourg ministries and agencies concerned with development co-operation could be improved through the Inter-Ministerial Committee for Developing Co-operation, taking into account the strategies of developing countries, so as to promote partnership and local

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ownership. Luxembourg is establishing a number of field offices. This closer collaboration with partner countries provides opportunities for improved management and co-ordination in the field.

The Luxembourg delegation was led by Charles Goerens, Minister for Co-operation and Humanitarian action. The examining countries were Austria and Greece.

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. Full definitions of these and other related terms can be found in the "Glossary of Key Terms and Concepts" published in the DAC's annual Development Co-operation Report.

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with any other funding 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 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 AID RECIPIENTS: The DAC uses a two-part List of Aid Recipients which is revised from time to time following decisions taken within the DAC. Part I of the List comprises developing countries (eligible to receive official development assistance). It 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 GNP less than USD 760 in 1998 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 761 and USD 3 030 in 1998. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 3 031 and USD 9 360 in 1998.

HICs: High-Income Countries, *i.e.* with GNP per capita (Atlas basis) more than USD 9 360 in 1998.

Part II of the List comprises "Countries in Transition"; assistance to these countries is counted separately as "official aid". These comprise (i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and (ii) more advanced developing countries.

DEBT REORGANISATION: Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, 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 Aid 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. They may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (less any repayments of loan principal or recoveries of grants received during the same period).

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable financial 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). The grant element is calculated against a fixed interest rate of 10%. 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 loans include deductions for repayments of principal (but not payment of interest) on earlier loans.

OFFICIAL AID (OA): Flows which meet the conditions of eligibility for inclusion in official development assistance, except that the recipients are on Part II of the DAC List of Aid Recipients.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are 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): Transactions by the official sector with countries on the DAC List of Aid Recipients which do not meet the conditions for eligibility as official development assistance or official aid.

TECHNICAL CO-OPERATION: Includes both (i) grants to nationals of aid recipient countries receiving education or training at home or abroad, and (ii) 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): Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. 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. These data show the value of aid in terms of the domestic purchasing power of a US dollar in the year specified.

THE DEVELOPMENT ASSISTANCE COMMITTEE



Development Co-operation Review Series

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