

LUXEMBOURG

Development Assistance Committee (DAC)
PEER REVIEW 2012



ORGANISATION FOR ECONOMIC CO-OPERATION AND
DEVELOPMENT

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The Peer Review Process

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

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

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

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from Greece and Spain for the Peer Review of Luxembourg on 21 November 2012.

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, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the European Union.

Luxembourg's aid at a glance*

LUXEMBOURG

Gross Bilateral ODA, 2009-10 average, unless otherwise shown

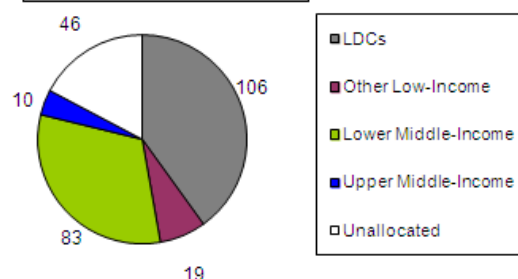
Net ODA	2009	2010	2011 ^P	Change 2010/11
Current (USD m)	415	403	413	2.7%
Constant (2010 USD m)	414	403	381	-5.4%
In Euro (million)	298	304	297	-2.2%
ODA/GNI	1.04%	1.05%	0.99%	
Bilateral share	64%	65%	69%	

P. Preliminary data.

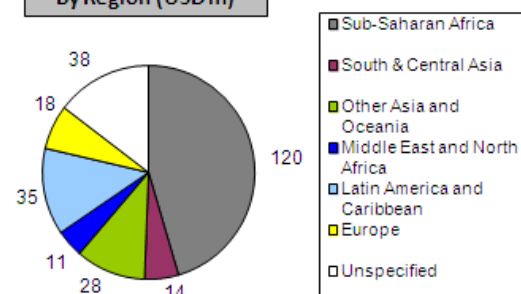
Top Ten Recipients of Gross ODA (USD million)	
1 Senegal	21
2 Mali	18
3 Burkina Faso	16
4 Cape Verde	16
5 Vietnam	13
6 Namibia	11
7 Nicaragua	11
8 El Salvador	10
9 Laos	10
10 Niger	9
Memo: Share of gross bilateral ODA	
Top 5 recipients	32%
Top 10 recipients	51%
Top 20 recipients	69%

By Income Group (USD m)

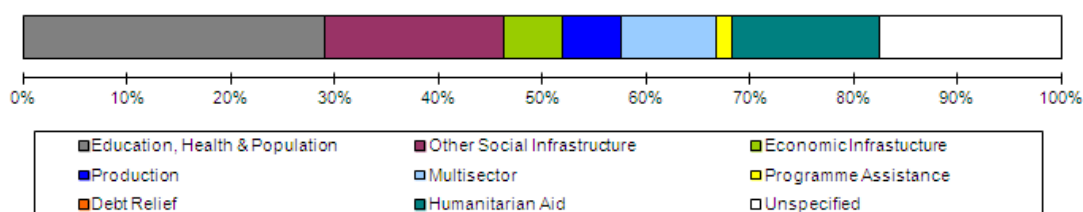
Clockwise from top



By Region (USD m)



By Sector



Luxembourg - implementation of 2008 peer review recommendations

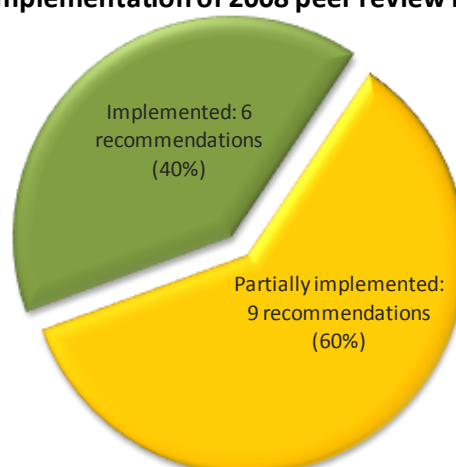


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LIST OF ACRONYMS

APO*	<i>Accords de Partenariat Opérationnels</i> [Operational partnership agreements]
BTI	Bank Training Institute
CERF	Central Emergency Response Fund (<i>Fonds central pour les interventions d'urgence</i>)
CTP*	<i>Conseillers techniques principaux</i> [senior technical advisers]
DAC	Development Assistance Committee
DCF	Development Co-operation Fund
DREF	Disaster Emergency Response Fund
FTTA	Financial Technology Transfer Agency
GFDRR	Global Facility for Disaster Reduction and Recovery
GNI	Gross national income
LDCs	Least Developed Countries
MAE*	Ministry of Foreign Affairs and Immigration (Ministère des Affaires étrangères et de l'Immigration – Luxembourg)
MDG	Millennium Development Goals
MOPAN	Multilateral Organisation Performance Assessment Network
NGOs	Non-governmental organisations
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OSCE	Organisation for Security and Co-operation in Europe
PIC*	Indicative Co-operation Programme (<i>Programme indicatif de coopération</i>)
UGP	Project management units
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNISDR	International Strategy for Disaster Reduction
UNPF	United Nations Population Fund
WAEMU	West-African Economic and Monetary Union

* Acronyms in original language.

Signs used:

EUR Euro
USD United-States dollars

() Secretariat estimate in whole or part

- (Nil)

0.0 Negligible

.. Not available

... Not available separately, but included in total

n.a. Not applicable

Slight discrepancies in totals are due to rounding.

Annual average exchange rate (EUR per USD)

2007	2008	2009	2010
0.8851	0.8049	0.8046	07.967

The DAC'S main findings and recommendations

Overview

The Grand Duchy of Luxembourg is one of the most generous donors in the Development Assistance Committee (DAC), allocating on average 1% of its gross national income (GNI) to official development assistance (ODA). Its co-operation policy enjoys strong political support, a solid legal foundation, and a stable institutional framework. Its geographic and sectoral concentration allows it to make up for the modest size of its programme (€413 million in 2011) and to have a real impact – indeed, to play a leadership role – in some of its partner countries and in certain sectors of concentration.

Partner countries appreciate the predictability and flexibility of Luxembourg's support. In many respects it takes an exemplary stance vis-à-vis multilateral players, and it also has a solid track record in humanitarian partnership. In response to the recommendations from the 2008 peer review, Luxembourg has reinforced its strategic framework and has introduced tools for improving the management and implementation of development co-operation. It is making increasing use of programme-based approaches, taking greater advantage of partner country systems.

Luxembourg now needs to define a programme and execution procedures that will take into account its personnel constraints and make better use of its institutional arrangements. This will require close collaboration between the Co-operation Directorate of the Ministry of Foreign Affairs and the executing agency LuxDev, in order to maximise their respective contributions. Human resource management tools also need to be improved. The programme's centralisation and the lack of a co-operation office in some partner countries make it difficult to ensure the quality of projects and to pursue dialogue with partners. Luxembourg should consider how to remedy these weaknesses. It could also strengthen its approach to results-based management. Lastly, policy coherence for development leaves room for improvement: this will require a better understanding of the impact of Luxembourg's domestic policies on the development efforts of its partner countries.

Overall framework for development co-operation

More strategic targeting could improve the impact of development co-operation

Main findings: Luxembourg has strengthened the strategic approach of its development co-operation. However, the co-operation priorities contained in the newly revised law are not yet clearly articulated with the strategic framework. This could affect the targeting of sectors where Luxembourg has a real comparative advantage, which in turn could lessen the impact of its co-operation.

Recommendations: To enhance its strategic positioning, Luxembourg should:

- Refine the vision and the objectives of its co-operation and, on the basis of the revised law, the international setting and Luxembourg's comparative advantages, identify the key sectors and the outcomes expected from its co-operation policy.
- Set out action plans for the key sector strategies, specifying the means for achieving the targeted objectives as well as the indicators for monitoring their implementation.

Since the 2008 peer review, Luxembourg has maintained the high profile of its development co-operation, which it sees as an important component of its external action. In its 2009-2014 programme, the government committed to maintaining the level of ODA at 1% of national income, while at the same time improving the quality of co-operation. To this end Luxembourg has strengthened the strategic framework of its development co-operation. It now has an overall strategy as well as sectoral and operational strategies covering the main fields and implementation methods for its co-operation. Moreover, the development co-operation law, which was revised in May 2012, confirms that poverty reduction is the principal objective of development co-operation, and humanitarian assistance is included for the first time.

With all these elements in place, Luxembourg should now be able to position itself solidly for the medium term, with a clarified general strategy that specifies the objectives and the expected outcomes of co-operation as well as the means for achieving them, including defining its sectors of concentration. This strategic vision should be based on the revised law, taking into account the comparative advantages of Luxembourg co-operation and looking beyond the expiry of the Millennium Development Goals (MDG) in 2015. In the priority sectors, the definition of more precise action plans and results frameworks would make it easier to monitor implementation of the corresponding strategies and, in the end, to assess the results. As was noted in the case of Laos, this would also serve to link the contribution of country programmes more closely to the global and sectoral objectives of co-operation. Luxembourg could also refine its approach in fragile states and develop an internal risk management system in order to make its work more effective in such settings. The case of Mali illustrates this need.

Maximising synergies among different channels of co-operation

Main findings: While in many respects Luxembourg has an exemplary stance vis-à-vis multilateral players (box 1), its approach to regional co-operation and working with NGOs is not sufficiently strategic. As a result, there is a lack of complementarity and synergy between the different channels of Luxembourg's development co-operation.

Recommendations: To maximise synergies in its co-operation, Luxembourg should:

- Clarify the objectives of its work with NGOs, rationalise the financing mechanisms and establish regular dialogue with those organisations in partner countries.
- Use the regional co-operation offices to boost synergies between the bilateral, multilateral and regional components of co-operation.

The co-operation law calls for collaboration with NGOs as one of the vectors of Luxembourg co-operation, and 20% of the Grand Duchy's ODA is allocated through NGOs in accordance with arrangements fixed by grand ducal regulation. Yet Luxembourg has no strategic framework for spelling out the objectives of its co-operation with NGOs and making explicit the complementarity with other channels of co-operation. Moreover, although the Ministry maintains regular and open dialogue with Luxembourg NGOs at home, there is no systematic dialogue in the field, as was noted in Laos. Establishing regular coordination in partner countries would make it possible to share experience and to seek synergies between the projects financed with NGOs and the indicative national programmes of Luxembourg co-operation. Lastly, Luxembourg should take further steps to rationalise its NGO financing mechanisms in order to reduce transaction costs involved in working with NGOs and to free up human resources for strategic tasks.

In the 2012 legislative revision, Luxembourg has added the regional channel to its traditional co-operation channels. Hitherto Luxembourg has provided technical assistance to selected regional organisations. Such support is limited, however, by the structural weakness of many regional organisations. Luxembourg should therefore consider the most appropriate ways of strengthening their capacities. Luxembourg could also take advantage of its regional co-operation offices to institute a more systematic approach for building synergies between bilateral and regional programmes, such as the one already in place for the multilateral channel. A regional vision would make it possible to select regionally relevant sectoral commitments while taking into account the national priorities of these countries. In Laos, for example, where the bilateral programme for adaptation to climate change is now being formulated, there is a potential for synergies with the support being provided to the Mekong River Commission and also with the bilateral programme underway in Vietnam.

Box 0.1 The multilateral channel as a model

Luxembourg has consistently based its foreign policy on active participation in multilateral co-operation. A third of the country's ODA flows through the multilateral channel, and 15% goes to United Nations agencies. Multilateral organisations are chosen strategically in light of the sectors and countries where they are active, so as to maintain coherence with Luxembourg's priorities.

The UN agencies welcome the approach of Luxembourg, which provides one third of its contribution in an unallocated form; is a reliable and predictable partner; plays a constructive role in debates, offering a multisectoral perspective; and gives active support to the "Delivering as One" approach. On 8 June 2011, Luxembourg signed framework agreements with four UN agencies (UNDP, UNICEF, UNFPA and UNCDF). These partnership agreements are harmonised and follow a single format, proposed by the Ministry in order to strengthen interagency cohesion. Luxembourg's multilateral co-operation is also flexible and aligned with the procedures of international organisations, thereby reducing the administrative workload.

Promoting development beyond aid: clarifying the contents and implications of policy coherence for development

Main findings: Despite the measures taken to promote policy coherence for development (PCD), Luxembourg does not yet have a clear vision of the issues at stake and of the potentially adverse impact that certain domestic policies can have on developing countries. Consequently, apart from procurement, Luxembourg has set no objectives for ensuring that its domestic policies do not run counter to the efforts of developing countries.

Recommendations: To ensure that domestic policies support – or at least do not undermine – the development efforts of partner countries, Luxembourg should:

- Sensitise and train staff in matters relating to policy coherence for development, in Luxembourg and in partner countries, and use the resources available domestically and at the European level to compile and analyze data concerning the impact of domestic policies on developing countries.
- Use these data to identify policies that have potentially adverse impacts.
- Grant the inter-ministerial committee the institutional, human and material means needed to promote, monitor and assess policy coherence in the key fields identified as having a potentially adverse impact on developing countries.

The 2012 revised law on development co-operation makes explicit reference to policy coherence for development, and the government is committed to greater coherence in the procurement area, by increasing its purchases of fair-traded goods. The notion of PCD, however, is to a large extent confused with promoting a coherent approach to development co-operation, or else it is confined to the European level, as the Luxembourg authorities consider that purely domestic policies have little or no impact on developing countries, in contrast to common European policies. It is of course important that Luxembourg is working in Brussels to ensure that European policies do not undermine the development efforts of developing countries. However, this should not lead Luxembourg to underestimate the impact – positive or negative – of its domestic policies. For example, the OECD peer reviews in the areas of environment and financial transactions have produced recommendations that Luxembourg should continue to

implement in order to contribute fully to combating climate change and money laundering.

Strong political will is needed to promote a better understanding of the issues at stake, based on definitions and recommendations both from the OECD and from the European framework, and to take steps to identify policies that can have an adverse impact on developing countries. Such an approach would allow Luxembourg to go beyond the ad hoc resolution of cases reported to the Ministry, by NGOs in particular.

While the inter-ministerial Committee on Development Co-operation now covers policy coherence for development, it has neither the mandate nor the resources to perform specific studies as the basis for issuing opinions on draft laws that might have an impact on developing countries, and to promote them effectively within government. It would be useful, then, if the grand ducal regulation spelling out the powers and the resources of the Committee were to give it the mandate to promote policy coherence for development and to monitor and assess it systematically. The regulation could also usefully enhance the Committee's political clout through its composition, and give it adequate resources. The studies commissioned by the Committee could also serve as input to the annual report on development co-operation, which is now to contain a section on policy coherence for development.

Aid volume and allocations: maintaining a targeted programme

Main findings: Luxembourg's ODA targets a small number of countries and sectors. It will be important to maintain this concentration, which serves to give the programme real impact in the field. Luxembourg is planning to withdraw from several countries, but it has no clear criteria for determining when to exit a country, nor any procedures for managing the transition to other forms of co-operation. This produces a lack of clarity as to the future of programmes in the countries concerned.

Recommendations: To enhance the impact of its co-operation programme and to respect the principles of aid effectiveness, Luxembourg should:

- Maintain a strong geographic and sectoral concentration.
- Draw from its experience in Namibia and the experience of other donors in order to identify criteria for exiting a country and for facilitating the transition to new forms of co-operation.

In 2010, Luxembourg's ODA amounted to US\$ 403 million, or 1.05% of GNI. According to preliminary DAC data, Luxembourg devoted 0.99% of its GNI to ODA in 2011, placing it third among DAC members. The 2009-2014 government programme plans to maintain ODA at 1% of GNI, a remarkable commitment.

In 2010, 65% of ODA was earmarked for bilateral co-operation. This aid is highly concentrated in Africa and in low-income countries, with the latter receiving 56% of Luxembourg's ODA in 2010. Luxembourg has pursued its strategy of geographic concentration, and the number of partner countries dropped from 10 to 9 in 2011. Luxembourg has also maintained its sector concentration in those sectors it considers to be priority (education and health) or where it has a comparative advantage - such as finance. This specialisation in a small number of sectors is welcome, as it helps to reinforce expertise by sharing experience with working in a single area under different contexts. Combined with a strong geographic concentration, it makes Luxembourg a recognised player with a real impact in such sectors as vocational training. The

concentration policy also lends medium-term predictability to Luxembourg aid. It will be important for Luxembourg to maintain this concentration and to increase the share of ODA allocated to priority countries, which in 2009-2010 received only 51% of its total ODA.

Luxembourg has been withdrawing gradually from Namibia, which is no longer a low-income country. It is now planning to disengage from El Salvador and from Vietnam, two countries that are covered by a co-operation agreement for consolidating the current programmes by 2015. That timeframe should make it possible to determine whether the expected outcomes of co-operation have been achieved and whether disengagement is reasonable. The decision to exit the country could be taken more easily if Luxembourg had a strategic vision of the number and composition of partner countries that it wishes to retain over the medium term, and if it had clear criteria and procedures for exiting a country. Such procedures should include an analysis of the consequences that withdrawal will have on the country concerned, and should identify the support measures that will be needed, so that the transition to other forms of co-operation can be handled more strategically.

Organisation and management

The institutional system: defining competencies and the delegation of authority

Main findings: Luxembourg has a simple institutional system for co-operation. However, the respective responsibilities of the two main players, the Development Co-operation Directorate of the Ministry of Foreign Affairs and Lux-Development (LuxDev), the executing agency, are not such as to maximise the use of staff resources, and they need to be adapted to the new aid modalities. In the field, the centralisation of decision making and the absence of a co-operation office in some countries constrain the speed with which the programme can be implemented as well as the quality of dialogue with partners and the involvement in coordination structures.

Recommendations: To enhance the quality of programme execution, Luxembourg should:

- Review the respective responsibilities of the Co-operation Directorate and of LuxDev and strengthen procedures for consultation between these two institutions in order to make better use of their respective competencies and adjust them to the new modalities of co-operation.
- Examine how to increase the delegation of powers to field representatives, while retaining the necessary control over programmes.
- Consider measures for overcoming the problems associated with the absence of a co-operation office in several partner countries.

The Development Co-operation Directorate is responsible for designing and implementing the policy for development co-operation and humanitarian action, while LuxDev implements two-thirds of the bilateral aid budget. These two key players have established tools for improving the management and implementation of co-operation. The Co-operation Directorate has strengthened its decision-making processes, while LuxDev has developed a strategic approach to building a professional agency and managing change in order to support a more programme-based approach. These two institutions are also pursuing closer coordination both at headquarters and in partner countries, where colocation facilitates exchange of information. This effort should be pursued and reinforced by instituting formal consultation procedures whereby the Ministry could benefit from LuxDev's expertise, and LuxDev could anticipate needs more effectively. Relations between the Directorate and LuxDev are governed by an agreement that was

last revised in 2008. That agreement could usefully be readjusted to take better account of LuxDev's role in sector approaches and to make better use of the two institutions' resources and competencies.

Both the Ministry and the co-operation agency are functionally centralised in terms of programming and financial delegation. This leads to a good deal of shuttling between the field and headquarters, delaying the definition and implementation of programmes, and distracting the attention of field personnel from the programme's more strategic aspects. The quality of execution could be enhanced by further decentralising the programme while maintaining quality control procedures.

Luxembourg has no co-operation office in several of its priority partner countries, which are covered by a regional office located in a neighbouring country. In these countries, as was noted in the case of Laos, it is difficult to engage in policy dialogue about the programme-based approach or to take on the requirements in terms of aid harmonisation (including sector leadership) and to monitor programme implementation regularly. Luxembourg should assess the consequences of its absence of representation in some of its priority countries, in terms of both risk and opportunity management, and consider ways of remedying the situation. Options could include opening a co-operation office, expanding the role of LuxDev in countries where the agency is the only official Luxembourg presence, delegating the programme to a partner, or reducing the number of priority countries.

Human resources: making the most of limited resources

Main findings: The Development Co-operation Directorate currently makes little use of such human resource management tools as staff appraisals and training. In a context of severe personnel constraints, it is essential that staff should be used strategically and provided with proper training. Knowledge management tools are also underdeveloped and cannot be used systematically to draw lessons from experience, something that is essential in order to implement a quality programme.

Recommendation: To make the most of its limited staffing levels, the Directorate should:

- Improve its human resource management tools by finalising its job specifications and boosting incentives for training, and working with LuxDev to develop knowledge management and dissemination tools.

Luxembourg co-operation has limited staff resources, and the Co-operation Directorate does not have full management responsibilities over its staff. It should therefore use all the levers available to ensure that its staff have the necessary competencies. The initial training course that was recently introduced should facilitate the recruitment of experienced personnel. The Directorate should now take other measures: in particular it should finalise the job specifications and strengthen the staff appraisal system in order to match profiles more closely with the positions and functions to be performed. It should also consider imposing an annual training quota for its staff in areas that will improve the impact of co-operation. In doing so, it could take advantage of the training instituted by LuxDev, which has reinforced its human resource policy in terms both of recruitment and of professional development.

Lastly, the Directorate could make greater use of locally-recruited staff for programme monitoring work – their work has been limited up to now to administrative tasks.

Improving the impact of development co-operation

Supporting the transition toward more programme-based approaches

Main findings: Luxembourg is actively committed to the aid effectiveness agenda, and has taken steps to improve the quality of its aid by aligning and harmonising it more closely with partner countries and other donors. Yet the tools introduced are not yet able to support the transition towards a more programme-based approach. The 2011 survey on monitoring the Paris Declaration found that Luxembourg's progress was mixed.

Recommendations: To strengthen the medium-term impact of its co-operation, Luxembourg should:

- Update its strategic tools, in particular the manual on decision-making processes, to reflect the Busan commitments, and draw up a roadmap to guide Luxembourg co-operation in the transition towards a greater emphasis on programme aid.
- Ensure that implementation of the co-operation programme in the field makes increasing use of country systems and is supported by a heightened capacity to analyse governance and engage in a dialogue on sector policies.

Luxembourg is actively committed at the highest level to making aid more effective, as demonstrated by the participation of the Minister of Co-operation and Humanitarian Action at the Busan Forum in 2011. The Co-operation Directorate has ensured that the new indicative programmes of co-operation (IPC) take account of aid effectiveness principles. In addition to alignment with national strategies, those principles call for greater use of sector budget support and delegated co-operation or joint programming with other donors. These programmes can make aid more predictable over the medium term while maintaining operational flexibility, two aspects that are important to Luxembourg's partners. As well, Luxembourg is actively involved in co-ordination processes, acting as sector lead donor in five countries, and in implementing the European code of conduct. LuxDev, which is bound by the convention to implement the principles of aid effectiveness, has provided training in these principles for all its staff, and has created an "expertise and quality" department.

Despite this progress, further efforts are needed: while Luxembourg has been a leader in untying aid (99% of aid is untied), the 2011 survey on monitoring the Paris Declaration shows that it makes little use of partner country systems, and still uses mainly the project approach.

By making greater use of country systems through programme-based approaches, Luxembourg could take greater advantage of national capacities and thus have a more significant impact, consistent with the thrust of the capacity building strategy developed in 2012. Responsibility for implementing certain components of a project is already being transferred to beneficiary country partners under current operational partnership agreements. To make further progress on this front, the existing tools will have to be updated and made more operational. The Development Co-operation Directorate should finalise the manual of decision-making procedures and ensure that it contains the aspects linked to the Busan agenda, such as involving external partners. It should also draw up a detailed roadmap for mainstreaming the Busan commitments in all its co-operation and boosting the share of programme aid. LuxDev should also consider how to reposition its support, reducing its role as principal contractor while boosting its capacities for the analysis of economic and political governance and the monitoring of sector policies, in close association with other donors present in the priority countries.

Consolidating the results-based approach

Main findings: Although LuxDev has developed a solid framework for monitoring and evaluating its projects, there is no detailed results framework for the general strategy, the sector strategies or the IPCs. This impedes strategic programme management and the evaluation of results against targeted objectives.

Recommendations: To steer the programme more effectively towards achieving its objectives and communicating its results, the Directorate should:

- Include within each of its IPCs a results framework setting out the objectives to be achieved and their contribution to the overall strategy, as well as the method for monitoring and evaluating the programme.
- Institute a more strategic approach to evaluations, by strengthening the mechanisms and the units responsible for defining and monitoring evaluations.

The mid-term evaluations of IPCs have highlighted the efforts still needed to institute results-based management. While the monitoring and evaluation systems are robust at the programme level, there is no articulation with the overall framework, whether the general strategy of Luxembourg, the sector strategies, or the IPC for each partner country, the performance frameworks of which are still only roughly defined. A detailed results framework deriving from national development strategy, could usefully be built into each IPC. This would make it possible to link the general objectives of Luxembourg co-operation with the objectives for co-operation in a given country and with the expected outcomes of each programme. It would also serve to identify Luxembourg's contribution to countries' sector plans, thus constituting a programme planning instrument that would be useful both to Luxembourg and to the authorities of the partner country.

The Co-operation Directorate should also continue to strengthen the culture of evaluation and reinforce the strategic guidance for this function, with a view to reinforcing programme quality, communicating effectively on the results achieved, and assisting management in taking strategic decisions. This should lead to broadening the range of evaluations in order to programme strategic evaluations of a sector or a crosscutting theme, and setting a process for structured monitoring of the response to the recommendations from the evaluations. The evaluations would then be used fully as both a learning tool for the staff and a management tool. In conjunction with the efforts to capitalise on experience, they would also provide input to the Directorate's communication on the results of co-operation policy.

Improving humanitarian assistance

The review of the humanitarian strategy provides an opportunity to focus the programme

Main finding: Luxembourg is cited by its partners as an example for the application of good practices, particularly because of the timely and flexible financing it offers. Yet the scope of Luxembourg's humanitarian programme is still very broad. The lack of clear objectives and measurable results clouds the predictability of aid and produces a very diversified portfolio of activities that is hard to track.

Recommendation: To enhance the predictability, targeting and monitoring of the humanitarian assistance programme, Luxembourg should:

- Finalise and publish its new humanitarian aid guidelines, ensuring that they focus on a limited number of objectives in areas where Luxembourg can make a solid impact and are accompanied by measurable indicators.

Luxembourg has a solid record in humanitarian partnership, and is well-known as a generous and flexible donor. It devotes around 15% of its ODA to humanitarian assistance. At the present time the Grand Duchy has a solid legal basis and a strategic document for its humanitarian action. Nevertheless, the scope of this programme is still too broad. The update of the 2009 humanitarian strategy, which is to involve wide-ranging consultation, should provide an opportunity to define clearly the objectives and the expected results of humanitarian aid.

Criteria about who, where and what to fund are unclear. To demonstrate that financing decisions are based on humanitarian principles independent of any other goal, Luxembourg should define precise criteria for identifying the agencies, objectives and countries or regions that are eligible for its funds, and should show how these criteria are applied to actual grant decisions each year.

Luxembourg needs to review its approach to post-crisis and transition support, as well as assistance in the area of resilience, in order to ensure that it has the best mix of instruments for dealing with these complex problems.

Humanitarian assistance is short-staffed given its volume and objectives

Main findings: The entire humanitarian programme is more or less dependent on a single individual, which poses a major danger for institutional memory and leaving no room for a backup function to ensure that Luxembourg can respond quickly and appropriately at all times. This situation is of particular concern because the humanitarian portfolio is broad and the systems used for financing and for rapid response are administratively cumbersome.

Recommendation: To maintain the quality and effectiveness of its humanitarian programme, Luxembourg should:

- Strike an appropriate balance between the scope of its programme, the administrative burden it represents, and available staff resources.

Personnel constraints must also be taken into account in defining and implementing the humanitarian assistance programme. Only one and a half positions are allocated to this vast and important portfolio, and this poses a major risk to the continued quality of the programme as a whole. Although the Grand Duchy is one of the first donors to respond when a crisis erupts, this puts a significant administrative burden on its staff. There is in fact no special mechanism to provide additional funding for new major crises

or to new partners, and an allocation of pre-positioned funds requires a new funding decision.

Chapter 1

Strategic orientations

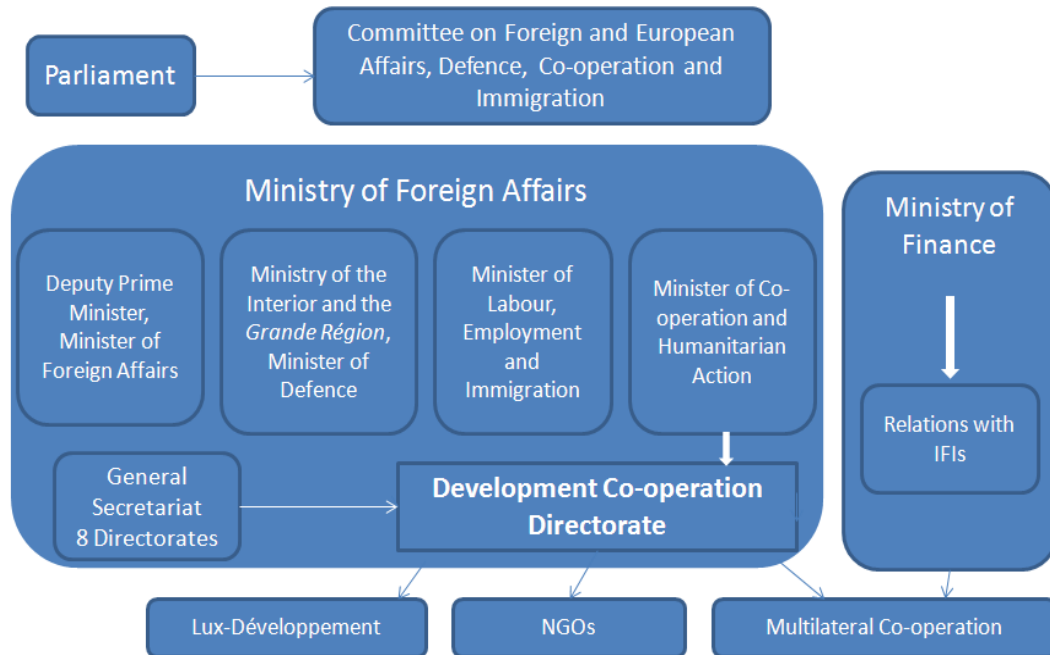
This chapter examines the efforts that Luxembourg has been making since 2008 to give strategic orientation to its development co-operation. This policy has a solid legal and institutional grounding. The review of the Development Co-operation Law as well as the definition of a general strategic framework and sector strategies, constitute significant progress in response to the recommendations from the 2008 peer review. The chapter also analyses the extent to which multilateral and regional co-operation can be considered complementary with bilateral co-operation. It considers how the significant involvement of NGOs in Luxembourg co-operation translates in terms of a strategic approach, both with respect to implementing the co-operation programme and pursuing education for development. This last item, together with communication, is still a key factor for maintaining the high degree of support for co-operation policy on the part of politicians and of the general public.

A generous donor with a solid legal and institutional framework

Despite its modest size, the Grand Duchy of Luxembourg is a recognised international player. As a multicultural and plurilingual state in the heart of Europe, it has continuously based its foreign policy on active participation in multilateral co-operation. Luxembourg is a founding member of the United Nations (UN), the European Union, the Council of Europe, the Organisation for Economic Co-operation and Development (OECD) and the Organisation for Security and Co-operation in Europe (OSCE), and it continues to play an important role at the European level.

The fact that Luxembourg is one of the most generous donors among members of the Development Assistance Committee (DAC) makes up for the modest size of its co-operation programme – USD 413 million in 2011 – and contributes to its international standing. With broad public and political support for the co-operation programme, official development assistance (ODA) has achieved and maintained since 2009 a remarkable level of 1% of gross national income (GNI)¹, a target that Luxembourg had set for itself in 1999. The 2009-2014 government programme calls for maintaining this quantitative effort, in volume terms and as a percentage of national income (MAE, 2012a).

Luxembourg's co-operation policy also benefits from a solid legal grounding and a stable institutional framework. A law on development co-operation, supplemented by grand ducal regulations, constitutes the legal foundation. There is a minister in charge of development co-operation and humanitarian assistance (who is also responsible for the family and integration portfolios). Along with defence and immigration policy, development co-operation is the purview of the Ministry of Foreign Affairs (MAE), and has its own Directorate. The Ministry of Finance is responsible for relations with the international financial institutions. Other ministries fund co-operation activities in minor amounts (1% of ODA), earmarked essentially for international agencies (figure 1.1). An Inter-Ministerial Committee for Development Co-operation, established by law in 1996, "advises on the broad orientations of development co-operation policy".²

Figure 1.1. Main players in Luxembourg co-operation

Strategic orientations

Sustainable development and combating poverty, vectors of foreign policy

The 2009-2014 government programme makes development co-operation an important vector of the government's external action, as part of an initiative for sustainable development that combines the economic, social and environmental dimensions. "It reflects international solidarity and at the same time serves the interests shared with development partners and Luxembourg's own interest in mitigating the adverse effects of poverty, as well as other effects such as those associated with climate change" (MAE, 2012, Annex 2). Beyond maintaining its quantitative effort, the government is also committed to improving the quality of Luxembourg co-operation. The intention is to supplement the geographic criteria of co-operation by taking a regional approach (along with the human development index) and giving greater attention to the situation of fragile states. To reflect these new orientations, the government has proposed amendments to the Co-operation Law, which was last revised in 1996.

The revised law of 2012 was adopted by Parliament on 9 May 2012, and represents a solid step forward. It confirms that the principal objective of development co-operation is to reduce and in time to eradicate poverty, through support for sustainable development on the economic, social and environmental fronts in developing countries. For the first time, the law covers humanitarian assistance, and makes explicit the Grand Duchy's determination to respect international commitments given through the United Nations and other competent international organisations. Supplementary amendments to the law include mention of the regional co-operation channel (in addition to the bilateral channel, multilateral co-operation and collaboration with NGOs) and the addition of two sectors of intervention (agriculture and food security, and water and sanitation) and the reference to cross-cutting approaches³. Lastly, the law expands the mandate of the inter-ministerial committee to include monitoring policy coherence for development. While it identifies

the broad sectors for development co-operation, the law provides a sufficiently flexible framework: for example, it does not identify the priority partner countries, and thus leaves it to the governing coalitions to decide the strategic orientations of Luxembourg co-operation⁴ (JO, 2012).

Strengthening the strategic approach to co-operation

As recommended at the time of the 2008 review, Luxembourg prepared a general strategy for development co-operation in 2010 (MAE, 2012b). Since 2008 it has also adopted 14 operational strategies, nine of which cover key sectors of development co-operation as well as the most significant cross-cutting aspects⁵.

The general strategy essentially spells out the modalities for development co-operation by defining the mandate and the action of government and identifying the countries and sectors of concentration, as well as the main players and channels of co-operation. It would be helpful if the strategy were to define more precisely the objectives of co-operation and, on the basis of the revised law and the evolving international context, to specify the expected outcomes. This would help to clarify the articulation between the law, the general strategy and the sector strategies. In particular, Luxembourg should consider the extent to which the sectors defined in the general strategy could be adjusted to take account of those defined in the amended law of May 2012. A clarification of the priority sectors, based again on the comparative advantages of Luxembourg co-operation, would make it easier to appreciate the strategic positioning of co-operation. In addition, the strategy has geared its horizon of action to the Millennium Development Goals (MDG): as the deadline of 2015 approaches, it would be well to adopt a medium-term vision that looks beyond 2015.

The development of sector strategies together with an action plan responds to one of the recommendations from the 2008 review. Those strategies have been prepared by working groups comprising representatives of the Ministry and of the development agency Lux-Development (LuxDev) and were the subject of consultation with NGOs. They offer a holistic vision of the country's commitment in each key sector, and should thereby make it possible to establish synergies between the various components of the bilateral programme. For example, the governance strategy sets out four complementary and operational themes for addressing governance questions, through: (i) policy dialogue with partner countries; (ii) mainstreaming of governance in the bilateral co-operation programme; (iii) specific actions; and (iv) combating corruption (MAE, 2009d). Some strategies (for example the water and sanitation strategy) also take account of the multilateral channel and NGOs, a positive move.

Making the strategies operational will require more clearly defined action plans. They should go beyond describing the modalities of engagement and should include a calendar of actions with the players identified, together with objectives and indicators. Such plans, articulated with the general strategy, could be used to monitor the implementation of the sector strategies and, in the end, to evaluate their results and their impact, and also to identify the contribution of each sector strategy to achievement of the outcomes defined in the general strategy. The work of finalising the action plans should be done in close co-ordination with LuxDev.

Three specific aspects of bilateral co-operation

Continue support for the micro-finance sector, where Luxembourg has a comparative advantage

Luxembourg draws on its experience in financial matters to promote the development of micro-finance systems, with a significant potential for mobilising private financing (up to EUR 3 billion) and effective mechanisms. The approach is spelled out in the micro-finance strategy (MAE, 2012d) and relies on five levers: (i) advocacy on behalf of inclusive financial sectors; (ii) support for an appropriate legal and regulatory environment; (iii) building institutional and management capacities; (iv) financial support for those involved in providing inclusive finance; and (v) innovation through research. The government has established effective partnerships with private finance players, including specialised agencies (*Appui au développement autonome* (ADA), LuxFlag) and private enterprises. One example is the Luxembourg Fund for Micro-Finance and Development⁶, with capital contributed from public and private financing and by civil society, which finances micro-finance institutions in countries of the South (LMDF, 2011). Luxembourg is also helping to strengthen the capacities of partner countries in financial matters, through the Financial Technology Transfer Agency (ATTF) created in 1999 by the Ministry of Finance⁷. It would be useful to assess the impact of the support that Luxembourg co-operation is providing to the financial sector and to identify the most promising practices as well as the risks incurred. This support also deserves particular attention in light of the international financial crisis, in order to ensure that its poverty reduction goals are achieved.

Adapting the approach in situations of fragility

As set forth in the 2009-2014 government programme (Gouv 2009), the primary objective of Luxembourg's foreign-policy is to maintain peace and security. Luxembourg's contribution in this area begins with its efforts in international organisations. Thus, Luxembourg is an active member of the United Nations Peacebuilding Commission, as evidenced by the appointment in February 2011 of its permanent UN representative to the chair of the Commission's new Guinea Configuration. Luxembourg is also a regular participant in peacekeeping missions, particularly under UN auspices.

Although there are very few fragile states among Luxembourg's priority partner countries⁸, situations of fragility do have repercussions on its bilateral co-operation programme. In fact, such situations can evolve swiftly, as in the case of Mali, and instability in countries of the subregion affects Luxembourg's programmes in its partner countries in West Africa. Luxembourg has little direct experience with involvement in fragile states⁹, and it is aware of the complexity of working in such contexts. The fact that the Grand Duchy is a party to the New Deal for Engagement in Fragile States adopted at Busan in December 2011, and that it has this year prepared an initial strategy on fragile states, speaks to its determination to take greater account of situations of fragility.

The fragile states strategy recognises that, having no representation in fragile countries, Luxembourg needs to take an approach based on close collaboration with multilateral partners and civil society, as well as in the European framework (MAE, 2012g). The peer review team welcomes this rational approach, which avoids fragmentation of resources by relying on international expertise and on players already present in the field. However, it believes that further consideration may need to be given

to redefining the objectives and adapting the tools of bilateral co-operation in crisis situations. Thus, in Mali, where Luxembourg co-operation has been active in the Kidal region since the 1995 cease-fire, Luxembourg has not yet demonstrated how it can adapt its programme to working in a volatile context, despite its flexible instruments. In this situation, it would be useful for the strategy to clarify how Luxembourg intends to respect the DAC principles of engagement in fragile states (OECD, 2007a).

Build on past experience for handling cross-cutting issues

In line with the recommendations from the previous review, Luxembourg has made real efforts to build gender equality issues as well as the environment and climate change into its programmes. These aspects are now covered by the revised law of 2012. Strategies relating to the environment and climate change as well as to gender were prepared in 2010 and updated in 2012 (MAE, 2012d and 2012e). These two strategies take a holistic approach. Thus, the gender strategy includes standard-setting work with international bodies, in addition to the integrated approach and specific activities under the bilateral programme, while the environment strategy addresses procurement policy to ensure that purchases under the programmes reflect ecological and climatic considerations. The two strategies call for integrating cross-cutting issues into strategic dialogue with partner countries, and in all programme phases, including programming (clauses inserted in the indicative co-operation programmes) and project identification. These clauses will take full effect upon implementation of the third generation of indicative programmes.

In operational terms, LuxDev has developed tools for taking systematic account of cross-cutting aspects in the programme formulation, implementation and evaluation phases (standard integration form for all cross-cutting issues, terms of reference, rules for including gender and/or environment experts in the programme formulation teams, technical specifications for "green" construction, procurement regulation that favours bids with the best environmental performance, etc.¹⁰). LuxDev has amended its code of conduct to include respect for the environment and non-discrimination against women, and it offers special training at home and in the field. The system for monitoring the DAC gender and environment policy markers has been reinforced. The gender policy marker shows a significant increase in support for projects with gender equality as a primary or important objective, amounting to USD 74 million in 2010. Bilateral programmes dealing with biodiversity and with adaptation to and attenuation of the effects of climate change and desertification are still limited¹¹, but the more systematic resort to impact analysis and environmental evaluation is beginning to show concrete results. One example is the construction of a vocational training centre for renewable energies in Cape Verde, based on strict standards of energy efficiency. Furthermore, sustainable management of natural resources is one of the two sectors of concentration for Luxembourg's co-operation programme in Burkina Faso.

These initiatives now need to be pursued further. In Laos, the review team found room for improving the systematic monitoring of gender and environment issues. This presupposes further efforts at staff training and awareness raising in the Ministry and in LuxDev with respect to gender and environment issues. In the field, Luxembourg could explore ways of providing joint training with other donors. The exchange of experience is also helpful for learning. Luxembourg has made good use of the tools developed by the DAC and the European Union in the gender and environment areas, and it could pursue and expand its participation in existing expert networks. Internally, it could compile best practices for sharing experience. The Ministry should also consider the introduction of

incentives and integration of cross-cutting issues into job specifications and staff appraisals. As well, it should make medium-term plans to evaluate gender and environment strategies so as to measure the results and make any needed adjustments.

Other channels of Luxembourg aid

A sound multilateral approach

The Grand Duchy of Luxembourg has consistently based its foreign policy on active participation in multilateral co-operation. A third of its ODA flows through the multilateral channel, and its strategic approach can in many respects be taken as a model for other donors in terms of the proportion of non-earmarked financing, the predictability of funding, and the flexibility of procedures concerning, for example, the forms of support for the cohesion efforts of the United Nations (chapter 3).

A more strategic approach to co-operation with NGOs

Sixteen percent of ODA is allocated through Luxembourg NGOs (development assistance and humanitarian aid) – or 20%, if international and regional NGOs are included. These organisations are seen as a complementary vector for bilateral assistance, and they can intervene in areas and sectors that are closed to the Ministry. The Ministry also recognises their particular skills in working to strengthen civil society in developing countries, and in improving its participation in the development process.

The Ministry earmarks significant funding for 94 approved NGOs (EUR 61 million in 2010) and is supporting their structuring at the national and international levels¹². It could however take a more strategic approach to its relationship with development NGOs by clarifying the objectives of its co-operation with them, rationalising the funding mechanisms, and exploring ways to reduce NGO dependence on public funding. The transaction costs involved in co-operation with NGOs are still high. This is particularly true when it comes to the co-financing of projects (112 projects of 42 NGOs were financed in 2010 for a total amount of EUR 8.3 million). The Ministry could make greater use of framework agreements that could include consortiums of NGOs, or it could delegate project management to another body. It will also be important to ensure that the grand ducal regulations supplementing the law should clarify the eligibility criteria for recognition by the Ministry of Foreign Affairs.

The Development Co-operation Directorate maintains a regular and open dialogue with NGOs in Luxembourg, represented by the *Cercle de co-opération des ONG*. The agenda is prepared through consultation and covers both strategic issues and practical aspects relating to co-financing. Thus, the NGO consultations on the draft law led to a number of changes, such as the inclusion of food security in the specified sectors of intervention and the mention of policy coherence in the mandate of the inter-ministerial committee (Cercle, 2011). Dialogue with NGOs could however be strengthened at the strategic level, at headquarters and more particularly in the field. At headquarters, the strategy consultation process could take place further upstream¹³. In the field, there is no mechanism for dialogue between the Luxembourg co-operation office and NGOs. In Laos, for example, NGOs have no contact with the co-operation office, which is based in Hanoi. It would be useful, for the NGOs as much as for the co-operation office and for LuxDev, to establish regular dialogue for sharing experience and creating synergies among programmes.

Strengthening the regional approach

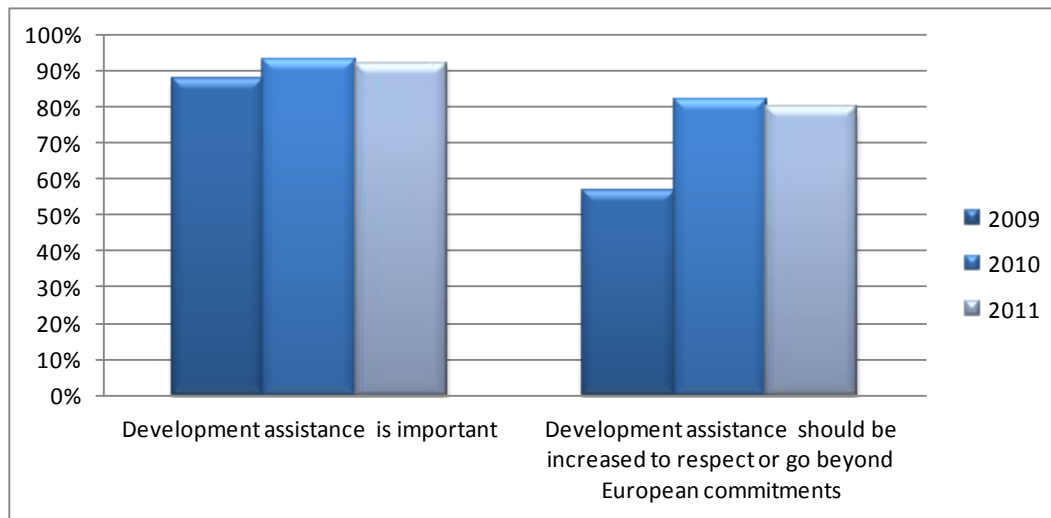
The revised law of 2012 added regional co-operation to the traditional channels for Luxembourg aid. Currently Luxembourg is using its multilateral assistance to support a number of programmes implemented at the regional level by international organisations¹⁴. It also provides direct support for the programmes of regional organisations (e.g. the programme of the Mekong River Commission on climate change and the programmes of the West African Economic and Monetary Union (WAEMU) on micro-finance and information technologies). The structural weakness of many regional organisations however has to date limited Luxembourg's ability to support them. Thus, while seeking ways to expand support for regional organisations in order to strengthen their capacities, Luxembourg could make greater use of its regional co-operation offices, which often cover two countries (El Salvador/Nicaragua or Vietnam/Laos) to institute a more systematic approach to building synergies between bilateral, multilateral and regional programmes. With a regional vision, sector commitments could be selected that will be relevant to the entire region, while also taking into account the national priorities of these countries. The review team noted in Laos that, while there was ongoing sharing of experience in common sectors (e.g. tourism), there was room for greater synergies between programmes in the two countries (Annex C). A more ambitious regional approach could also be an accompaniment to the country exit strategy, as in the case of Vietnam.

Communication and education for development

Support for development assistance is strong

There is massive public support for Luxembourg's development co-operation policy. Despite the crisis, more than 90% of Luxembourgers consider development assistance to be important or very important, and 80% insist that commitments in this field must be honoured or (13%) that aid should be increased beyond what has been promised (figure 1.1).

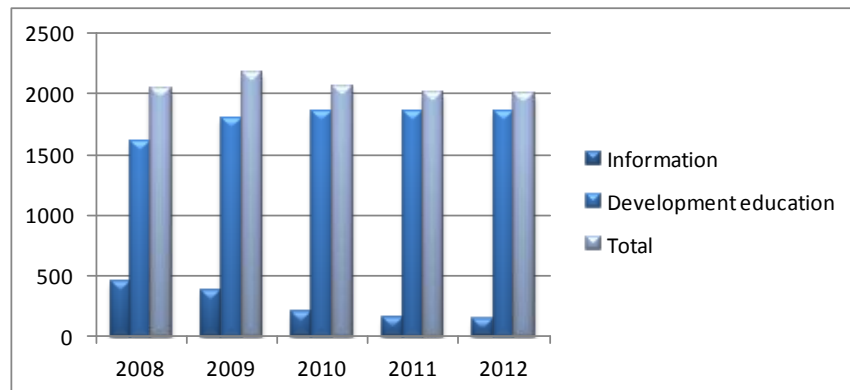
This enthusiasm is shared at the political level. All political parties, with the exception of one minority party, want to keep the level of ODA at 1% of gross national income¹⁵. In addition to regular meetings between the Ministry and the Parliamentary Foreign Affairs Committee, discussion forums ("Assises") on Luxembourg co-operation have been held annually since 2006. At those sessions, co-operation stakeholders – members of Parliament, Luxembourg ambassadors to international institutions, managers of the Co-operation Directorate and LuxDev as well as representatives of partner countries and Luxembourg NGOs – meet to discuss matters of common interest. These Assises have in just a few years become an important factor in building and maintaining consensus on development assistance, and they should be pursued in the future.

Figure 1.2. Support for official development assistance

Source: Eurobarometer 318 (COM, 2009), 352 (COM, 2010) and 375 (COM, 2011).

A stronger effort at communication and public awareness raising

In direct response to one of the recommendations from the 2008 review, the Development Co-operation Directorate has boosted its efforts at communication, instituting in 2010 a communication strategy and dedicating a full-time position to development communication and education. The strategy, which was updated in 2012, distinguishes between internal communication requirements and the needs of external communication (co-operation partners, the media, the general public) (MAE, 2012h). It is accompanied by an annual action plan that lists the activities to be carried out as well as the events that offer opportunities for communication, such as (for 2012) the 30th anniversary of the first co-operation law. To be fully operational, the action plan accompanying the communication strategy should be clearer about the objectives to be achieved and the content of the proposed activities. In consultation with LuxDev, the Ministry should also identify the messages that it wishes to communicate, differentiating them in light of the target audience. A strategic approach based on the communication of results is particularly important in view of the constraints on the communication budget, which has dropped sharply in recent years and indeed was cut by two-thirds between 2008 and 2012 (figure 1.2).

Figure 1.3. Budget allocated to development communication and education (in thousands of euros)

Source: Official Gazette (allocation of budgetary items 12.140 and 33.000) (JO, 2007, 2008, 2009, 2010, 2011)

A strategy of education for sustainable development was prepared in 2011. It is the result of a participatory process associating the Ministry of Education and Vocational Training, the Ministry of Sustainable Development and Infrastructure, the Ministry of Higher Education and Research, the Ministry of Foreign Affairs and the University of Luxembourg (Gouv, 2011). This welcome initiative should make it possible to develop a shared concept of education for sustainable development and to integrate this component into the contents of training. However, the budget allocated by the Ministry to development education and awareness raising activities has not grown since 2010 (figure 1.4), and NGOs have consequently been lobbying parliamentarians to maintain their share of ODA devoted to development education (Cercle, 2010). The best way to protect this budget is to demonstrate its impact. It will be useful, then, to assess the awareness raising activities that are co-financed by this budget in terms of their contribution to implementing and achieving the objectives of the development education strategy¹⁶.

Future considerations

- The general strategy could be deepened to present a medium-term vision and objectives for co-operation and to indicate the expected outcomes on the basis of the revised law and the international setting.
- Luxembourg should spell out action plans for the key sector strategies, together with a calendar containing objectives and results indicators. It should pursue its efforts in the gender equality and environment areas, with the emphasis on training and experience sharing.
- Luxembourg should supplement its support for regional organisations through a more determined quest for synergies with ongoing bilateral and multilateral programmes in countries belonging to the same subregion.
- Luxembourg could be more strategic in its dealings with development NGOs, by clarifying the objectives of its co-operation with them, rationalising the funding mechanisms, and establishing regular dialogue with them in partner countries.

- The Ministry, on the basis of the communication strategy and in co-ordination with LuxDev, should establish objectives and messages that are differentiated according to the target audiences, for insertion in the annual action plans.

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NOTES

1. The rate was 0.99% in 2011, following changes in the estimate of GNI, but the government is committed to maintaining ODA at 1% in future years.
2. The membership and functioning of this inter-ministerial committee are determined by grand ducal regulation.
3. These are: the promotion of human rights; good governance, including participatory democracy; the gender dimension; and integrated local development.
4. The law spells out the modalities of co-financing with NGOs, which are to be supplemented by grand ducal regulations. The status of co-operation agents and co-opérants, enshrined in the law, remains unchanged.
5. These sector strategies cover the following areas: agriculture and food security (MAE, 2009a); local development – support for decentralisation and local governments (MAE, 2009b); water and sanitation (MAE, 2012c); education – basic education, technical education, vocational training and job placement (MAE, 2009c); governance for development (MAE, 2009d); health (MAE, 2009e); environment and climate change (MAE, 2012d); gender (MAE, 2012e); micro-finance and inclusive financial sectors (MAE, 2012f). In 2012 Luxembourg also developed strategies dealing with communication, evaluations, fragile states and capacity building, and is updating the humanitarian strategy adopted in 2009.
6. Luxembourg Microfinance and Development Fund (LMDF) is a SICAV (open-ended investment fund) intended to support responsible providers of appropriate financial services and to contribute in this way to poverty reduction in developing countries of Africa, Asia and Latin America, while offering shareholders a financial return sufficient at least to offset inflation, so as to preserve the real value of the capital invested.
7. This agency provides training and technical assistance services in partner countries. Its shareholders are the Central Bank of Luxembourg, Luxembourg Chamber of Commerce, the Financial Supervision Commission, the Bank Training Institute, the Federation of Professional Bankers and the University of Luxembourg.
8. In 2011 only Kosovo and Niger are in this category.
9. Luxembourg co-operation works through international organisations and NGOs in Afghanistan and in the Palestinian territories.
10. This clause applies currently to infrastructure and will subsequently be extended to purchases of goods and services.
11. USD 11 million in 2010, excluding the multilateral component and the NGO channel.
12. 85% of financing for the Cercle de co-opération des ONG is covered by the Ministry. Luxembourg has also supported the meeting of the Open Forum in Istanbul.
13. NGOs were consulted only late in the process of preparing the sector strategies, and they were not involved in preparation of the draft law on co-operation.
14. For example, the World Bank's programme for control of onchocerciasis in Africa and the WFP regional school meals programmes.
15. The ADR (Alternativ Demokratesch Reformpartei) wants to bring ODA down to the European threshold of 0.7% of GNI.

16. This co-financing is allocated on an annual basis to approved NGOs. In 2010, nine individual awareness raising projects and six multiyear framework agreements on development education were financed, involving a public outlay of EUR 1.62 million.

Chapter 2

Development beyond aid

This chapter analyses Luxembourg's efforts to implement elements to ensure that national policies support, or at least do not run counter to, the development efforts of partner countries. It examines the political commitment to policy coherence for development and notes that, while this notion is now enshrined in law, its implications are not yet fully appreciated throughout the government. Some potential priority issues are suggested, on the basis of work in other OECD committees. The chapter also examines the extent to which the principal co-ordination mechanism, the Inter-ministerial Committee on Development Co-operation, has the mandate and the resources for effective action. Lastly, the chapter discusses Luxembourg's progress in the area of development finance.

Policy coherence: enshrined in law but not yet fully adopted

The content and implications of policy coherence for development should be spelled out more clearly

The government has declared its clear intention to promote policy coherence for development (PCD). The 2009-2014 government programme calls for "efforts to ensure coherence in its policies for sustainable development, in particular through a redefinition of the role and functioning of the Inter-ministerial Committee on Development Co-operation" (Gouv, 2009). The amended law of 2012 on development co-operation now refers explicitly to policy coherence for development, and the mandate of the inter-ministerial committee has been broadened to cover policy coherence aspects (articles 6 and 50, JO, 2012).

Yet the notion of PCD is to a large extent confused with promoting a coherent approach to development co-operation policy. Neither the government programme nor the amended law specifies what is covered by "policy coherence for development". Nowhere is there mention of the need to ensure that Luxembourg's national policies reinforce or, at least, do not hamper the development efforts of developing countries. Instead, the emphasis is on the need for a concerted approach covering all government activities in the ODA framework (article 6 of the law). A concerted approach of this kind is welcome, of course, but it does not cover the full field of PCD. This lack of clarity in the definition of policy coherence for development explains why progress since 2008 in implementing the essential components defined by the OECD (OECD, 2010a) has been limited (figure 2.1).

Figure 2.1. Luxembourg's progress with PCD, 2008-2012

Building blocks	Situation in 2008	Progress to 2012
A: Political commitment backed by clear policy statements	The government recognizes the importance of policy coherence, but considers that this is essentially an issue for the European Union, as there are few if any points of friction between domestic policies and development cooperation.	The 2009-2014 government program sets the objective of promoting coherence in sustainable development policies, and the amended law of 2012 on development cooperation makes explicit mention of policy coherence for development. However, this notion has not been widely adopted within the government because of the lack of training and systematic awareness-raising among officials.
B: Policy coordination mechanisms for resolving conflicts or inconsistencies between policies and maximizing synergies	The Inter-Ministerial Committee for Development Cooperation has no mandate to cover policy coherence, and no work program for addressing these questions. Any inconsistencies are handled by consensus within the government.	The amended law of 2012 gives the Inter-Ministerial Committee an advisory mandate on policy coherence for development. NGOs can discuss coherence issues during an annual meeting with the Inter-Ministerial Committee and with the Parliamentary Committee on Foreign Affairs. However, in the absence of a work plan targeted at priority topics, and given the limited mandate and resources of the Committee, progress has been slow and undocumented.
C: Monitoring, analysis and reporting systems	There is no system for monitoring policy coherence issues, apart from requests coming from the European framework as of 2007.	Luxembourg has contributed to the biennial reports on progress with PCD prepared in the European framework. PCD is now integrated into the annual report on development cooperation submitted to parliament. However, no analysis of the impact of specific policies has been conducted or is planned.

Policy coherence: a “European” issue

The government has nevertheless identified two fields in which it will seek to promote coherence between its co-operation policy and its other policies: government procurement, and foreign affairs.

- With respect to public procurement, the government programme indicates that, given the thrust of co-operation policy which calls for equitable participation by developing countries in international trade, the government is committed to increasing its purchases of fair-traded goods in the procurement context, and it is calling on the municipalities to do the same within their areas of competence.
- When it comes to foreign policy, the Ministry of Foreign Affairs notes the importance of a coherent approach to the various components of foreign policy. "The expression of national sovereignty and the defence of Luxembourg's vital interests abroad demand the implementation of a dynamic, coherent and visible foreign policy. That policy today goes beyond the restricted framework of traditional diplomacy to embrace, in varying degrees, a whole series of aspects including defence, co-operation, migration, the economy, the environment and food security, within an integrated foreign policy in which policy coherence must be a guiding principle" (MAE, 2012i).

In the latter case, it would be useful for the government to specify (as it has done in the case of public procurement) that coherence of approach is promoted not only to serve the interests of Luxembourg but also to strengthen the development objectives pursued by co-operation policy.

Essentially, however, Luxembourg deals with policy coherence for development as a European issue. Luxembourg authorities consider that purely national policies have little or no impact on developing countries, in contrast to the common European policies, and it is therefore through the European institutions (and in particular the Council) that Luxembourg is working for greater policy coherence, for example with respect to Union-wide trade policy.

It is of course important for Luxembourg to take a stance in Brussels for ensuring that European policies do not run counter to the development efforts of its partner countries. However, this should not lead Luxembourg to downplay the impact – positive or negative – of its national policies (for example those dealing with migration, the environment or finance). A strong political will is needed to promote a better understanding of the issues in this field at both the national and European levels (at the European level, Luxembourg notes that there seems to be no consensus among member states as to the content and implications of policy coherence for development (EU, 2011)¹). The definitions and recommendations flowing both from the OECD (OECD, 2010a) and from the European framework (Lisbon Treaty, TEU, 2010) have been clearly enunciated and should serve as the basis for a renewed political commitment that will translate into an action plan identifying priority sectors together with precise objectives.

Identifying priority sectors

Certain national policies of Luxembourg have an impact, directly or indirectly, on developing countries, as demonstrated by the OECD reviews of Luxembourg in the environment and the financial transactions areas (box 2.1). The previous DAC review also noted that more discussion with civil society would not only enrich the debate on policy coherence with a greater variety of viewpoints but would also bring a number of

"forgotten" issues into the open. It should be noted in this regard that there are forums for dialogue with civil society, and they can be used to address policy coherence issues. NGOs are taking the opportunity of their annual meetings with the Inter-ministerial Committee and the Parliamentary Foreign Affairs Committee to flag cases of potential inconsistency. In 2010 they addressed issues of climate change and public procurement, while in 2011 they discussed, among other matters, the clean development mechanism, biofuels, the use of compensation funds, the financial industry, the question of genetically modified organisms in the context of the partnership for a green revolution in Africa, and trade policy.

Box 2.1. The environment and the financial sector: OECD recommendations

While they may have no direct link with development co-operation policy, certain national policies can either support or frustrate the objectives of development co-operation because of their impact on global public goods or, more directly, on developing countries themselves. Thus, the previous DAC review of Luxembourg mentioned as a point of potential inconsistency the fight against climate change, indicating that Luxembourg could have difficulty in meeting the Kyoto objectives for reducing CO₂ emissions because gasoline prices at the pump are lower than in neighbouring countries (OECD, 2008a). On this point, the OECD environment review published in 2010 recommended that Luxembourg should narrow the gasoline price gap vis-à-vis neighbouring countries in order to cut back emissions caused by fuel exports (OECD, 2010b).

Another sector of activity that has both positive and negative impacts on developing countries is the financial industry in Luxembourg, one of the most important in Europe. It is in fact ranked second worldwide for its investment fund activities and accounts for 25% of Luxembourg's gross national income. As part of its development co-operation policy, Luxembourg is striving to maximise the positive developmental impacts of micro-finance programmes by facilitating financial transfers from migrants to their home countries and by using its financial expertise to run training programmes in partner countries. At the same time, Luxembourg should pursue its efforts to minimise the risks of adverse fallout from its financial industry. In particular, money-laundering and other financial violations can threaten strategic, political and economic interests of developed and developing countries alike. Luxembourg is a member of the Financial Action Task Force (FATF), which has the mandate to prepare measures to counter money laundering and the financing of terrorism. A mutual assessment was conducted in 2009 to examine anti-money-laundering measures in Luxembourg and to determine Luxembourg's level of compliance with the 40+9 FATF recommendations. Its conclusions were published in 2010 (FATF, 2010) and showed that much remained to be done to implement the mechanisms for combating money laundering and for confiscating assets: of the 40+9 recommendations, only one has been fully implemented.

Source: OECD, 2010b and FATF, 2010.

Bearing in mind the indications and the recommendations issued by the OECD and the European Union, as well as the suggestions of civil society, the government of Luxembourg should identify a short list of priority issues on which it could focus its efforts to ensure that policy trade-offs take due account of the impact on developing countries. For those sectors identified, solid analyses should be conducted to develop policies that are mutually reinforcing. Three issues seem particularly relevant:

- (i) Public procurement, which is already mentioned in the 2009-2014 government programme;
- (ii) Environment and climate change, an area recognised by the Co-operation Ministry as critical "for fear of adverse consequences on development in developing countries" (MAE, 2011a). On this point, Luxembourg already has an education strategy for sustainable development (Gouv, 2011) and a strategy on the environment and climate change, which mentions Luxembourg's ecological footprint and draws greater attention to energy efficiency and sustainable development (MAE, 2012d). These strategies, together with implementation of the OECD recommendations following the 2010 environmental review, should be integrated into work on the national plan for adapting to the consequences of climate change;
- (iii) The financial sector, in order to capitalise on Luxembourg's efforts to enhance the positive fallout from its financial industry on developing countries and to minimise the risks of adverse impacts, by implementing the FATF recommendations on money-laundering.

Co-ordination mechanisms for ensuring policy coherence

Co-ordination mechanisms

The 2008 review recommended that, within the inter-ministerial committee, Luxembourg should define appropriate methods that will promote, monitor and evaluate policy coherence, including for development, in a systematic manner so as to arbitrate between policies (OECD, 2008a).

In the government's view, the restricted size of the administration facilitates the implementation of coherent policies: "The size and organisation of the government administrative apparatus are such that the right hand has a very good idea of what the left hand is doing, and this makes it easy to arrange for policy coherence" (MAE, 2011a). Nevertheless, in response to the DAC recommendation, the government has expanded the mandate of the Inter-ministerial Committee on Development Co-operation: the amended law of 2012 in effect expands its functions to include policy coherence for development.

To date, however, the committee has not been a body for making trade-offs or exercising control: its mandate is purely advisory (article 50). In the face of divergent views, trade-offs will be made, either by the Minister of Co-operation or by the Council of Ministers. In practice, the inter-ministerial committee, which is chaired by the co-operation director, gives priority to ensuring proper co-ordination of development co-operation programmes. Since 2008, policy coherence has also been on its agenda, and it has discussed certain aspects relating to climate change, agriculture, and public procurement. In this context, it is now holding annual meetings with NGOs. This dialogue has at times served to resolve problems of inconsistency brought to the committee's attention. For example, in the case of a controversial trade agreement between the European Union and India (which excluded social clauses) NGOs, acting through the committee, asked the trade minister to intervene with the European Council of Ministers, and this was done.

Nor does the committee have the mandate or the resources to conduct specific studies or to analyse data from existing studies, which would provide backing for its opinions and would allow the committee to defend them more effectively within government. A grand ducal regulation, now under review by the Council of State, is to specify the committee's

powers and resources. That regulation should also give the committee a mandate to promote, monitor and evaluate policy coherence for development in a systematic way – and in fact such a proposal was made during discussion of the amendments to the law (Cercle, 2011)². It would also be helpful if the regulation were to give the committee more political clout through its membership, and endow it with sufficient resources (human and financial) so that it can offer authoritative opinions backed by in-depth studies of draft legislation that might have an impact on developing countries. This would require the establishment of a dedicated support unit for the committee.

Policy coherence: moving beyond the case-by-case approach

Systematic awareness-raising among officials would improve their understanding of the issues involved in policy coherence. This is especially important for members of the inter-ministerial committee, but also for Foreign Ministry staff in Luxembourg and in the embassies and co-operation offices abroad, who should be given training concerning the nature, the issues and the implications of policy coherence. To do so will require adding a module on policy coherence for development to the training programme for public officials. Lastly, funding should be provided for conducting or commissioning independent studies and evaluations, drawing on the expertise available in research institutes and civil society organisations, within Luxembourg and throughout Europe. In this connection, the Co-operation Directorate could make better use of the embassies and co-operation offices, asking them to provide information on any consequences – positive or negative – that Luxembourg's policies may have on partner countries.

The inter-ministerial committee has been dealing with coherence issues case-by-case. Problems of policy coherence for development are not covered by any work programme that would allow supplementary investigation to identify the conditions and measures for minimising any adverse impact, or for having a positive impact, on the development of partner countries, and for monitoring such impacts.

Luxembourg should prepare a strategic action plan, targeted on issues identified as priorities and specifying the anticipated outcomes. In this way, a work programme and an implementation calendar could be established. Such a plan would promote coherence in priority fields in several respects, relating to international organisations, the bilateral programme and dialogue with partner countries, and other national policies. For the future, it will also be useful to introduce a mechanism for identifying, monitoring and analyzing the impact of specific policies, and evaluating the cost of inconsistencies.

According to the amended law of 2012 (article 6), the annual report on development co-operation, submitted by the Minister to Parliament, must now include a section on policy coherence. With a detailed action plan organised around priority themes and covering all the ministries involved, Parliament could be kept better informed of progress in promoting policy coherence for development.

Aid and beyond: improving development financing

The 2009-2014 government programme goes beyond the strict framework of public policies, indicating that it will "seek to implement synergies and systematise partnerships to make development co-operation more effective, especially in the fields of micro-finance and of information and communication technologies, together with strategies for exiting certain partner countries" (Gouv, 2009). The Minister of Co-operation supports this commitment, noting that micro-finance is a sector where co-operation between

NGOs, ministries and the public sector has made it possible to explore new sources of financing for development activities in the South.

The Luxembourg Micro-Finance and Development Fund and the financial technology transfer agency (ATTF), mentioned in the previous chapter, provide examples for leveraging the impact of ODA. A closer survey of all activities in this sector could be used to build on experience and to identify and disseminate best practices in Luxembourg, within the European Union, and among members of the DAC.

Future considerations

- Luxembourg should pay particular attention to making government personnel more aware of the issues concerning policy coherence for development, and should make better use of its embassies and co-operation offices to gather information on the consequences – positive or negative – that Luxembourg's policies may have for partner countries.
- Luxembourg should review the impact studies produced by research institutes and on that basis, together with information from the co-operation offices and from civil society, should identify two or three priority sectors for examining the coherence of policies, in light of their potential negative impact on developing countries.
- Luxembourg should, via its grand ducal decrees, strengthen the mandate of the Inter-ministerial Committee on Development Co-operation and give it the human and material resources needed to promote policy coherence for development and to monitor efforts in the key sectors identified.

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NOTES

1. This position is indicated in the European Commission's report of December 2011 on policy coherence for development: page 14 concerning co-ordination in the informal member states' PCD network, and page 16 concerning the monitoring and evaluation of the PCD work of the Council (EU, 2011).
2. Formulation proposed by Mme Err and M. Angel in 2009 and reiterated in 2011 by the Cercle de co-opération des ONG in its address to the Council of State on the revised law.

Chapter 3

Aid volumes, channels and allocations

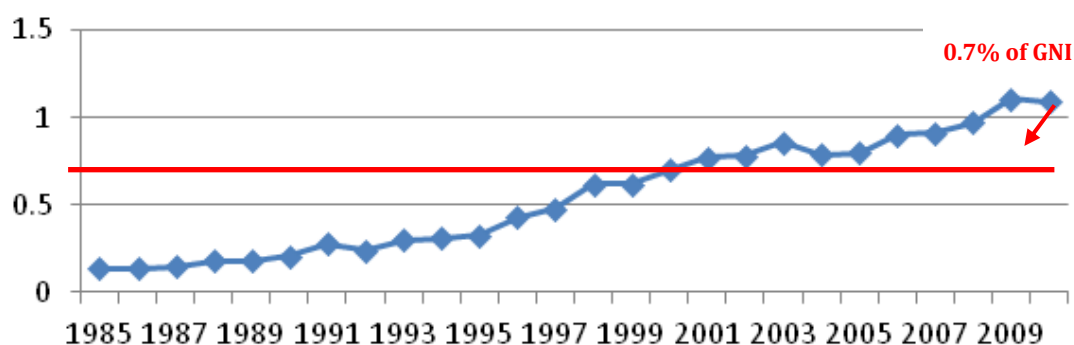
This chapter examines the extent to which the volume and the geographic and sectoral distribution of Luxembourg's ODA reflect the country's international commitments and the strategic orientations of its co-operation. The chapter analyses the recent trend in ODA, which has made Luxembourg one of the most generous donors. It notes the heavy geographic and sectoral concentration of the bilateral programme, which allows Luxembourg to have an impact in its priority partner countries and to be counted among the most important donors in certain fields where it has a comparative advantage. The chapter then analyses the aid allocated by Luxembourg through the multilateral channel. It shows that as a donor Luxembourg is much appreciated by multilateral agencies for the high proportion of its funding that is non-earmarked as well as for the predictability and flexibility of its financing.

A generous donor: the volume of ODA is high and stable

Luxembourg is one of the most generous DAC donors, in terms of the volume of ODA as a proportion of gross national income. That ratio has been rising steadily since 1985. Since 2000 it has exceeded 0.7%, and in 2009 it passed the symbolic threshold of 1%, which had been the Grand Duchy's objective for several years (figure 3.1). It has succeeded in maintaining this level since that time, and there is no reason to think that it will not remain there in coming years, as nearly all the members of the Chamber of Deputies support this policy (with the exception of one minority party, which does not wish it to exceed 0.7%). The government programme covering the period 2009-2014 calls for maintaining this aid effort for its duration.

Preliminary DAC data for 2011 show that Luxembourg devoted 0.99% of its GNI to ODA, placing it third among DAC members. This rate is slightly short of the 1% target, as a result of changes in the estimate of gross national income.

Figure 3.1. ODA as a percentage of gross national income, 1985 to 2010



Source: DAC/OECD

In 2010, Luxembourg's development co-operation budget stood at USD 403 million (current dollars), or 1.05% of GNI. This represented a slight decline from 2009, when the volume was USD 415 million (although the ODA/GNI ratio was nearly the same). Over the years 2000-2006, ODA rose on average by 6.3% per year, and this sustained growth continued until 2007 (OECD, 2008a). Preliminary figures for 2011 place ODA at USD 413 million (current dollars), representing a 5.4% decline in real value.

It is important to note that nearly all of Luxembourg's ODA is untied and that it is provided in the form of grants. It is also significant that Luxembourg has implemented the recommendations of the 2008 review, strengthening its capacity for statistical reporting of ODA. As a result, Luxembourg's reporting has improved appreciably since the last review, and Luxembourg has been playing an active role in the DAC working party on statistics.

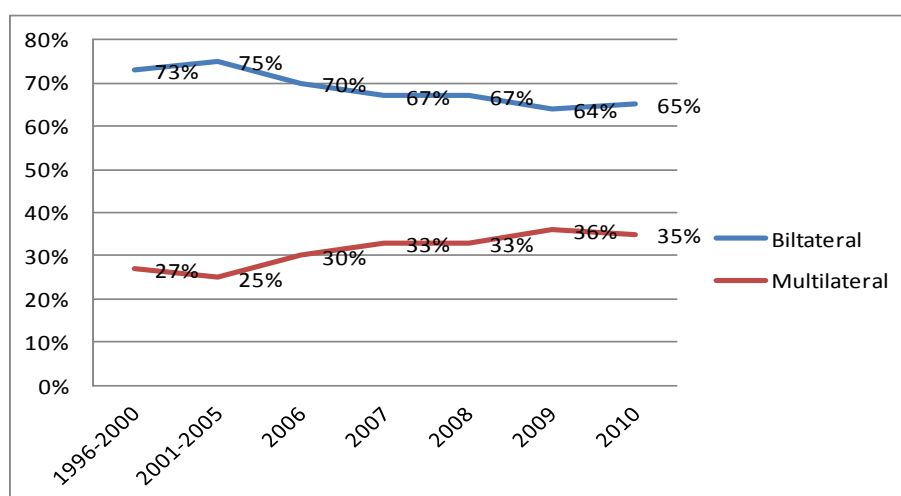
Overall distribution of ODA

Luxembourg's ODA is managed primarily by the Ministry of Foreign Affairs (MAE) and the majority of it comes from the Development Co-operation Fund (FCD), through which 53% of ODA flowed in 2010¹. (In 2006, 70% of ODA flowed through the FCD). This fund, created by the Development Co-operation Law, offers great flexibility in the

planning of co-operation activities. As it does not have to be spent within the fiscal year, disbursements can be geared to the pace of a project's execution (chapter 5). Nevertheless, Luxembourg must ensure that the overall amounts of aid budgeted are disbursed during the course of the year. It is important, then, for the co-operation agency LuxDev to monitor disbursements under all programmes regularly during the year in order to avoid a year-end bunching of disbursements without sufficient regard to programme quality.

In 2010, 65% of ODA was allocated to bilateral co-operation, while 35% was destined for multilateral organisations. The share of multilateral aid grew steadily from 2003 to 2010, rising from 23% to 35% (figure 3.2).

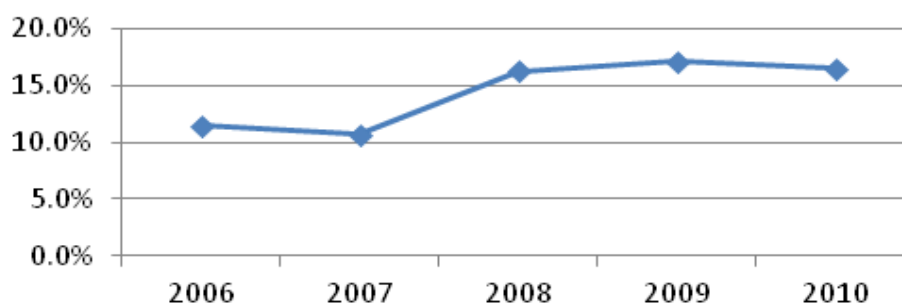
Figure 3.2. The bilateral/multilateral split in ODA, 1996 to 2010



Bilateral aid

The most important channel for Luxembourg's bilateral co-operation is the executing agency LuxDev, which manages around 80% of bilateral aid by volume for the account of the Ministry of Foreign Affairs. The other channels are development NGOs and humanitarian NGOs. The share of aid passing through Luxembourg's development NGOs is significant: it represented 16.5% of total Luxembourg aid in 2010 (and 20.1% of total aid, if international and regional NGOs are included) (MAE, 2012a). This share has risen sharply since 2006, when it represented 12% of total aid (figure 2.3). These significant flows would seem to merit a more strategic approach to collaboration with NGOs, together with further rationalisation of financing arrangements (chapter 1).

Figure 3.3. Share of ODA allocated to Luxembourg-based development NGOs



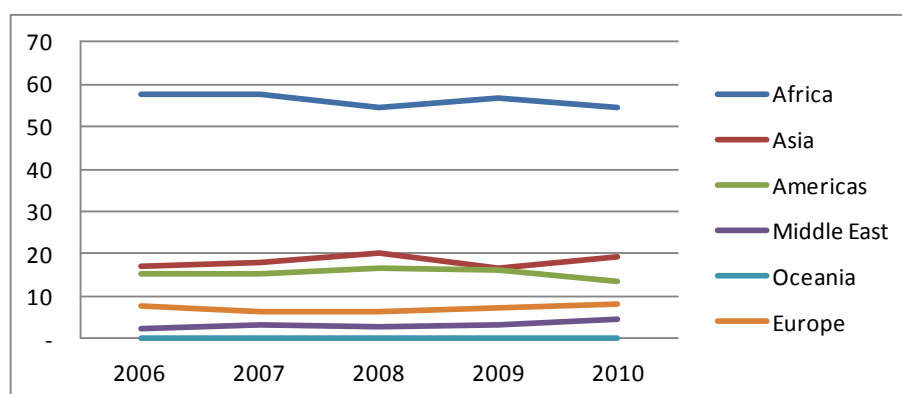
Source: MAE reports (2006 to 2010).

Bilateral ODA is highly concentrated in geographic terms

Aid is targeted at Africa and the poorest countries

Luxembourg's bilateral aid is heavily concentrated in Africa (5 of the 9 priority countries are in Africa), which ranks far ahead of Asia (19% in 2010) and the Americas (13% in 2010) (figure 3.4). This regional distribution has remained stable since 2006. Luxembourg also provides strong support to the least developed countries (LDC). In 2010, 56% of Luxembourg ODA was earmarked for the least-developed and low-income countries (DAC average: 53%). This proportion is similar to that for 2006 (55%) and clearly reflects Luxembourg's policy goal of helping the poorest countries. In fact, nine of the 20 top recipients are classed among the 40 lowest-ranking countries in the 2011 Human Development Index (UNDP, 2011): these include Mali (175th), Burkina Faso (181st), Niger (186th) and the Democratic Republic of Congo (187th).

Figure 3.4. Distribution of Luxembourg ODA by region, 2006 to 2010



Maintaining a high degree of geographic concentration

Consistent with its strategy of geographic concentration, Luxembourg has a small roster of priority partner countries with which it has signed indicative co-operation programmes (PIC). Since 2002, that list includes 10 countries, six of which are in Africa, two in Latin America and two in Asia. In September 2011 Namibia ceased to be a priority partner country, and the number of such countries was consequently reduced to nine. Over the period 2009-2010, 51% of Luxembourg's total ODA went to the 10 priority countries. Senegal was the largest recipient, with USD 21 million, or 8% of Luxembourg's bilateral aid (table B.4). Cape Verde, which for many years was the largest recipient of Luxembourg aid, today ranks fourth behind Senegal, Mali and Burkina Faso.

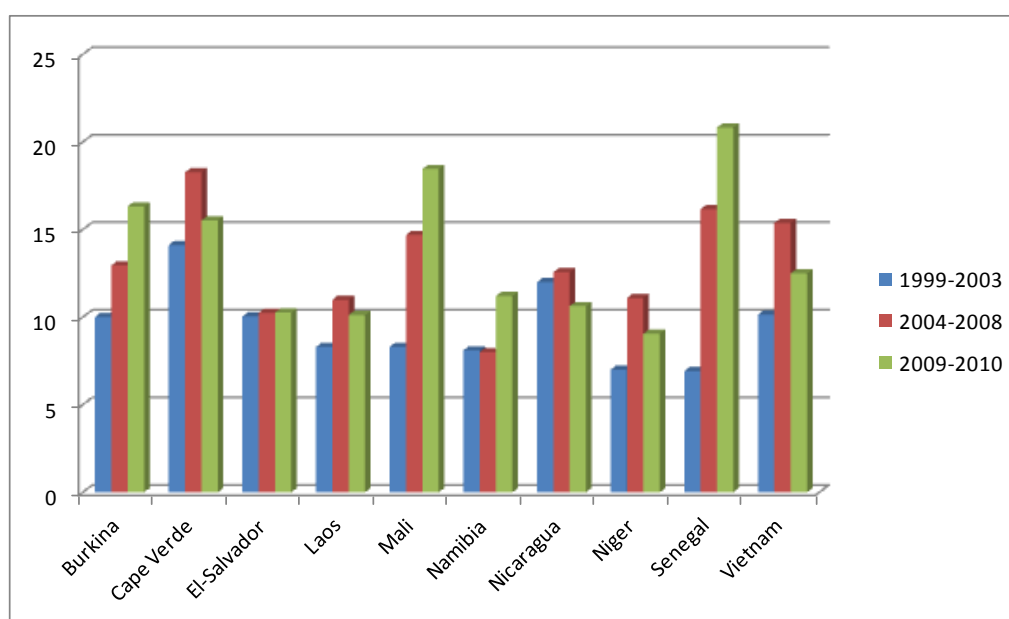
The geographic dispersal of Luxembourg aid is diminishing at the same time: the 20 top recipients accounted for 69% of bilateral ODA in 2009-2010, versus 67% in 2004-2008, and there were 97 beneficiaries receiving aid from Luxembourg in 2009-2010 versus 104 in 2004-2008 (table B.4). Some countries receive substantial aid from Luxembourg even though they are not on the list of priority countries: in 2010 a total of USD 31 million, or 12% of bilateral aid, went to Afghanistan, Kosovo, the West Bank and the Gaza Strip, Montenegro, and Rwanda.

This concentration policy means that the budgets earmarked for priority countries are stable, and are even growing in certain cases (Burkina Faso, Mali, Senegal) (figure 3.5). It

also lends medium-term predictability to Luxembourg aid, a fact appreciated by its partners, as the review team was able to confirm in Laos (chapter 5). Together with a strong sectoral concentration, geographic targeting also makes Luxembourg a recognised player with a measurable impact in certain sectors, such as vocational training (chapter 5). It is important, then, that Luxembourg should maintain this policy of concentration.

Not only does Luxembourg concentrate its aid in a restricted number of countries, but it also focuses on certain regions within countries. Thus, Luxembourg aid is targeted at three regions in Laos and at four regions in Senegal (all located in the northern portion). In Mali, Luxembourg is very active in the eighth region (Kidal, in the north of the country), a strategic decision as no other bilateral partner is involved in this area. This approach is not without risk, as has become evident in the current situation, which has brought co-operation in this region to a halt. The fallout from this crisis will require Luxembourg to review its aid policy in Mali, and is likely to lead it to combine development activities with humanitarian assistance and programmes of support for transition, conflict prevention, and the restoration of peace. This experience should also help Luxembourg understand and manage the risks, including political risks, inherent in aid programming (chapter 4).

Figure 3.5. Luxembourg ODA flows since 1999 to the 10 priority countries (in millions of constant US dollars)



Reinforcing exit strategies

Luxembourg has gradually withdrawn from Namibia (a process completed in September 2011), primarily because that country has graduated from LDC status. The Grand Duchy is now planning to withdraw from El Salvador and from Vietnam, which are no longer on the LDC list. These two countries will benefit until 2015 from a third-generation PIC, designed as a strategy for consolidating activities prior to a possible progressive withdrawal and the establishment of a new type of dialogue and co-operation. Vietnam is now into its second consolidation strategy, demonstrating the difficulty of withdrawing from the country. From this perspective, it would be useful for Luxembourg to build on its experience in Namibia in order to take a more strategic approach to future phase-outs. The decision to exit a country could be made more readily if Luxembourg had a strategic view of the desired number and composition of partner countries for the medium

term and if it had clear exit procedures and criteria, including an analysis of the consequences for the country concerned and identification of the necessary follow-up measures. The introduction of exit procedures would also allow a more strategic approach to the transition toward other forms of co-operation such as an economic partnership programme (which might be envisioned for Vietnam).

Building on experience in key sectors

Since the last peer review, Luxembourg has also maintained its policy of sectoral concentration, which gives greater priority to the social sectors in line with the national strategy's focus on combating poverty and achieving the Millennium Development Goals (Chapter 1). In 2009-2010, 46% of Luxembourg's bilateral aid went to "infrastructure and social services", versus a DAC average of 41%. This sector includes health (13% of bilateral ODA), education (13%) and water supply and sanitation (8%). These figures have changed little from the previous period (2004-2008), when 48% of the Grand Duchy's ODA went to projects in this category (table B.5).

The second most important sector in 2009-2010 was humanitarian assistance, representing 14% of Luxembourg's bilateral ODA, or five percentage points more than the DAC average of 9% (chapter 6). Lastly, Luxembourg aid is also important in the area of banking and financial services (5% of bilateral ODA).

In general terms, the sector distribution has changed little over the last 10 years. It reflects the intention of Luxembourg co-operation to commit itself for the long haul in sectors that it deems priorities (such as education and health) or in which it has a comparative advantage over other donors.

This is certainly the case with support for the banking and financial sector, in which Luxembourg is heavily involved at both regional and national levels. Thus, a programme to promote inclusive financial sectors in the WAEMU zone has been implemented in partnership with the Central Bank of West African States (BCEAO) with a view to developing micro-finance in this region. Luxembourg's contribution to this programme is EUR 18.8 million over five years (2007-2012), representing by far the Grand Duchy's largest regional programme. In Laos, Luxembourg is supporting the *Institut de formation bancaire* (BTI) which provides training for the management staff of financial institutions (EUR 2 million over three years). Luxembourg is also active in this area in Vietnam and in other countries of Central Asia and Eastern Europe, where it is working in collaboration with specialised NGOs.

Tourism promotion is another sector where Luxembourg has a comparative advantage. The project to reinforce human resources and hospitality facilities in the Laotian tourism sector is potentially one of Luxembourg's most important projects in this field. This project is supporting the country's tourism development policy, one of the pillars of its economic development.

Because of this specialisation, Luxembourg aid tends to support the same sectors in most countries. In Laos, for example, Luxembourg aid allocated under the third PIC 2011-2015 is concentrated on: (i) health (44% of disbursements); (ii) education and vocational training (34%) and (iii) local development (22%)². The same sectors of concentration can be found in Senegal, where aid is distributed among four sectors: water and sanitation (40%), education and vocational training (27%), health (23%), and decentralisation and local governance (10%). This specialisation in a small number of sectors is a good thing for it serves to reinforce expertise by building on good practices and experience gained in the same field in different contexts. It is important for Luxembourg to reinforce its sectoral

concentration at the country level in order to have a real impact in the sectors where it invests and to play a leading role in a given sector, as it is already doing in several of its partner countries (chapter 5).

A model player in multilateral aid

Multilateral co-operation represented an important share – 35% – of Luxembourg's total ODA in 2010. That share has increased significantly in the last 10 years, rising from an average of 25% over the period 2001-2005. By volume, multilateral aid rose from USD 86 million to USD 141 million (current dollars) between 2006 and 2010, for an increase of 37% in real terms. This trend reflects the clearly stated intent of the Government of Luxembourg to support international institutions: "The Government of Luxembourg considers that the search for common solutions is the very essence of multilateralism, the kind of effective multilateralism that Luxembourg has with conviction made the centre of its international action" (MAE, 2007b).

Multilateral agencies are selected in a strategic manner in light of the sectors and countries in which they are involved, so as to preserve consistency with Luxembourg's concentration policy and ensure alignment with its priorities.

Support for multilateral agencies comprises, on one hand, direct contributions to their basic budgets and, on the other hand, support for projects and thematic programmes at the global and regional levels: these are closely aligned with the operational priorities of those organisations and are, generally, of the same order of magnitude as the voluntary budget contributions. Moreover, thanks to the "multi-bi" approach in partner countries (or within a region or subregion of those partner countries), between 15% and 20% of the third-generation PIC budgets can be reserved for multilateral assistance. Under this approach, for example, Luxembourg has been able to initiate and finance joint programming as well as a consolidated programme of the UN agencies in Laos relating to maternal, infant and neonatal health care. To be fully effective, it should be applied flexibly so that the co-operation offices can take account of each context.

Luxembourg is especially active in co-operating with UN agencies, which receive around 15% of its total ODA (the DAC is average 5%)³. The UN agencies welcome the approach of Luxembourg, which provides a third of its contribution in the form of non-earmarked assistance; is a reliable and predictable partner; plays a constructive role in debates, offering a multisectoral perspective; and gives active support to the "Delivering as One" approach. Thus, on 8 June 2011 Luxembourg signed four new-generation framework agreements with the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA) and the United Nations Capital Development Fund (UNCDF). These partnership agreements are harmonised and follow a single format, proposed by the Ministry in order to strengthen interagency cohesion. Although they do not contain multiyear commitments, these agreements also serve to enhance the predictability of support, as Luxembourg undertakes to maintain its annual voluntary contributions at no less than the level of the preceding year. In Laos, Luxembourg has also introduced multiyear support for a co-ordinated programme of maternal health, allowing the four UN agencies involved to work together more effectively over the medium term and, according to them, to boost the quality of their project significantly.

Luxembourg's multilateral co-operation also has great operational flexibility, giving partner organisations an important degree of freedom in identifying programmes and in organising their reporting. Luxembourg adheres closely to the procedures of international

organisations, thereby avoiding the hazards of "micromanagement" and reducing the administrative workload. This flexibility is likely to appear shortly in Mali: there, bilateral aid is bound to be cut back sharply because of the political situation, whereas multilateral aid should increase in response to the alarming humanitarian situation in the north of the country. Lastly, Luxembourg is considering the possibility of joining the Multilateral Organisations Performance Assessment Network (MOPAN), a move that would improve its approach to multilateral aid.

Future considerations

- In order to have a meaningful programme in each country and to capitalise on its comparative advantages, Luxembourg should stick to its policy of geographic and sectoral concentration for its development co-operation programme. This will allow it to have a real impact in the sectors of concentration within each partner country and to expand the opportunities to play a sector leadership role.
- Luxembourg should learn from its experience in Namibia and from the experience of other donors in order to identify criteria for exiting a country and to develop procedures for managing the transition to new forms of co-operation.

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NOTES

1. The Finance Ministry manages Luxembourg's contributions to international financial institutions as well as to the regional development banks. The annual report of the Finance Ministry mentions an overall envelope of some EUR 11.5 million for disbursement in 2011 (MFi, 2011).
2. These sectors were identified according to three main criteria: continuity with respect to support under the previous PICs; the priorities in the Laotian national development plan (NSED 2011-2015); and pursuit of the Millennium Development Goals.
3. Luxembourg provides financing to the following agencies: UNDP, UNICEF, UNFPA, UNCDF, UNEP, UNCTAD, ILO, WFP, UNRWA, UNHCR as well as WHO, FAO, UNIDO, WTO and UN Women. The International Committee of the Red Cross is also an important partner in Luxembourg's co-operation and humanitarian aid.

Chapter 4

Organisation and management

This chapter examines how Luxembourg organises and manages its development co-operation programme, focusing on the two main players involved, namely the Development Co-operation Directorate of the Ministry of Foreign Affairs and Lux-Development (LuxDev), the co-operation agency. Noting the progress made since the 2008 review and the remaining challenges to be addressed for improving the quality of the co-operation programme, this chapter focuses on the following aspects: the respective attributes of the Co-operation Directorate and of LuxDev and the extent to which they are taking account of the new aid modalities and the need to share expertise; the degree of programme decentralisation; human resource management; results-based

The institutional organisation of development co-operation at headquarters

The main institutional players in Luxembourg's development co-operation are the Development Co-operation Directorate within the Ministry of Foreign Affairs and the Lux-Development executing agency (LuxDev). Relations between LuxDev and the Luxembourg government are governed by a "convention". The convention was revised in October 2008 to take better account of the new international framework for development co-operation, as recommended by the peer review (MAE, 2008b). The convention defines, in particular, the distribution of responsibilities, the modalities of co-operation, and the financial procedures.

The Development Co-operation Directorate: internal co-ordination has been strengthened

The Development Co-operation Directorate, which falls under the political responsibility of the Minister of Co-operation and Humanitarian Action, is responsible for the design and implementation of Luxembourg's policy for development co-operation and humanitarian action. It manages 85% of Luxembourg's ODA.

There has been no change to the Directorate's organisation chart since the 2008 peer review¹. The Directorate has however reinforced its internal co-ordination by instituting weekly meetings between the Director and each of the departments. This is a welcome step, and should help to improve the circulation of information. The Directorate has also developed two important tools for implementing and monitoring the programme:

- (i) A database ("Metrum") that can compile all project reports and should allow data to be extracted more readily;
- (ii) A procedural manual for decision-making, the first version of which was published in April 2012 (MAE, 2012j). This manual documents in detail, for each of the key stages of the programme, the decision-making processes concerning humanitarian assistance on one hand and the bilateral co-operation programme on the other. It also describes the procedures to be followed in evaluation, disbursement and recruitment, as well as the specific modalities applicable to programmes implemented by NGOs. Before finalising the manual, the Directorate should consult the executing agency and take into account the revisions to the convention governing the agency, as well as the changing modalities for implementing programmes (see below and chapter 5).

Lux-Development: a strategic approach to professional development and change

LuxDev is a limited liability company, the shares of which are held by the Luxembourg state (90%) and the *Société Nationale de Crédit et d'Investissement* (2%). Its Board of Directors, comprising 18 members, is chaired by the Director of the Inspection générale des Finances and co-chaired by the Director of the Development Co-operation Directorate. Its membership includes representatives of the government, the Chamber of Commerce, labour unions, the *Cercle de co-opération des ONG*, two independent members, and the Director of the Agency. LuxDev manages two thirds of bilateral ODA (it disbursed EUR 76.6 million in 2011²). LuxDev is also beginning to manage programmes financed by other donors and by the European Commission (for example, in the tourism sector in Nicaragua), an activity that is still limited but could expand in the future.

Since the last review, LuxDev has made constant efforts to become more professional and to adapt to the new aid modalities. A strategic plan for the period 2010-2012 has been developed and widely disseminated under the name "Vision 2012" (LuxDev, 2010). Organised around four strategic objectives relating to quality, accountability, partnerships and knowledge management, it is given effect through detailed annual action plans, implementation of which is closely monitored by LuxDev management.

As a result, LuxDev has established a new human resource division as well as an "expertise and quality division" separate from the operations division. The management committee now includes, in addition to the office of the Director General, the human resources division, the administration and finance division, the operations division, and the expertise and quality division³. There is also a communications unit and a risk management unit that reports directly to the Director General. This reinforced structure remains simple and appears appropriate to the agency's limited personnel resources (54 agents at headquarters).

LuxDev has also been pursuing quality initiatives, which have allowed it to maintain its ISO 9001 certification obtained in 2005. In particular, LuxDev has developed a quality manual, available online, which has proven very useful for all the regional offices as well as for the senior technical advisors. It could be improved even further by taking under advisement the feedback from users in the field. The agency has also updated its code of conduct, intended to help co-operation workers identify and deal with situations of corruption and conflict of interest (LuxDev, 2012a).

LuxDev is now about to define its vision to the year 2020, taking Busan as the starting point and attempting to anticipate the likely consequences for programme implementation. To this end, LuxDev has commissioned a study on implementing Busan and the European Union's Agenda for Change, which was presented to the European Centre for Development Policy Management (ECDPM 2012).

The programming cycle is the focal point for institutional relations between these two players

The convention specifies the distribution of tasks between the Ministry and LuxDev for the programme cycle (MAE, 2008c). This distribution reflects the complementarity between the political and strategic dimension, for which the Ministry is responsible, and the operational and technical tasks performed by the executing agency (table 4.1).

Table 4.1. The respective roles of the Ministry and LuxDev in programming and implementation

Programme Stage	Co-operation Directorate	Lux-Development
Identification	Identifies the programme	
Formulation	Transmits the formulation mandate to LuxDev	Prepares a formulation proposal
	Validates the LuxDev formulation proposal	Prepares the programme
Instruction	Validates the formulation and science and MOU with the partner countries	
	Transmits the execution mandate to LuxDev	Drafts the startup report
Implementation	Approves the startup report	Implements the programme
	Participates in steering committee meetings and in the quarterly consultations	Adapts the programme or the budget is necessary
	Drafts the codicil to the MOU	Pursues implementation of the
Evaluation and closeout	Commissions the external evaluation	Commissions the internal evaluation
	Prepares a summary report and the closeout audit certificate	Prepares the final report

Source: Manuel des processus décisionnels (MAE, 2012j) and Convention (MAE, 2008b).

Improving communication

This distribution of tasks must not stand in the way of consultation and co-ordination between players at all stages. The Laos example shows that a close working relationship that includes the senior technical advisors is essential for developing and implementing a quality programme (Annex C.). There are in fact frequent contacts, including a semiannual meeting of the heads of the Directorate and LuxDev, as well as day-to-day collaboration between the services, something that is facilitated in the field by the sharing of offices by the Ministry and LuxDev (box 4.1). A greater effort at communication between the two players, however, supported by formalised consultation procedures, would allow the Ministry to benefit from LuxDev's growing expertise, and LuxDev to anticipate needs more effectively.

Box 4.1. The advantages of sharing premises

The co-operation office and LuxDev are housed together in the six regional bureaus, making for a close working relationship between the Directorate and LuxDev. This, together with the fact that each office covers two countries, lends Luxembourg co-operation a "critical mass" of resources, with four expatriates and six locally recruited programme administrators. This limited staffing demonstrates the importance of co-ordination and pooling resources, allowing the co-operation office to take advantage of LuxDev's expertise, while LuxDev can seek the ambassador's intervention at the political level when a programme runs into obstacles that are beyond the ability of the national partner to resolve.

Source. Memorandum and interviews by the review team in the Vietnam regional bureau (MAE, 2012a).

Rethinking the distribution of functions

In the context of the scheduled review of the convention, the distribution of tasks between the Co-operation Directorate and LuxDev could be adjusted to take account of three elements:

- (i) The new aid modalities, in particular budgetary aid, which require a different role for the agency, one that will place less emphasis on execution and more on analysis and advice;
- (ii) Reliance on technical support from LuxDev during programme identification – this also applies at headquarters during definition of sector strategies. In practice the agency is consulted – it is therefore salutary that the revision to the convention already calls for strengthening the agency's involvement in programme identification;
- (iii) The need to reconsider the respective roles of the Ministry and LuxDev in the partner country sectoral platforms, which require diplomatic skills as well as technical skills, depending on their level. A pragmatic approach is needed to optimise the use of limited human resources, particularly in countries where there is no co-operation office. Some promising ideas about the sharing of responsibilities have been put forward in Nicaragua, and they should ensure that Luxembourg participates actively in the sectors where it is heavily involved.

Renewing the approach to risks and developing risk assessment and management processes

The revision of the convention should also be an opportunity to revisit the approach to risks. The obligation of LuxDev to conduct itself as a "prudent person" (*bon père de famille*) leads it to avoid risks of all kinds, and hence to eschew innovation. The level of risk tolerance is not defined, and by default this implies that Luxembourg will tolerate no risk. Luxembourg co-operation has no internal risk management process, which makes it difficult to monitor and manage the risks inherent in the context and in each of the programmes. In particular, this hamstrings the ability to work in a fragile environment. In practice, the risk inherent in fragile environments is not shared but is transferred either to multilateral agencies or to the executing partners, and to LuxDev in particular. Luxembourg should draw on the experience of other DAC members with respect to situation analysis, programming, adaptation of tools, and risk management. Its participation in the International Dialogue on Peace-Building and State-Building will be an asset in this regard, as is the recent recruitment of a "risk advisor" to the Director General of LuxDev.

Arrangements in the field

Luxembourg co-operation has a network of six regional representation bureaus covering the nine priority partner countries and housing the co-operation office (Ministry) and the regional representation of LuxDev⁴. This cohabitation, and the fact that the office covers two countries, serve to provide a "critical mass" in terms of human resources and to strengthen the links between the co-operation office and LuxDev (box 4.1). Although this arrangement is efficient from an administrative viewpoint, it has not resulted in a regional approach to programming, which is still guided by the indicative country programmes. The new emphasis on the regional channel in the revised law should encourage a more systematic quest for synergies among programmes in the same region.

Moreover, the representation offices have to cope with the programme's centralisation and the lack of representation in some priority partner countries, two elements that pose obstacles both to the swift execution of the co-operation programme and to the quality of dialogue with partners and involvement in co-ordination structures.

Greater decentralisation would enhance the quality of programme execution

The functions of both the Ministry and the co-operation agency are centralised in terms of programming as well as financial delegation. Thus, in the Ministry, the regional co-operation office is supposed to co-ordinate preparation of the indicative co-operation programme (PIC) and each of the projects. However, the Ministry is involved at four stages in the preparation of each project: in addition to its signoff on the project MOU, its approval is required for: (i) the proposed formulation of the project; (ii) the project document; and (iii) the project start-up report. Moreover, every request for payment and every commitment procedure must be signed by the assistant director of co-operation (for amounts less than EUR 125,000) or by the director of co-operation (up to EUR 250,000). The Minister's signature is needed for any higher amount (MAE, 2012j). These delegation thresholds have little impact on financial transfers to LuxDev, which are limited as the agency has its own annual budget disbursed in three tranches, but they do apply to contracts with NGOs, which are managed by the Ministry. Many decisions also require prior authorisation from headquarters⁵.

In the case of LuxDev, the regional representative is responsible for programme implementation in the field, but is saddled with a restrictive delegation of powers. In effect, the ceilings for procurement transactions are low, whether for awarding contracts or for validating contractual stages. Beyond EUR 50,000, all documents must be validated by headquarters and require two signatures (table 4.2).

Table 4.2. LuxDev: delegation of validation and signature powers

	Signature of contractual commitments	Validation of procurement contracting stages
Up to EUR 20,000	Programme Officer Senior technical Advisor	Programme Officer Senior technical Advisor
Up to EUR 50,000	Regional representative	Regional representative
No limit (Two signatures)	Director General Assistant Director General Director of Expertise and Quality Operations Director Human Resources Director <i>If urgent: PCA chief</i>	Director General Assistant Director General Director of Expertise and Quality Operations Director Human Resources Director <i>If urgent: PCA chief</i>

Source: Source : LuxDev, 2012b.

This constant shuttling between the field and headquarters impedes the definition and execution of programmes in the field. Procurement procedures are also time-consuming and detract from the attention that the senior technical advisers could be paying to more strategic aspects of the programme, as was noted in Laos. Luxembourg would therefore do well to revisit its procedures in order to give greater latitude to its field representatives while ensuring the necessary programming supervision and financial controls.

The lack of representation in some priority partner countries is a handicap

In several of its priority partner countries, Luxembourg has no on-the-ground representation, relying instead on its regional bureau, which will be located in a neighbouring country. Luxembourg recognises that policy dialogue concerning programme approaches, aid harmonisation issues and regular monitoring of programme implementation is difficult to maintain in countries where it has no permanent representation. This was clearly confirmed by Luxembourg's partners in Laos, who blamed the absence of local representation for Luxembourg's scant involvement in sectoral co-ordination bodies (Annex C.). In Niger, again, Luxembourg is a recognised player in vocational training, but it is not able to provide the leadership that might be expected of it at a time when significant reforms must be undertaken.

Luxembourg needs to assess the consequences of this lack of representation, particularly in terms of managing risks and opportunities, and consider ways to remedy the situation. The options might include establishing a co-operation office, delegating the programme to a partner organisation, or reducing the number of priority countries. This issue will also need to be taken into account in the review of the functions of the Ministry and of LuxDev, recognising that greater involvement by LuxDev in sectoral dialogues could in part offset the drawbacks of having no representation in a priority partner country.

Human resources

Making the best of limited resources

Luxembourg co-operation is sparsely staffed: the Co-operation Directorate has 42 employees, 23 of them at headquarters and 19 abroad. LuxDev has 54 employees at headquarters, plus 9 expatriate staffers in the six regional offices, assisted by 37 locally recruited employees. In addition, 75 international experts (including 43 senior technical advisers and 32 technical assistants) are assigned to programmes in the field, supplemented by 380 locally engaged staff.

As a division of the Ministry of Foreign Affairs, the Co-operation Directorate has no control over human resource management. There are a number of rigidities relating to the differential status of personnel – diplomats, non-diplomatic officials⁶, government employees on long-term contracts, and co-operation workers on four-year contracts.

In particular, diplomats and civil servants are members of the Ministry's staff. Their allocation is decided by the Minister of Foreign Affairs, in consultation with the Minister for Co-operation and Humanitarian Action depending on the countries concerned, and their positions rotate every four or five years. Moreover, the positions of non-resident ambassadors in countries where Luxembourg has co-operation offices are reserved to the diplomatic stream. It is important, then, to ensure that these positions are awarded to persons with experience in development co-operation work. The Directorate has more control over co-operation workers but, as stipulated in the revised law, they are limited to four-year contracts, leading to a high staff turnover rate.

The limitations in terms of human resources and the assignment of diplomatic personnel represent a constraint on the pursuit of co-operation policy. The Ministry is aware of this situation, and there are in fact several avenues that might be explored for optimising the use of available personnel. These include:

- Allocate diplomatic posts to the co-operation service, filling them perhaps from a special "development" career stream⁷.
- Introduce job specifications.
- Reinforce the staff appraisal system.
- Allocate an annual quota of training days.
- Make wider use of locally recruited personnel for programme monitoring tasks.

Reinforcing competencies

The 2008 peer review recommended that the MAE take steps to maintain the required level of expertise. The midterm review of 2010 noted the efforts made by the Ministry and LuxDev in this regard. While the Co-operation Directorate looks for multifunctional profiles that can cover several specialties at a strategic level, LuxDev has created new, specialised expert positions to cover the key sectors⁸ and thereby reduce resort to high-priced external consultants. The Directorate has also instituted a structured path for recruiting experienced personnel (box 4.2). It will be useful in the next few years to assess the impact of this programme, which represents a certain effort (in particular, countries rarely finance a JPO for four years) and to share the results with other donors facing the same problem of recruiting experienced staff.

Box 4.2. The initial training programme introduced by the Co-operation Directorate

In order to create a roster of qualified co-operation experts, Luxembourg has instituted an initial training course comprising several stages: (i) a 1 to 3 month stint within the Ministry (not remunerated); (ii) a three-month assignment with the health NGO ENDA in Senegal; and (iii) a one-year field assignment (which can be extended for a second year) as a junior technical assistant with LuxDev, working with a local partner. Around 20 individuals per year take part in these field assignments. The national youth service also offers work-training assignments of 3 to 12 months with a development NGO.

This training allows young Luxembourgers to apply for positions as junior professional officers (JPO) with the United Nations or for acceptance in the European Commission's Junior Experts in Delegation programme. Luxembourg is financing the deployment of 20 to 25 JPOs each year, for a four-year term. These young persons can then pursue a career in the United Nations, with an NGO, or in Luxembourg's official co-operation programme.

Source: interviews in Luxembourg, April 2012

Within the Ministry, the only compulsory training is that associated with the status of public servant, which is not specific to development co-operation, and training incentives are still weak. The Co-operation Directorate should explore the potential benefits of requiring some minimum annual training time (for example 5%) for its staff in fields that will help to improve the impact of development support programmes. In doing so, it could take advantage of the training instituted by LuxDev, which has reinforced its human resource policy as it relates both to recruitment and to professional training and development.

The Co-operation Directorate should also finalise the job specifications shown in its organisation chart, consistent with the decision-making manual. This could be followed by introduction of a performance appraisal system, based on the job specifications and comprising annual performance appraisal interviews. With these two human resource management tools in place, the recruitment and training policy could be used to adjust the personnel profile to fit the positions and functions that must be filled.

More recognition for the contribution of locally recruited staff

Luxembourg makes only limited use of local personnel in its embassies abroad. No one can be recruited locally for a programme management position. In practice, local staff will sometimes perform non-administrative tasks if they are highly qualified – for example, managing the embassy's portfolio of micro-projects – without any official recognition. Given the numerical constraint on Luxembourg-based personnel, the Co-operation Directorate should consider promoting locally recruited staff to functions other than administrative support, when the co-operation office's portfolio of activities so demands. This would also serve to recognise the valuable contributions that local staff make in terms of continuity and institutional memory in the co-operation office.

Knowledge evaluation and management

Strengthening the evaluation culture

In response to the recommendation from the 2008 review concerning the introduction of external evaluations, the Co-operation Directorate has pursued efforts to strengthen the evaluation culture within the Ministry. An initial evaluation strategy has been developed, in consultation with LuxDev (MAE, 2012k). It sets out the distribution of evaluation tasks between the Directorate and LuxDev, with the Directorate handling the external evaluations and LuxDev the internal ones (table 4.3). The strategy also includes the 2012-2014 programme of evaluations planned by the Co-operation Directorate and the 2012-2013 programme of LuxDev, which were the subject of prior consultation.

Table 4.3. The various stages of evaluation performed by the Ministry and LuxDev

Internal evaluation		
LuxDev	Self-evaluation	Managed by the programme unit: - annual review (as input to a progress report) - project completion review (as input to the wrap up the seminar) - other
LuxDev	Independent evaluation	managed by the <i>Département d'évaluation et capitalisation</i> : - midterm evaluation - final evaluation - other
External evaluation		
MFA	External evaluation	- strategic evaluation during or at the end of a programme to establish a new programme or the PIC - midterm review of the PIC - sectoral or country evaluation (may be conducted with other donors) - ex-post evaluation - other

Source: LuxDev (2012c)

The Directorate has moved further in structuring the evaluation function, and now has a part-time officer in charge of organising the evaluations within the Quality-Control Directorate. Those evaluations are conducted by independent consultants, engaged through public tender. The multiyear evaluation programme is essentially targeted at NGOs and, apart from the midterm reviews, does not provide for any strategic evaluation of bilateral co-operation. It would be useful if the Directorate were to programme such evaluations, which could deal with a specific sector or a cross-cutting theme and would be designed to provide the input needed to orient the co-operation programme for the future.

This is the case with the midterm reviews, which can draw lessons from the evaluation of the previous indicative co-operation programme in formulating the new programme, as the review team noted in Laos (Annex C.). The results of the midterm reviews are available at the website, unlike the evaluations of NGOs. Yet the need for transparency in the use of public funds should make this publication imperative. Among other improvements, a structured monitoring process could be instituted, including a response from the Directorate to the recommendations from the evaluations.

Evaluation makes it possible to boost programme quality, to communicate effectively on the results achieved, and to assist the Directorate in its strategic decisions. It is important, then, that this function should have sufficient resources and be strategically managed. To date, ad hoc committees (including LuxDev) have been established when tenders are being called for evaluations. The Directorate could usefully institute a committee that will decide the programming of evaluations in light of the strategic issues at stake and will monitor observance of the recommendations from the evaluations. The evaluations strategy finalised in 2012 in fact calls for creation of such a committee (MAE, 2012k). More information sharing with LuxDev and the DAC network on evaluation could be useful for providing input to the Ministry's thinking about reinforcing the evaluation function.

LuxDev developed its monitoring and evaluation policy in 2009 on the basis of the DAC principles. Programme monitoring is based on: (i) detailed work plans prepared from project documents and focussed on activities; (ii) project steering committees (once or twice a year) to examine the results of activities and decide on any needed reorientation; and (iii) a midterm review. In the context of the project cycle, LuxDev has also commissioned independent evaluations by external consultants, as needed to complete the auditor's end-of-project certification. The evaluation results are shared with the partners and published at the LuxDev website. LuxDev is currently working on two essential aspects to improve future evaluations and adapt them to the new age modalities:

- (i) Revising the logical framework for projects to ensure that: (a) the notion of "adequate outcome" is defined and aligned with a sector policy; and that (b) project monitoring systems are of the level needed for quality evaluations;
- (ii) Examining the implications of the programme approach for the evaluation function, including the use of country monitoring systems and participation in joint approaches⁹.

Improving knowledge management

One of the recommendations from the 2008 review concerned the need to preserve the institutional memory and to secure access to the required expertise. Luxembourg has taken some steps in this direction. In particular, joint sector expertise units have been established in the MAE and LuxDev to work out sectoral strategies. This initiative is welcome and should be pursued further, as these units can guarantee that existing capacities are put to better use.

As one of its four strategic objectives for 2010-2012, LuxDev has set the goal of becoming an organisation that learns from its experience, builds on it and makes it available to its partners and to the Luxembourg state (LuxDev, 2010). In this context, LuxDev has developed a database on evaluations and has organised thematic or sectoral workshops to share the lessons drawn from the evaluations¹⁰. In the field, the senior technical advisors report that they are being invited to learn from other donors' experience. In addition, LuxDev has invested heavily in international knowledge dissemination networks. For example, it served as chair of the Train4Dev network in 2010-2011, and is president of the European Centre for Development Policy Management for 2011-2012.

The Ministry and LuxDev recognise the need to pursue the efforts now underway and to introduce tools to improve knowledge management and to draw lessons from experience, in order to enhance programme quality. The informal information sharing on programmes is real and fruitful. In Laos, for example, the senior technical advisors comprise a tight-knit team and their relationship of trust with the co-operation manager allows for the direct exchange of information. The co-operation office's ready access to LuxDev's technical expertise, and LuxDev's ability to turn to the co-operation office to move files bogged down in a ministry, are valuable elements for guaranteeing the quality and sound execution of the programme. However, these exchanges rely largely on individual initiatives, and there is no formal framework for building on experience, for compiling and organising information from the field, and for making it available to a greater number of stakeholders.

Future considerations

- Luxembourg should use the scheduled revision of the convention to revisit the respective responsibilities of the Co-operation Directorate and LuxDev in order to take into account the new aid modalities and the lack of diplomatic representation in certain countries. In addition, a greater effort at communication between the two institutions, backed by formal consultation procedures, would allow the Ministry to benefit from LuxDev's growing expertise and would help LuxDev to anticipate needs more effectively.
- Luxembourg should consider the consequences of having no permanent representation in certain priority partner countries and should plan steps to remedy the situation, for example by establishing a local presence, delegating the programme to bilateral or multilateral partners, or reducing the number of priority countries.
- To improve the quality of programme execution, Luxembourg should revise its programming procedures and the thresholds for delegating powers, in order to give its field representatives greater freedom of action while ensuring the necessary programme supervision and financial controls.
- The Co-operation Directorate should explore different avenues for improving its human resource management tools. In particular, it should finalise the job specifications and strengthen training incentives.
- The Co-operation Directorate should take a more strategic approach to evaluations, reinforcing the mechanisms and bodies for defining and following through on evaluations. In this way, they could be fully used as a learning tool for all players involved, and as a programme management tool for the Director's office.
- The Co-operation Directorate and LuxDev should pursue the efforts now underway to improve knowledge management in order to build on experience in the different sectors and countries and thereby improve the quality of co-operation programmes. Capitalising on experience in this way could also be useful for strengthening communication on the results of the co-operation programme.

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NOTES

1. See the organisation chart at page 26 of the Memorandum from Luxembourg (MAE, 2012a).
2. This amount includes the envelope of EUR 75.5 million made available by the Ministry, which has been fully disbursed.
3. See the organisation chart at page 28 of the Memorandum from Luxembourg (MAE, 2012a).
4. The regional bureaus are located in Hanoi, Managua, Praia, Dakar, Ouagadougou and Pristina.
5. For example, the co-operation officer based in Vietnam must seek headquarters authorisation to travel on mission to Laos, a priority country covered by the regional bureau.
6. These may or may not be university graduates.
7. Luxembourg could institute a career plan for officials and diplomats even if it were not focused exclusively on co-operation, with positions in priority countries and in the permanent representation offices (Geneva, Rome, Paris, New York and Brussels).
8. These cover vocational training, cross-cutting issues (gender, environment and governance) and institutional analysis and public financial management.
9. To date, Luxembourg's participation in joint evaluations has been confined to one in Niger, involving five partners, and another with IFAD.
10. A seminar was organised in Mali with personnel drawn from the four partner countries of the region.

Chapter 5

Aid effectiveness and results

This chapter looks at Luxembourg's involvement in defining the international aid effectiveness agenda, and the repercussions of that commitment on implementation of its development co-operation programme. It examines the changes made to the third generation of its indicative co-operation programmes (PIC) and analyses the extent to which Luxembourg aid is aligned with national strategies and country systems – in a context that is still dominated by the project approach but takes more account of sector frameworks. The chapter highlights the efforts made at harmonisation with other donors. It notes that Luxembourg aid is nearly all untied, it is also predictable and at the same time it is appreciated for its flexibility.

A continuing commitment from Paris to Busan

Luxembourg has taken an active part since 2005 in discussions on aid effectiveness. As president of the European Union at that time, the Grand Duchy played a key role in the process leading to the Paris Declaration and in 2008 it adopted the Accra Agenda for Action on Aid Effectiveness. In 2011, moreover, Luxembourg participated actively in preparations for the fourth high-level forum on aid effectiveness in Busan, which was attended by the Minister for Co-operation and Humanitarian Action. On that occasion, Luxembourg signed on to the "New Deal for Engagement in Fragile States" (chapter 1).

In each of its annual reports since 2006, Luxembourg co-operation has devoted at least a paragraph to aid effectiveness. According to the 2010 report, "Luxembourg's co-operation is very much involved in discussing and defining new standards as regards the harmonisation and quality of international development aid. It subscribes to the principles laid down in the Paris Declaration (namely ownership, alignment, harmonisation, managing for results and mutual accountability) and the Accra Agenda for Action as well as the EU Consensus on Development and the Code of Conduct on Complementarity and Division of Labour in development policy". This determination to enhance the effectiveness of aid can be seen in all the documents, from the PICs to the strategy documents and the country brochures published by LuxDev.. Luxembourg also uses other tools for communicating about the observance of these principles in its co-operation policy. For example, aid effectiveness was the topic for a roundtable moderated by the DAC chair during the 2011 *Assises de la co-opération luxembourgeoise* (MAE, 2011b).

The convention defining LuxDev's functions stipulates that the agency, in carrying out its tasks, must implement the government's international commitments, including the Paris Declaration, the Accra Agenda for Action, the European Consensus on Development and the Code of Conduct on Complementarity and Division of Labour (MAE, 2008b).

Further efforts are needed to achieve the objectives of the Paris Declaration

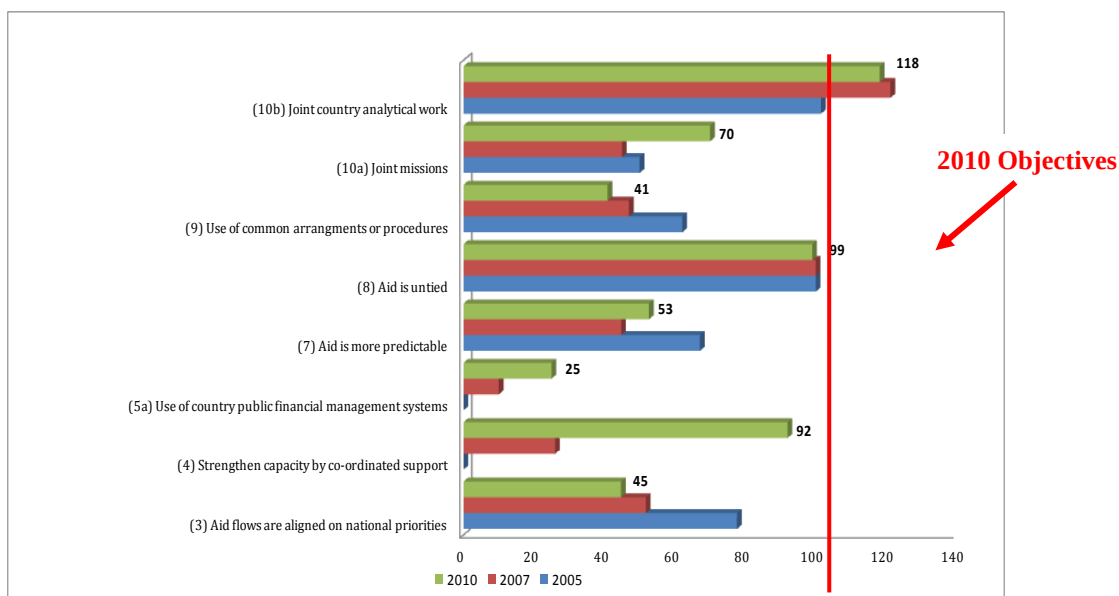
Mixed results

While Luxembourg has made numerous efforts in the wake of the 2008 peer review, the 2011 Paris Declaration Monitoring Report found that Luxembourg still had some way to go to achieve the targets set for 2010. According to that survey, only two objectives have been fully or largely achieved since 2007: those relating to joint country analytical work and to aid untying (figure 5.1). The findings from the survey need to be interpreted very carefully, however: the baseline 2006 survey covered only three recipient countries, which explains in part the apparently sharp decline in certain indicators (indicators 7 and 3 especially). Nevertheless, the 2011 survey results (covering performance in 2010) are more reliable, in that most of Luxembourg's partner countries participated in it. These findings highlight the fact that Luxembourg makes little use of country systems.

The country has also set for itself a surprisingly low target for indicator 5a on the use of country systems, given that most of the countries in which Luxembourg is active have high-quality systems. This illustrates the importance of the project approach and the use of programme management units (PMUs) which, although integrated into the ministries, make little use of country systems. The fact that Luxembourg provides little in the way of budgetary aid explains the disappointing results for other indicators, in particular the

recording of aid in recipient countries' public accounts and the use of programme approaches.

Figure 5.1. Luxembourg's performance against the Paris Declaration indicators, 2010



Source: OECD, Aid Effectiveness 2005-10: Progress in Implementing the Paris Declaration. The figures and the results have been recalculated on a basis of 100.

As indicated above, Luxembourg aid is almost exclusively untied (99%, according to the survey), placing it in an exemplary position in this regard (the DAC average was 89% in 2009). This testifies to Luxembourg's determination to create true partnerships with recipient countries without expecting any direct return on its aid. At the political level in Luxembourg, there is virtually full consensus on the untying of aid

The action plan for aid effectiveness

The 2008 peer review stressed the need for Luxembourg to prepare an aid effectiveness plan. That recommendation has been fully taken on board by the Luxembourg authorities, who since 2008 have been working to develop an action plan based on the Paris Declaration and the Accra Programme of Action. The participatory approach adopted, which has involved all stakeholders in Luxembourg co-operation (staff of the Co-operation Directorate, offices in the partner countries, LuxDev, NGOs etc.) has succeeded in disseminating the aid effectiveness theme throughout the Grand Duchy's co-operation community.

The action plan was finalised in 2010, targeting four fields where efforts have been launched: the fundamentals of co-operation, operational strategies, training and expertise, and review and adaptation of procedures (MAE, 2010c). However, the action plan does not spell out each party's responsibilities, nor does it contain an implementation schedule or results indicators. It is difficult, then, to assess the extent to which the action plan has been put into effect, and with what results. The review team therefore suggests that Luxembourg should build more systematically into its strategic and operational tools the

commitments given at Busan in 2011, and establish a roadmap with results indicators, a work schedule, and clearly defined responsibilities.

In 2012 Luxembourg developed a capacity building strategy based on international principles. That strategy is accompanied by an action plan that places emphasis on strengthening partner institutions in the Luxembourg project cycle (MAE, 2012l).

LuxDev has given a good deal of thought to aid effectiveness and the institution of new aid modalities. In this context, an Expertise and Quality Division has been created, separate from the Operations Division, and a training programme on the principles of aid effectiveness has been instituted. All staff have been trained in this topic, with particular emphasis on field workers who are directly involved in programme implementation. The results were confirmed by the field visit to Laos, during which the senior technical advisors demonstrated a thorough understanding of this problem.

The third-generation PICs: evidence of a willingness for change

In the priority partner countries, multiyear indicative co-operation programmes (PIC) signed by the partner country and Luxembourg describe the Grand Duchy's support to the partner country.

The approach taken in preparing the third-generation PICs (PIC III) reflects Luxembourg's determination to improve the effectiveness of its aid and to base the new country strategies on experience and lessons learned from previous exercises. It is in this context that Luxembourg commissioned independent evaluations of the PICs, performed between 2009 and 2012 in Burkina Faso, Cape Verde, Mali, El Salvador, Nicaragua, Senegal and Vietnam.

These evaluations, which also looked at observance of the Paris Declaration principles in the field, have served as the basis for preparing the PIC III. In general terms, they have shown that Luxembourg co-operation is based primarily on the project approach, and that there is a need to: (i) review implementation and evaluation modalities; (ii) make greater use of results-based management; and (iii) rethink certain aspects (mainly operational ones) of the relations between MAE and LuxDev. It is interesting to note that several midterm evaluations have suggested including follow-up and results frameworks in the third-generation PICs, but this has not been done as yet.

Preparation of the new PICs began in 2011 (table 5.1). They are constructed on the basis of the European model which calls for a common country diagnosis. These new PICs are aligned with countries' national development strategies and they make systematic provision for midterm evaluations. They represent continuity with the previous PICs, with even greater stress on sectoral and geographic concentration policies. They include cross-cutting issues such as governance, climate change and gender.

Table 5.1. Luxembourg's indicative co-operation programmes

	Country	Co-operation agreement	PIC I	PIC II	Midterm evaluation	PIC III
Africa	Burkina Faso	1999	2003-2007	2008-2012	X	
	Cape Verde	2007	2002-2005	2006-2010	X	2011-2015
	Mali	1998	2003-2006	2007-2011	X	
	Namibia	2004	2004-2006	2007-2010		
	Niger	2002	2003-2007	2008-2012	2012	
	Senegal	1998	2002-2006	2007-2011	X	2012-2016
Latin America	Nicaragua	2000	2003-2006	2007-2010	X	2011-2014
	El Salvador	2002	2003-2006	2007-2010	X	2012-2015
Asia	Laos	2000	2003-2006	2007-2010	X	2011-2015
	Vietnam	2002	2002-2005	2006-2010	X	2011-2015

The PIC III call for the use of new aid modalities such as sector approaches and budgetary support. In Cape Verde, for example, Luxembourg is providing sector budget support for technical and vocational education (EUR 2.5 million over five years), while in Nicaragua it is contributing to the health sector via a common fund (EUR 2 million over four years). This approach, combined with heavy geographic and sectoral concentration, makes Luxembourg a sector leader in several countries despite the relatively modest size of its co-operation programme. For example, Luxembourg is the leader in the tourism sector in Nicaragua, in health in Kosovo and in vocational training in Senegal, Cape Verde and Burkina Faso. In Laos, Luxembourg has successfully implemented a co-ordinated sector approach in health, which enjoys support from several donors. Luxembourg should make more use of sector approaches in its co-operation and, to the extent possible, should offer more budgetary aid and make use of country systems, as these modalities have the positive long-term impact of strengthening country capacities, for which they have been shown to be more effective than isolated projects.

Luxembourg is also involved in delegated and joint co-operation activities (with the European Union or other bilateral donors) and is experimenting with triangular co-operation among certain countries (for example Cape Verde and São Tomé and Príncipe in vocational training). These modalities are to be encouraged, as they reduce implementation costs and, in the case of triangular co-operation, they help to promote South-South co-operation.

Ownership and alignment: real efforts, constrained by the project approach

Formalising partner involvement

Luxembourg has been striving to ensure that its co-operation programmes are appropriate for partner countries. The midterm evaluations of the second-generation PICs, for example, reveal strong local partner involvement in the preparation of programmes and projects. As well, the steering committees, involving all players, meet twice a year to monitor project implementation. However, the decision-making manual developed by the Co-operation Directorate makes no mention of consulting partners and institutions beyond the Luxembourg co-operation apparatus at each stage of the programme (MAE, 2012j). A reference to these players in the manual would serve to formalise the participatory nature of Luxembourg co-operation and ensure that procedures for

consulting and involving partners are used in all countries. In time, this would have a positive impact on performance in terms of ownership and alignment.

Aligning aid with national priorities and also with country systems

Luxembourg has continued its efforts to align its projects and programmes with partner countries' development strategies. This comes out clearly in the midterm reviews of the second-generation PICs, which stress Luxembourg's intent to comply strictly with partner countries' requests in the preparation of projects and programmes. In their midterm review of Cape Verde, the examiners in fact warned of "excessive alignment" that might lead Luxembourg to accept requests for support that would be difficult to carry out: "In terms of alignment, Luxembourg systematically bases its interventions on the demands expressed by Cape Verde, demands that do not always relate to sectors endowed with the policies, strategies or structured action plans needed for successful co-operation" (Insyde, 2009). The review team also noted good practice concerning alignment in Laos (Annex C).

The project approach which Luxembourg still uses mainly tends to limit alignment with country systems, however, primarily because project management units are used to implement the projects. In Laos, Luxembourg is attempting to integrate these units into the ministries concerned and to involve those ministries in recruiting project leaders. Nevertheless, there is no doubt that the senior technical advisors (CTP) play the key role in Luxembourg projects and are responsible for their proper implementation. Luxembourg wants to make greater use of the programme approach. This should result in a less active role for LuxDev in direct project implementation, which should be transferred gradually to local partners. In compensation, Luxembourg should give greater attention to questions of governance, including financial governance, working closely with other donors in priority countries. LuxDev should also reposition the CTPs' function, which should now be focused on providing advice and support, allowing them to play their full role in building capacities and transferring knowledge.

The operational partnership agreements (APO) instituted by LuxDev in the last few years hold some interesting prospects in this regard. These APOs make it possible to transfer responsibility to beneficiary country partners for implementing certain project components. This modality should be used to strengthen partner countries' capacities in the context of the project and to align aid more closely with country systems. In practice, the operational partnership agreements allow a balance to be struck between delegation to the partner and the executing agency's constraints vis-à-vis the donor (ECORYS, 2011). LuxDev is making increasing use of them, and they currently represent between 10 and 15% of Luxembourg ODA. The example of Laos shows that these partnerships can be effective if the shortcomings in the country systems are taken properly into account.

Aid that is predictable yet flexible

Generally speaking, Luxembourg is regarded as a credible and reliable partner. In most of its countries of concentration it has had a presence for many years, with budgets that are either steady or rising. In particular, the PICs, which cover a span of five years and have an indicative budget, will offer medium-term predictability for aid.

Most persons interviewed during the field mission stressed the flexibility of Luxembourg aide, which can be reoriented in case of need or at the partner's request. This flexibility is especially helpful in countries experiencing periods of political instability or in those enjoying strong economic growth, such as Vietnam. In Laos, both the tourism

industry project and the rural development project have evolved greatly since their identification phase, in one case to respond to the shifting international context and in the other case to promote capacity building at the local level. In the maternal and neonatal health field, Luxembourg and its multilateral partners were able to revise the programming framework for a common programme following a field visit that revealed very high infant mortality rates. Programme activities were swiftly reoriented thanks to effective co-ordination with the national and provincial authorities as well as with the partners involved.

This flexibility is also the result of LuxDev's formalised collaboration with co-operation players that promote different approaches at certain programming stages. The involvement of research centres and universities in some projects is a good example.

Luxembourg is committed to harmonisation efforts

Luxembourg is an active partner in promoting the principle of programme harmonisation. It plays a constructive role in implementing the European Union's code of conduct on complementarity and division of labour in development policy, and it seeks active involvement in the sector working groups, despite often-limited resources. Participation in the working groups is in fact especially difficult in countries where Luxembourg has no co-operation office. Nevertheless, the midterm reviews of the PIC II noted that Luxembourg is an active participant in harmonisation efforts in priority countries.

There are currently four co-operation programmes that are being conducted jointly with other partners (two in Burkina Faso, one in El Salvador and one in Nicaragua) over a five-year period. They have important budgets (Luxembourg is contributing EUR 21 million over five years to the two programmes in Burkina Faso) and they make it possible for the various partners to move forward in harmonising their tools, procedures and approaches. These joint co-operation programmes are aligned with the relevant national sector policies.

Luxembourg is also involved in some delegated co-operation arrangements, of which 12 are currently under way. Ten of these are co-operation projects that have been delegated to Luxembourg, which has recognised expertise in several sectors. On the other hand, Luxembourg is still delegating little in the way of programme execution to other partners: it could consider making greater use of such delegation, especially in priority countries where it has no representation.

In Laos, Luxembourg bases its co-operation on the principles of the Vientiane Declaration (a national version of the Paris Declaration adopted and signed in November 2006) and is providing financial support for the roundtable hosted by the UNDP. This process makes for co-ordinated and regular dialogue between development partners and the Laotian government, and has contributed greatly to the preparation of the country's socioeconomic development plan (NSED 2011-2015). Although it has no permanent presence on the ground, Luxembourg is involved in inter-donor discussions. This is the case in particular with the meetings organised in the framework of the European Union, which has designated Laos as a pilot country for joint programming (Annex C.).

Consolidating the strategic approach for relating objectives, activities and outcomes more closely

Luxembourg is aware of the steps that must still be taken to institute a results-based approach. The monitoring and evaluation systems are robust at the individual programme and project levels, where there are highly detailed results matrices available, but there is still no articulation with the overall framework, whether this relates to Luxembourg's general strategy or to the PICs in each priority partner country. In fact, the general strategy does not set any objectives with a framework of expected outcomes, nor any calendar for achieving them, and the performance frameworks attached to the PIC III are cursory and do not allow all the co-operation objectives in a given country to be compared against the results expected from each programme. As many midterm evaluations have suggested, it would be wise to integrate into each PIC a more detailed results and impact matrix, but one that would still be based on the national development strategy. Such an initiative by the Ministry would strengthen the overall results policy and identify Luxembourg's contribution to the national sector plans, while drawing the connection with the specific programmes financed by Luxembourg. This could be a useful programming tool, both for Luxembourg and for the partner countries' authorities.

Future considerations

- Luxembourg should finalise its strategic tools, in particular the decision-making manual, to include the Busan commitments, and it should establish a roadmap to guide Luxembourg co-operation in its transition towards a greater emphasis on programme aid that makes more use of country systems.
- To enhance its support for national capacity building and to ensure a greater and more lasting impact for projects and programmes, Luxembourg should ensure that the new co-operation modalities promoting ownership and alignment are implemented: this will imply less reliance on direct implementation and a greater capacity for analyzing governance and for dialogue on sector policies.
- Luxembourg should include in each of its PICs a simple results framework presenting the objectives to be achieved as well as the method for programme monitoring and evaluation.

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Chapter 6

Humanitarian assistance

Luxembourg has a solid record in humanitarian partnership, and is well known as a generous and flexible donor. Widely referred to as the most generous DAC humanitarian donor per capita, Luxembourg is also cited by partners as an example of good donor practice, due to its regular, constructive dialogue with the humanitarian community; and by providing timely, flexible and (mostly) predictable funding.

This chapter examines Luxembourg's strategy for humanitarian assistance, the update of which should provide an opportunity to focus the programme more strategically. The chapter looks at the nature and effectiveness of the partnerships implemented to deliver humanitarian assistance and analyses the need to work out an appropriate balance between the scope of its programme, its administrative burden, and available staff resources. It also looks at how the results approach could be strengthened

Good progress against 2008 recommendations

Luxembourg has made good progress on the recommendations of the last peer review, but there are some outstanding challenges. A first strategy for humanitarian assistance was adopted in 2009, and this is now being fine-tuned (refer 6.2.1). Luxembourg was asked to share its good practices with other donors, and this it has done, targeting newer European Union donors. Luxembourg still struggles with evaluation and learning, however, one of the consequences of such a limited staff base (refer 6.5)

Increasing strategic focus will help manage a broad humanitarian mandate

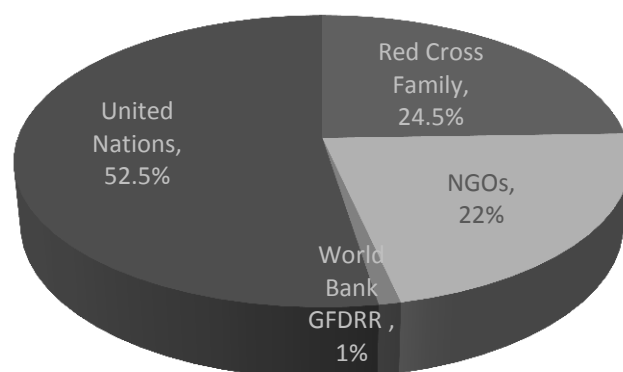
Luxembourg consistently allocates around 15% of its ODA to humanitarian assistance (for breakdown, refer box 1). It is widely cited as the most generous DAC humanitarian donor per capita – providing USD 130 of humanitarian funding per person in 2011 (DARA, 2011a).

Box 6.1 Luxembourg's humanitarian assistance

Mandate: Law on Development Co-operation and Humanitarian Action (March 2012). Ministry of Foreign Affairs Humanitarian Strategy and Orientations (2009) currently being updated.

Division of Labour: Ministry of Foreign Affairs Humanitarian Unit manages the humanitarian budget line

Partners (2011)



Funding sources: One budget line – 75% saving lives, 5-10% prevention and mitigation and 20% rehabilitation, reconstruction and transition. Can be topped up for major crisis, and development funds can be diverted to humanitarian crises in partner countries.

Funding volume: 2011: EUR 43.2 million (2010: EUR 35.5 million)

Partnerships: 4 year multi-annual strategic partnership agreements with 6 UN agencies, plus annual funding envelopes for 9 NGOs.

Source : Luxembourg Memorandum, 2012 and discussions with Luxembourg staff

Updating the humanitarian strategy provides a useful opportunity to focus the programme

Luxembourg now has a clear legal basis for its humanitarian action and an initial strategy paper, although the scope of its programme remains very broad. The new law on development co-operation (JO, 2012), adopted in March 2012, specifically mentions

humanitarian assistance for the first time. Following a 2008 peer review recommendation, Luxembourg has also drafted a first humanitarian strategy paper (MAE, 2009g), although this strategy has a very broad scope. Partners interviewed by the peer review team acknowledged that although the strategy had provided them with considerable flexibility, a clear vision for Luxembourg's humanitarian programme would be useful, to provide greater predictability about future funding intentions.

Happily, a fine-tuning of the 2009 humanitarian strategy is now underway, and this provides a useful opportunity for Luxembourg to set clear objectives and expected results for the humanitarian programme. Luxembourg has a long history of good practices in humanitarian donorship, particularly in partnership (refer 6.3), and it should build on these to focus the programme on its major strengths. Current plans, as discussed with the peer review team in April 2012, are to update the strategy to prioritise work in nutrition, innovative food assistance tools, protection and with vulnerable groups, and to introduce the concept of resilience – under three pillars of prevention, response and transition. This remains a very broad mandate, however, and Luxembourg should consider whether this is realistic given the limited staff resources allocated to the humanitarian unit (refer 6.4.2).

Luxembourg intends to consult widely during the update process, which is good practice. It should also ensure that other branches of government, including the civil protection branch of the Ministry of Interior, are included in the consultations, to ensure that the final strategy is applicable across government, and therefore also to any delivery of humanitarian assistance by Luxembourg military personnel or civil protection units.

Broad support for post-crisis and transition activities through the humanitarian budget

Unlike other donors, who assert that transition, peace-building and state-building activities are beyond their humanitarian mandate, Luxembourg has taken the approach of providing post-crisis and transition support almost exclusively from the humanitarian budget. Twenty percent of the humanitarian budget is set aside for these activities each year, and the scope of eligible activities is quite broad. Under the current strategy, Luxembourg outlines the following post-crisis and transition initiatives as eligible for funding from the humanitarian budget – at a rate of 85% co-financing¹, provided that the duration of programmes does not exceed three years:

- Rehabilitation and reconstruction of infrastructure;
- Rehabilitation of basic services in the social sectors, but also the judicial and penitentiary systems, reinforcing human rights, and supporting economic recovery, including through micro-finance projects;
- Protection of human security, including involvement in disarmament and demobilisation of former combatants, demining, support to police, and reintegration of displaced communities.

As it moves to finalise a first fragile states strategy (refer Chapter 1), Luxembourg should take time to reflect on its approach to post-crisis and transition support, to ensure that it has the best mix of instruments in place to address this important, but complex, set of issues. Some of the activities noted in the list above – especially those related to judicial systems and disarmament – may raise questions about the application of humanitarian principles², and Luxembourg must take care that this type of funding does not compromise its other humanitarian programmes. Planning, implementing and monitoring programmes in many of these important areas also requires a different skill-set than traditional

humanitarian work; and activities may need to be funded over the space of many years to ensure they create lasting results. Luxembourg may therefore consider it more useful to spin off the peace-building and state-building work into a wider “stability fund” instrument, managed separately from the humanitarian budget line, and with a separate set of objectives.

Moving from disaster risk reduction to resilience

Luxembourg, like other donors, uses humanitarian budget earmarking as its major tool for risk reduction. The current humanitarian strategy contains a section on prevention, covering both conflicts and disasters. Funding of any project that seeks to reduce the risk of a natural or technological disaster is permitted, alongside a wide variety of different conflict prevention measures. At least 5% of the humanitarian budget is set aside for targeted risk reduction work, and humanitarian partners are also asked to use at least 5% of their Luxembourg funding for risk reduction inside their existing programmes. Specialised risk reduction agencies, such as UNISDR and the World Bank’s GFDRR are also funded from the humanitarian budget.

Luxembourg staff informed the peer review team that the new humanitarian strategy would introduce the notion of resilience to all kinds of shocks. This is good practice; and Luxembourg is also encouraged to ensure that resilience is also part of its bilateral development programming, as many of its partner countries are susceptible to natural and climate related hazards and other shocks, and yet this type of work does not yet figure strongly in Luxembourg’s development country programmes.

A solid record in partnership, but clearer criteria and more predictability are needed

Luxembourg has a solid record in humanitarian partnership, and is well known as a generous and flexible donor.

Criteria about who, where and what to fund are unclear

The inevitable result of a broad humanitarian strategy is a widely dispersed humanitarian portfolio. Luxembourg concentrates more on the ‘*who*’ to fund question, noting that it chooses its partners according to their individual comparative advantages - and the pool of partners is indeed restricted to major UN agencies and NGOs. However, the actual criteria that Luxembourg uses to determine comparative advantage or the capacity of a partner organisation to deliver results are not yet clear to outsiders. Assessing how different agencies will contribute to achieving the more focused objectives of the updated humanitarian strategy may therefore be a useful next step.

In terms of ‘*where*’ to fund, Luxembourg interprets burden sharing as the need to provide funding to all crises, commensurate with its size as a donor. Data from the United Nations financial tracking system³ shows that the funding is indeed geographically scattered. The Luxembourg team say that they use ECHO’s forgotten crisis assessment tool⁴ to ensure that they are also targeting these under-funded emergencies, and many of those appearing on the ECHO list do receive Luxembourg funds. Soft earmarking – regional or thematic – ensures that Luxembourg allows partners, as the experts, to choose ‘*what*’ to prioritise in each crisis situation.

However, if Luxembourg is to demonstrate that funding decisions are based on humanitarian principles and independent of political or other objectives, it would be good

to set and communicate clear criteria for determining who, what and where to fund, and demonstrate how those criteria have been applied to actual grant decisions each year.

A solid humanitarian partner, although more predictability for NGOs would be useful

Partners are in general very happy with their relationship with Luxembourg, citing regular, constructive dialogue; and timely, flexible and predictable funding. Six multilateral agencies⁵ have multi-annual strategic partnership agreements with Luxembourg, with each agreement providing indicative funding arrangements over four years – making Luxembourg amongst the most predictable of the DAC donors. Funding to multilaterals is either core (mostly 10-20%) or softly earmarked, and the scope of eligible expenditure very wide, making Luxembourg a flexible donor. Luxembourg is also timely; disbursements are usually made in the first quarter. UN agencies report that there is generally high-quality dialogue, and they would like other donors to learn from Luxembourg's good practices.

Many of the same good practices apply NGO partners, who especially appreciate the constructive and regular dialogue, but Luxembourg could make some small changes to boost predictability. Nine NGOs benefit from annual funding envelopes negotiated early in the year, but these envelopes are informal, and thus based on trust – in theory the Ministry could go back on its word, although this has not yet played out in practice. To negate this risk, Luxembourg could consider formalising the indicative funding envelopes by writing annual framework agreements with these NGOs. In addition, the NGO funding guidelines provided as an annex to the current humanitarian strategy are very wide in scope, providing no clear limits on eligibility of expenses. This has, on occasion, led to NGO expenditure being disallowed ex-post. Providing more clarity on eligible expenses – as Luxembourg intends to do – could further improve predictability for NGO partners.

Pooled funding mechanisms also benefit from Luxembourg support – although Luxembourg might need to review whether its contributions through these mechanisms support its new humanitarian objectives, given its limited field presence, which makes supporting the governance mechanisms of these pooled funds impossible.

A fast response rate, but lots of paperwork

Luxembourg is one of the first donors to commit funds to new crises, but this involves a significant administrative burden for Luxembourg staff. Often funding for rapid response is enabled by earmarking funds that have been pre-positioned with UN agencies, or by making available a portion of the annual envelope pre-agreed with NGO partners. Significant funding is also provided through the United Nations CERF rapid response mechanism⁶, with Luxembourg among its top 15 donors, and funds are also provided to the Red Cross's DREF disaster relief fund⁷. There is no dedicated mechanism to provide additional funding for new, major crises, or to new partners, however, and even an allocation of prepositioned funding equates to a new funding decision – meaning an added workload burden for the limited staff pool (refer 6.4.2). Luxembourg should review the rapid response mechanisms used by other donors⁸ to see if any could be useful in the Luxembourg context.

Civil protection responses to international emergencies are managed by the Ministry of Interior, although only individuals trained in humanitarian response are deployed and the decision on whether to deploy a team is managed by the Ministry of Foreign Affairs. This is good practice and should continue.

Luxembourg's flagship rapid response tool is emergency.lu, a satellite based telecommunications platform in support of humanitarian operations (refer Box 2). To support this tool, Luxembourg has also now become a member of the telecommunications co-ordination cluster.

Box 6.2 Luxembourg's emergency.lu telecommunications platform

Emergency.lu is a satellite based telecommunications system that can be made rapidly operational in a crisis area providing emergency telecommunications services to support the mobilisation and co-ordination of the overall humanitarian response.

The system was established as a public-private partnership, in close co-operation with WFP, as the leader of the global emergency telecommunications cluster. Three Luxembourg based companies participated in the conception and build: HITEC and SES (who provided the hardware and software) and Luxembourg Air Ambulance (who provide the logistics, including transport to the disaster site).

The 17 stand alone units were ready for use on 1 January 2012, three of them prepositioned in Dubai. Four were deployed to South Sudan in early January 2012.

The project, which was supported by the Ministry of Foreign Affairs development instruments, cost EUR 17 million, including EUR 12 million as pre-purchased satellite time (covering four years).

Source : www.emergency.lu and discussions with the Luxembourg Ministry of Foreign Affairs humanitarian team

Serious staffing challenges hinder Luxembourg's ability to be 'fit for purpose'

With most of Luxembourg's humanitarian response centralised in one ministry, and in a small system with regular cross-ministry contact, it is not necessary to implement a formal cross-government co-ordination mechanism for humanitarian response. As mentioned above, however, it would be useful to ensure that the updated humanitarian strategy applies to all potential Luxembourg government responses.

An unclear role for the military, but no detrimental effects in practice

How and where military and civil defence assets will be used to support humanitarian response is not clear – but this has not yet had any negative effects in practice. The current humanitarian strategy recognises international guidelines on the use of military and civil defence assets⁹. However, it does not outline what criteria Luxembourg will use to determine when a situation of "last resort" has been reached, nor outline which Minister will make that decision. Clarifying these issues could be a useful safeguard against future deployments that might contravene humanitarian principles. However, in practice Luxembourg rarely provides a military or civil defence response to international humanitarian emergencies, and there have so far been no negative reports in this area.

Staffing challenges – one is not enough

Many donors report that they have too few staff in the humanitarian team, and Luxembourg is no exception, but in this case the very limited staffing levels do seem to pose a serious risk. Only 1.5 people have been allocated to support Luxembourg's wide and significant humanitarian portfolio – meaning that the entire humanitarian programme is

dependent more or less on a single individual, posing a major danger for institutional memory, and leaving no time for learning. Such low staff levels also prohibit a back-up function – if an emergency occurs while the staff member is sick or on vacation, Luxembourg will find it difficult to respond quickly and appropriately. Partners note that staffing constraints are the single largest risk to the continued quality of Luxembourg's humanitarian response.

To address this, Luxembourg urgently needs to work out an appropriate balance between the scope of its programme (refer 6.2), its administrative burden, and available staff resources – to help reduce the risk of what is, in effect, a solo staff effort. Administrative procedures could also be reviewed, appearing overly complex compared to other donors. For example, despite the multiannual partnership agreements with multilaterals and the pre-agreed budget envelopes for NGOs, staff must create a new administrative decision each time the prepositioned or pre-agreed funds are earmarked – meaning up to 60 administrative decisions for NGOs every year and between 15-20 decisions for each multilateral agency – translating into a huge work burden.

Luxembourg should monitor and learn from its own performance

The 2007 peer review recommended that Luxembourg develop more systematic learning and evaluation processes; and some extra efforts have been made, mostly through joint field visits to partner programmes. However, in general Luxembourg accepts its partners' standard annual reports and does not request any additional information. In turn, Luxembourg publishes an annual report, which provides a narrative account of where it has provided humanitarian funding and through which organisations.

Instead, Luxembourg would be better off measuring its own performance, and the contribution that individual humanitarian partners are making towards meeting Luxembourg's strategic objectives. A small donor like Luxembourg, with a very limited field presence, is unable to realistically undertake a systematic monitoring of partner performance. Luxembourg would instead benefit from setting out clear and measurable objectives in its updated strategy, and for holding both itself, and its partners, accountable for attaining these goals.

Future considerations:

- Luxembourg should finalise its new humanitarian assistance guidelines, ensuring that they focus on a limited number of objectives in areas where Luxembourg can make a solid impact, and are accompanied by measurable indicators. The guidelines should be applicable across-government, and Luxembourg should consult widely with staff from other concerned ministries, as well as with major partners. The guidelines should be used as a basis for future monitoring efforts;
- Luxembourg needs to review its funding of post-crisis and transition environments, especially the scope of its humanitarian funding in these contexts, to ensure that it has the right instruments in place to respond to these challenging environments;
- In order to improve the predictability of funding to its NGO partners, Luxembourg should put in place annual framework agreements with these NGOs, formalising the indicative annual funding envelopes. Clarifying the eligibility of different expenses under the updated funding guidelines would also be useful;
- Luxembourg urgently needs to work out an appropriate balance between the scope of its programme, its administrative burden, and available staff resources.

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Other source

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NOTES

1. Funding for post-crisis and transition work can also be provided by the NGO instrument.
2. Good Humanitarian Donorship principle 2 – “humanitarian action should be guided by the humanitarian principles of humanity, meaning the centrality of saving human lives and alleviating suffering wherever it is found; impartiality, meaning the implementation of actions solely on the basis of need, without discrimination between or within affected populations; neutrality, meaning that humanitarian action must not favour any side in an armed conflict or other dispute where such action is carried out; and independence, meaning the autonomy of humanitarian objectives from the political, economic, military or other objectives that any actor may hold with regard to areas where humanitarian action is being implemented”
3. Financial Tracking System accessed 17 April 2012.
4. The FCA or Forgotten Crises Assessment, attempts to identify severe protracted humanitarian crisis situations where affected populations are receiving no or insufficient international aid and where there is no political commitment to solve the crisis, due in part to a lack of media interest. http://ec.europa.eu/echo/policies/strategy_en.htm
5. The six multilateral agencies with 4 year strategic partnership agreements are ICRC, WFP, UNHCR, UN-OCHA, World Bank/GFDRR, and UNISDR.
6. United Nations Central Emergency Response Fund (CERF) www.unocha.org/cerf/
7. IFRC Disaster Emergency Response Fund (DREF) www.ifrc.org/en/what-we-do/disaster-management/responding/disaster-response-system/financial-instruments/disaster-relief-emergency-fund-dref/
8. Good practice examples are shown in Towards Better Humanitarian Donorship (OECD, 2012a)
9. The principles and practices of good humanitarian donorship require signatories to apply the Oslo Guidelines (Guidelines On The Use of Foreign Military and Civil Defence Assets In Disaster Relief, Updated November 2006 and revised November 2007) that apply to natural disaster settings and the MCDA guidelines (Guidelines On The Use of Military and Civil Defence Assets To Support United Nations Humanitarian Activities in Complex Emergencies, March 2003) that apply to complex emergency situations.

Annex A

Progress since the 2008 DAC peer review recommendations

Key issues	2008 Recommendations	Progress since 2008
Strategic orientations	Luxembourg would benefit from a forward-looking policy statement that addresses how it will implement the aid effectiveness agenda, including how it will engage in riskier development co-operation such as new aid modalities and co-operation in fragile states. This should be done in a consultative manner to build transparency and generate greater ownership of the policy.	Fully implemented A general strategy has been developed along with an action plan on aid effectiveness, and a strategy for engagement in fragile states. Luxembourg has subscribed to the New Deal on Engagement in Fragile States adopted at Busan in December 2011.
	Completing its operational strategies would help Luxembourg to ensure that the implementation of second generation PICs and other projects is consistent with the development policy.	Partially implemented In consultation with LuxDev, the Ministry has prepared 14 strategies. Making them operational will require further precision on the objectives to be achieved, with with associated schedule of tasks and responsibilities.
	Luxembourg needs a communication strategy on aid effectiveness that demonstrates the improved development results donors achieve by working together; this would help build public support for a programme that takes more risks.	Partially implemented Luxembourg has developed a communication strategy on development co-operation. However, in the absence of a results framework attached to the general strategy and to the indicative co-operation programmes, it is difficult to demonstrate and communicate the results achieved by the co-operation programme.
Development beyond aid	Within the Inter-ministerial Committee, Luxembourg should define appropriate	Partially implemented Luxembourg has given legal recognition to the need for

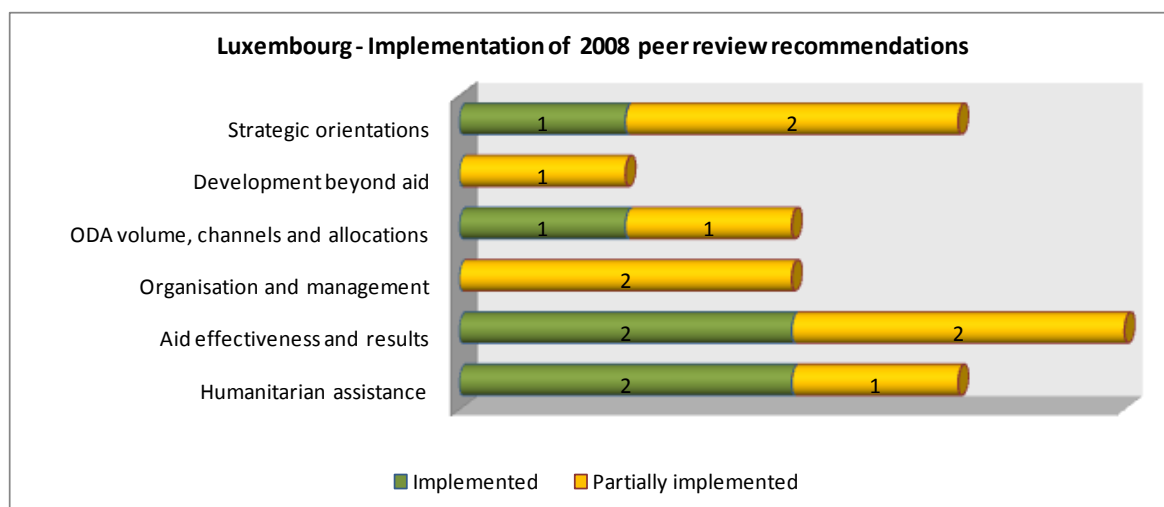
Key issues	2008 Recommendations	Progress since 2008
	methods that will promote, monitor and evaluate policy coherence, including for development, in a systematic manner so as to arbitrate between policies.	policy coherence for development, and has given the Inter-ministerial Committee on Development Co-operation the mandate to monitor these issues. NGOs are consulted. However, Luxembourg has not established a work plan targeted at a few priority themes, and it has not earmarked resources for analyzing the impact of national policies on developing countries.
Aid volume, channels and allocations	In the light of the many NGOs eligible for official aid and the strong support they receive, Luxembourg should consider how the effectiveness of this aid could be strengthened through incentives other than geographical focus.	Partially implemented The Ministry maintains regular and open dialogue with NGOs at headquarters and it conducts external evaluations of co-financed programmes, the lessons from which it shares with the NGOs.. However, there is no such dialogue in the field, and this impedes the creation of synergies between programmes co-financed with NGOs and the rest of the programme. The transaction costs of co-operation with NGOs are still high.
	Some improvements have been made in the statistical data provided to the DAC by Luxembourg. To achieve further needed improvements, the Ministry's statistical reporting capacity should be strengthened.	Fully implemented Notifications from Luxembourg have improved considerably since the last review, and Luxembourg takes part in the work of WP-STAT. The points identified in 2008 have been implemented.
Organisation and management	The Ministry of Foreign Affairs should take steps to ensure that it maintains the expertise it has built up over the years, that it gives attention to developing institutional memory, and	Partially implemented The Ministry has taken steps to encourage the recruitment of experienced personnel and has instituted specialised units to

Key issues	2008 Recommendations	Progress since 2008
	secures access to expertise in specific sectors, cross-cutting issues and to support new modalities.	associate LuxDev in the preparation of sector strategies. LuxDev has established expert positions in key co-operation sectors and has strengthened its training and knowledge dissemination policy. When it comes to knowledge management, there is still no framework for drawing on evaluations and other information sources for learning from and disseminating experience.
	Luxembourg should give systematic priority to external evaluations carried out according to DAC principles and procedures including the dissemination of the findings and recommendations.	Partially implemented Luxembourg has developed an evaluation strategy that takes account of DAC principles, and the Ministry conducts independent external evaluations. However, apart from the midterm reviews, these evaluations deal only with programmes co-financed with NGOs, and they are not made public.
Aid effectiveness and results	Luxembourg is encouraged to finalise an aid effectiveness action plan in line with the Paris Declaration commitments. The results of the Paris Declaration monitoring exercise and emerging good practices in the preparation of the Accra High level Forum can be a useful resource. Luxembourg may also wish to update the Convention signed between the Ministry of Foreign Affairs and Lux-Development to clarify mandates, roles and responsibilities for managing aid more effectively.	Partially implemented Luxembourg has prepared an action plan on aid effectiveness, updated to reflect Busan. Although it offers direction, it does not define any specific objectives and does not detail the tasks and responsibilities for achieving them. The MOU and the convention with LuxDev have been updated but they do not fully reflect the impact of the new aid modalities, in particular budgetary aid, on LuxDev's role.
	Luxembourg will continue to finance programmes and projects that will, for the most part, be executed by Lux-Development over the medium	Partially implemented The project approach still prevails, but these projects are increasingly integrated

Key issues	2008 Recommendations	Progress since 2008
	term. Luxembourg should therefore ensure that the programmes and projects conform to the objectives of the Paris Declaration, and that they are well integrated within sector programmes. Luxembourg should also make greater use of new aid modalities in line with aid effectiveness principles.	into sector approaches. The third-generation PICs take better account of alignment and harmonisation requirements. Luxembourg has begun to engage in operational partnership agreements under which project implementation is delegated to a partner, and its aid is almost exclusively untied. However, budgetary aid is still only a tiny fraction (1%) of the programme and limited use is made of partner countries' systems.
	Luxembourg should prepare a capacity development strategy that gives specific guidelines and outlines the principles and practical modalities for operationalising capacity development.	Fully implemented Luxembourg has prepared a capacity building strategy, accompanied by an action plan that emphasises the strengthening of partner institutions in the project cycle.
	The Committee encourages Luxembourg to strengthen the integration of inclusive financial sectors and microfinance in PICs. It should also capitalise on the lessons from the microfinance project in the West African region to promote this issue in priority countries.	Fully implemented Luxembourg has updated its micro-finance strategy, which relies on five complementary pillars to promote development of an inclusive financial sector. It draws on its experience to promote the development of micro-finance systems with a significant potential for mobilising private funds.
Humanitarian assistance (Good Humanitarian Donorship)	The Committee commends Luxembourg for the strong track record in implementing GHD commitments. The Committee encourages Luxembourg to disseminate the good practices it has developed amongst the broader donor community, including new member states of the EU.	Fully implemented Luxembourg has communicated its good practices to other donors, targeting in particular the new donor members of the European Union.
	The Committee recommends that Luxembourg's commitment to humanitarian action be	Fully implemented An initial humanitarian

Key issues	2008 Recommendations	Progress since 2008
	formalised within a sectoral strategy and that the approach to crisis prevention, mitigation and preparedness be made more explicit, especially in the PIC's.	strategy was adopted in 2009, and is now in the process of updating.
	More systematic evaluation and learning processes would ensure that the overall impact of Luxembourg humanitarian action is documented and critical lessons are captured.	Partially implemented Efforts have been made, primarily in the context of joint visits to partner countries. However, Luxembourg has not yet defined clear and measurable objectives for its humanitarian programme, a fact that limits its capacity and that of its partners to be accountable for their performance.

Figure A.1. Implementation of 2008 peer review recommendations



Annex B

OECD/DAC Standard Suite of Tables

Table B.1. Total financial flows

USD million at current prices and exchange rates

Finland	Net disbursements						
	1996-2000	2001-2005	2006	2007	2008	2009	2010
Total official flows	494	601	834	1 078	1 188	1 427	1 376
Official development assistance	394	598	834	981	1 166	1 290	1 333
Bilateral	216	357	455	584	693	791	839
Multilateral	178	242	380	397	473	499	494
Other official flows	100	3	-	96	22	137	43
Bilateral	100	3	-	96	22	137	43
Multilateral	-	-	-	-	-	-	-
Net Private Grants	5	12	25	20	13	17	14
Private flows at market terms	535	205	553	1 051	-1 422	1 741	2 922
Bilateral: <i>of which</i>	535	205	553	1 051	-1 422	1 741	2 922
Direct investment	190	297	402	11	-32	791	2 379
Export credits	231	9	14	-	-	-	-
Multilateral	-	-	-	-	-	-	-
Total flows	1 035	818	1 413	2 149	- 221	3 185	4 312
<i>for reference:</i>							
ODA (at constant 2009 USD million)	583	806	979	1 026	1 137	1 290	1 377
ODA (as a % of GNI)	0.32	0.38	0.40	0.39	0.44	0.54	0.55
Total flows (as a % of GNI) (a)	0.84	0.52	0.67	0.86	-0.08	1.34	1.78
<i>ODA to and channelled through NGOs:</i>							
- In USD million	25	43	26	8	39	24	22
- In percentage of total net ODA	6	7	3	1	3	2	2
- DAC countries' average % of total net ODA	6	9	7	7	7	8	10

a. To countries eligible for ODA.

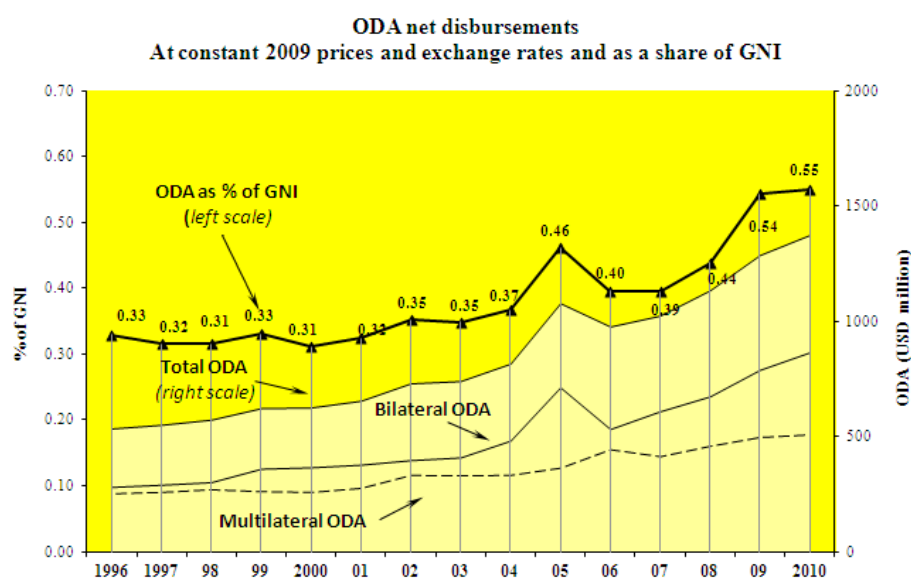


Table B.2. ODA by main categories

Disbursements											
Luxembourg	Constant 2010 USD million					Per cent share of gross disbursements					Total DAC 2010%
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
Gross Bilateral ODA	246	269	269	265	262	70	67	67	64	65	73
General budget support	-	-	-	0	-	-	-	-	0	-	2
Core support to national NGOs	38	35	6	5	6	11	9	1	1	1	1
Investment projects	127	162	39	-	142	36	41	10	-	35	13
Debt relief grants	-	-	-	-	-	-	-	-	-	-	3
Administrative costs	16	18	20	19	20	4	4	5	5	5	4
Other in-donor expenditures	2	2	3	3	2	1	0	1	1	1	3
Gross Multilateral ODA	103	129	132	148	141	30	33	33	36	35	27
UN agencies	31	53	66	68	61	9	13	16	16	15	5
EU institutions	29	35	34	40	36	8	9	9	10	9	9
World Bank group	23	21	16	24	27	7	5	4	6	7	6
Regional development banks	14	11	2	6	6	4	3	0	1	1	2
Other multilateral	6	9	13	10	11	2	2	3	3	3	4
Total gross ODA	349	398	400	414	403	100	100	100	100	100	100
Repayments and debt cancellation	-	-	-	-	-0						
Total net ODA	349	398	400	414	403	Contributions to UN Agencies (2009-10 Average)					
For reference:											
Free standing technical co-operation	7	9	7	7	6	UNDP 16%					
Net debt relief	-	-	-	-	-						
Imputed student cost	-	-	0	0	-						
Refugees in donor countries	-	-	-	-	-						

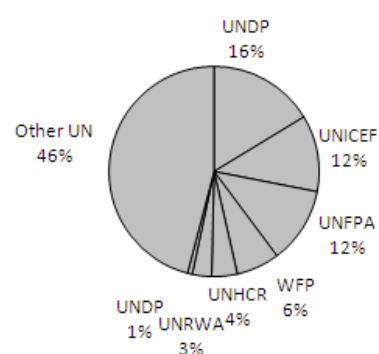
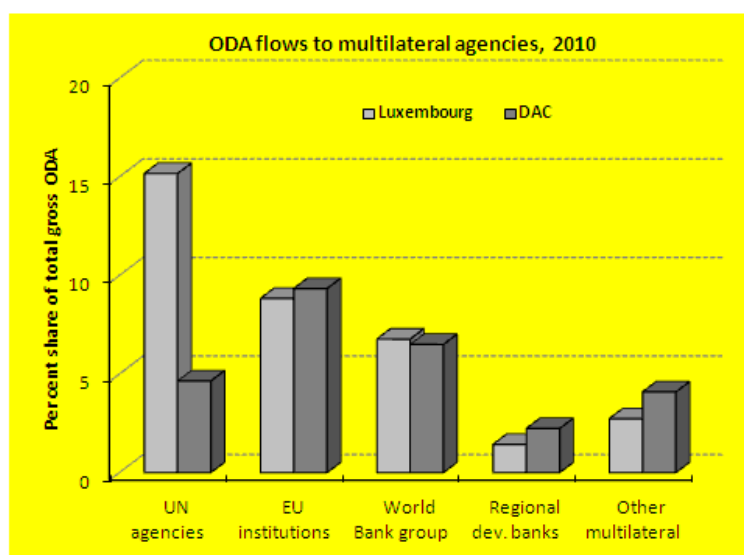
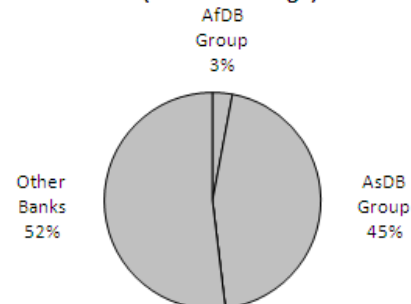
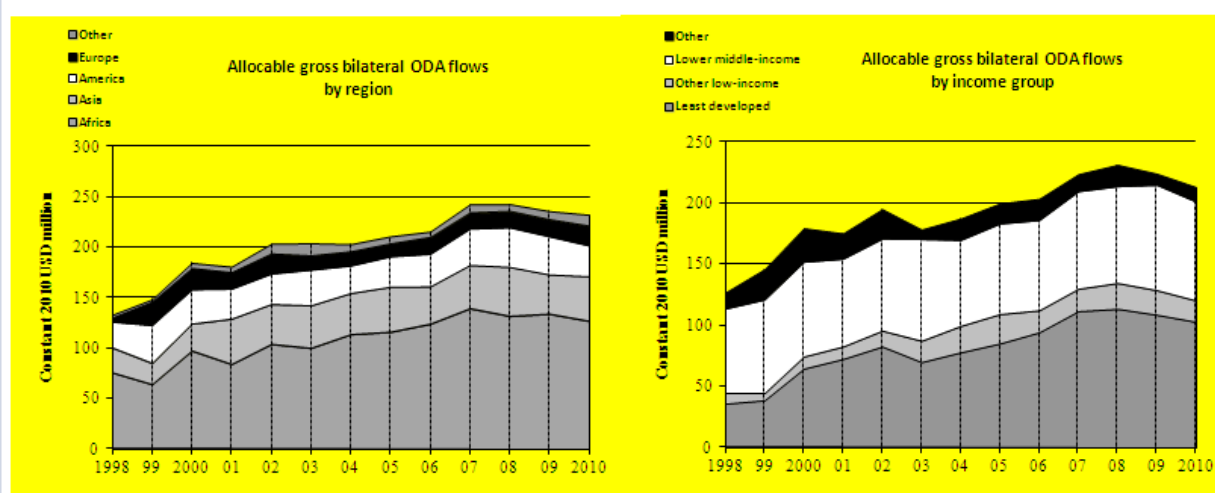
Contributions to UN Agencies
(2009-10 Average)Contributions to Regional Development
Banks (2009-10 Average)

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

Gross disbursements											
Luxembourg	Constant 2010 USD million					Per cent share					Total DAC 2010%
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
Africa	124	139	132	134	127	58	57	54	57	55	40
Sub-Saharan Africa	120	125	122	127	113	56	52	50	54	49	35
North Africa	4	2	3	2	2	2	1	1	1	1	4
Asia	37	43	49	39	44	17	18	20	16	19	34
South and Central Asia	10	11	12	13	15	5	5	5	5	6	20
Far East	27	32	37	26	29	13	13	15	11	13	14
America	33	37	40	39	31	15	15	16	16	13	13
North and Central America	25	26	29	27	23	11	11	12	12	10	7
South America	8	11	11	11	8	4	5	4	5	3	5
Middle East	5	8	7	8	11	2	3	3	3	5	7
Oceania	-	-	-	0	-	-	-	-	0	-	2
Europe	16	15	16	16	19	8	6	6	7	8	4
Total bilateral allocable by region	216	243	243	236	232	100	100	100	100	100	100
Least developed	94	111	113	109	103	46	50	49	49	48	40
Other low-income	18	18	21	20	18	9	8	9	9	8	13
Lower middle-income	74	80	79	86	81	36	36	34	38	38	37
Upper middle-income	17	14	17	9	12	8	6	7	4	6	9
More advanced developing countries	-	-	-	-	-	-	-	-	-	-	-
Total bilateral allocable by income	203	223	231	224	213	100	100	100	100	100	100
For reference:											
Total bilateral	246	269	269	265	262	100	100	100	100	100	100
of which: Unallocated by region	30	26	26	30	30	12	10	10	11	11	24
of which: Unallocated by income	42	45	38	42	49	17	17	14	16	19	30



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

Table B.4. Main recipients of bilateral ODA

Gross disbursements														
Luxembourg	1999-2003 average			Memo:	2004-08 average			Memo:	2009-10 average			Memo:		
	Current USD million	Constant 2009 USD mln	Per cent share	countries' average %	Current USD million	Constant 2009 USD mln	Per cent share	countries' average %	Current USD million	Constant 2009 USD mln	Per cent share	countries' average %		
Cape Verde	8	14	7		Cape Verde	16	18	7		Senegal	21	21	8	
Nicaragua	7	12	6		Senegal	14	16	7		Mali	18	18	7	
Serbia	6	12	5		Vietnam	13	15	6		Burkina Faso	16	16	6	
Vietnam	6	10	5		Mali	13	15	6		Cape Verde	16	16	6	
Burkina Faso	6	10	5		Burkina Faso	11	13	5		Vietnam	13	12	5	
Top 5 recipients	31	58	28	26	Top 5 recipients	68	77	31	32	Top 5 recipients	84	84	32	28
El Salvador	5	10	5		Nicaragua	11	13	5		Namibia	11	11	4	
Laos	5	8	4		Laos	10	11	4		Nicaragua	11	11	4	
Mali	5	8	4		Niger	10	11	4		El Salvador	10	10	4	
Namibia	4	8	4		El Salvador	9	10	4		Laos	10	10	4	
Senegal	4	7	3		Serbia	7	8	3		Niger	9	9	3	
Top 10 recipients	54	100	48	40	Top 10 recipients	114	131	52	44	Top 10 recipients	135	135	51	41
Niger	4	7	3		Namibia	7	8	3		Kosovo	9	9	3	
Rwanda	3	5	2		West Bank & Gaza Strip	4	5	2		West Bank & Gaza Strip	8	8	3	
India	3	5	2		Rwanda	4	5	2		Montenegro	6	6	2	
Afghanistan	3	5	2		Sudan	3	4	1		Rwanda	5	5	2	
West Bank & Gaza Strip	2	4	2		Benin	3	3	1		Afghanistan	3	3	1	
Top 15 recipients	68	126	61	50	Top 15 recipients	135	155	62	52	Top 15 recipients	166	166	63	48
Tunisia	2	4	2		India	3	3	1		India	3	3	1	
Morocco	2	4	2		Congo, Dem. Rep.	2	3	1		Congo, Dem. Rep.	3	3	1	
States Ex-Yugoslavia	2	3	1		Afghanistan	2	3	1		Sudan	3	3	1	
Ecuador	1	3	1		Montenegro	2	2	1		Pakistan	3	3	1	
Chile	1	2	1		Peru	2	2	1		Haiti	2	2	1	
Top 20 recipients	77	141	68	57	Top 20 recipients	147	167	67	59	Top 20 recipients	181	181	69	54
Total (95 recipients)	97	177	86		Total (104 recipients)	183	210	84		Total (97 recipients)	219	218	83	
Unallocated	15	28	14	22	Unallocated	36	42	16	24	Unallocated	46	45	17	28
Total bilateral gross	112	205	100	100	Total bilateral gross	219	251	100	100	Total bilateral gross	264	264	100	100

Table B.5. Bilateral ODA by major purposes

at current prices and exchange rates

Gross disbursements - Two-year averages							
Luxembourg	1999-2000 ¹ average		2004-08 average		2009-10 average		2009-10 Total DAC per cent
	2010 USD million	Per cent	2010 USD million	Per cent	2010 USD million	Per cent	
Social infrastructure & services	107	62	120	48	122	46	41
Education	37	21	32	13	34	13	9
of which: basic education	10	6	6	3	8	3	2
Health	29	17	39	16	34	13	5
of which: basic health	13	8	22	9	22	8	3
Population & reproductive health	1	1	14	5	9	3	7
Water supply & sanitation	16	9	16	6	21	8	5
Government & civil society	1	1	8	3	14	5	13
of which: Conflict, peace & security	-	-	1	1	2	1	3
Other social infrastructure & services	22	13	10	4	10	4	3
Economic infrastructure & services	2	1	12	5	15	6	16
Transport & storage	0	0	3	1	0	0	7
Communications	0	0	0	0	1	0	0
Energy	1	1	1	0	1	0	5
Banking & financial services	-	-	6	2	13	5	2
Business & other services	-	-	2	1	0	0	1
Production sectors	14	8	16	6	15	6	7
Agriculture, forestry & fishing	8	5	13	5	12	4	5
Industry, mining & construction	0	0	2	1	0	0	1
Trade & tourism	2	1	2	1	3	1	1
Multisector	4	2	22	9	24	9	11
Commodity and programme aid	3	2	6	2	4	1	4
Action relating to debt	-	-	-	-	-	-	3
Humanitarian aid	31	18	32	13	37	14	9
Administrative costs of donors	3	2	14	6	20	7	5
Refugees in donor countries	-	-	2	1	-	-	3
Total bilateral allocable	172	100	251	100	264	100	100
<i>For reference:</i>							
Total bilateral	172	77	251	70	264	65	86
of which: Unallocated	9	4	26	7	26	6	43
Total multilateral	51	23	108	30	145	35	14
Total ODA	223	100	359	100	408	100	100

1.No data available for 2001-2003.

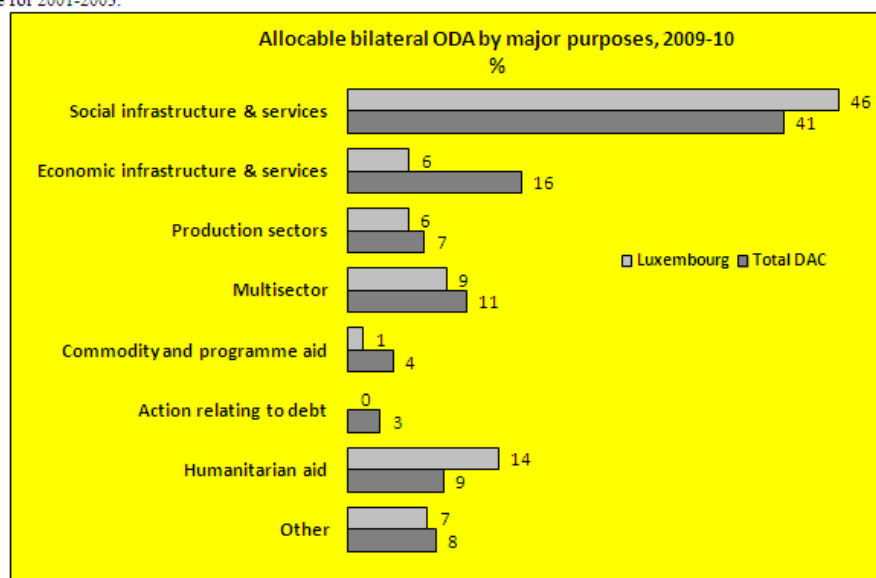


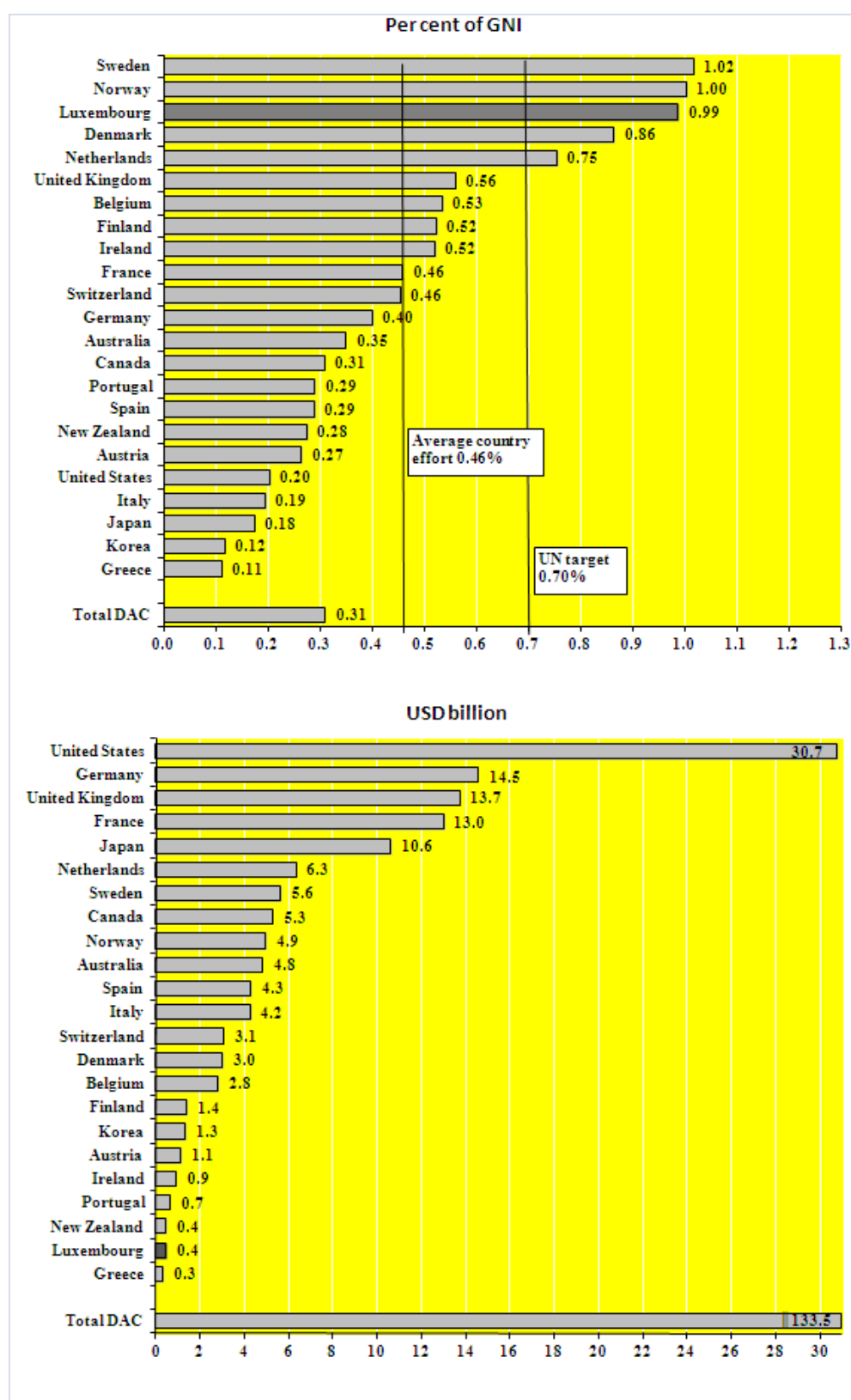
Table B.6. Comparative aid performance

Net disbursements											
Official development assistance				Grant element of ODA (commitments) 2010	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies 2010		
2010		2003-04 to 08-09 Average annual % change in real terms	2010				% of ODA		% of GNI		
USD million	% of GNI		2010								
			% of ODA (b) (c)		% of GNI (b) (c)						
Australia	3 826	0.32	8.4	99.6	15.3		0.05		30.3	0.10	
Austria	1 208	0.32	-2.5	100.0	49.3	22.5	0.16	0.07	38.0	0.12	
Belgium	3 004	0.64	6.5	99.3	31.7	13.5	0.20	0.09	48.2	0.31	
Canada	5 202	0.34	2.4	100.0	24.6		0.08		44.1	0.15	
Denmark	2 871	0.91	2.4	100.0	26.5	17.8	0.24	0.16	39.2	0.36	
Finland	1 333	0.55	7.0	100.0	37.1	22.0	0.20	0.12	35.9	0.20	
France	12 915	0.50	2.9	83.7	39.7	19.1	0.20	0.09	28.5	0.14	
Germany	12 985	0.39	4.3	88.6	38.1	15.6	0.15	0.06	28.1	0.11	
Greece	508	0.17	4.8	100.0	58.3	3.6	0.10	0.01	21.0	0.04	
Ireland	895	0.52	5.6	97.8	34.6	16.3	0.18	0.09	55.6	0.29	
Italy	2 996	0.15	-7.2	81.5	74.7	22.7	0.11	0.03	39.6	0.06	
Japan	11 054	0.20	-4.2	99.0	33.7		0.07		40.8	0.08	
Korea	1 174	0.12	11.5	100.0	23.3		0.03		38.3	0.04	
Luxembourg	403	1.05	5.1	100.0	34.9	26.1	0.37	0.27	38.4	0.40	
Netherlands	6 357	0.81	3.1	100.0	26.9	17.3	0.22	0.14	29.2	0.24	
New Zealand	342	0.26	3.5	100.0	20.7		0.05		29.5	0.08	
Norway	4 580	1.10	5.5	98.9	22.2		0.24		30.7	0.34	
Portugal	649	0.29	-7.3	74.4	39.0	10.5	0.11	0.03	44.1	0.13	
Spain	5 949	0.43	13.2	100.0	32.8	15.8	0.14	0.07	27.2	0.12	
Sweden	4 533	0.97	6.1	100.0	35.7	27.0	0.35	0.26	31.1	0.30	
Switzerland	2 300	0.40	2.0	100.0	25.6		0.10		26.9	0.11	
United Kingdom	13 053	0.57	6.1	100.0	38.6	23.2	0.22	0.13	35.9	0.21	
United States	30 353	0.21	2.1	87.9	12.4		0.03		35.5	0.07	
Total DAC	128 492	0.32	2.8	100.0	29.4		0.09		34.2	0.11	
Memo: Average country effort		0.49									

Notes:

- a. Excluding debt reorganisation.
- b. Including EU institutions.
- c. Excluding EU institutions.
- .. Data not available.

Figure B.1. Net ODA from DAC countries in 2010



Annex C

Field Visit to Laos

The review team visited Laos from 21 to 25 May in order to observe the implementation of Luxembourg's co-operation policy in a specific setting. The team spent a day at Hanoi, Vietnam, to meet with the regional development co-operation office and the LuxDev office. In Laos, the team met with members of the Luxembourg co-operation team and the four senior technical advisors assigned to each of the four broad programmes financed by Luxembourg in Laos, as well as with the following:

- Laotian government representatives, including the Vice Minister of Planning and Investment and representatives of the ministries of education and health;
- Director of the Mekong River Commission;
- Representatives of United Nations agencies, the European Union and the German co-operation programme (GTZ).
- Representatives of NGOs co-financed by the Luxembourg government (Caritas, Care International).

The country context

With a population of 6.3 million, the Democratic People's Republic of Laos belongs to the group of least developed countries, with a per capita income of USD 1,040 in 2010. In 2011, Laos ranked 138th out of 187 countries on the Human Development Index, and 34% of the population was living below the poverty threshold (UNDP, 2011). Total net official development assistance received by Laos amounted to USD 460 million in 2010, representing 5.9% of gross national income. The five largest donors are Japan, the Asian Development Bank, the World Bank, Australia and the Republic of Korea (OECD, 2012a).

The government has drawn up a seventh national socioeconomic development plan (NSED) for the period 2011-2015. It is based on a long-term vision set forth in the 2010 strategy and on lessons from the previous plan (2006-2010), and seeks to promote solid, equitable and sustainable economic growth and to reduce poverty and inequality, with the objective of having the country graduate from the least developed group by 2020.

Donor co-ordination in Laos

The Laotian government has taken onboard the Paris Declaration by preparing a local version, the Vientiane Declaration on Aid Effectiveness. It was adopted in November 2006 and signed by the Laotian government and 22 development partners (three other partners have since signed on). It reflects the five principles of the Paris Declaration and serves as a framework for co-operation between the government and its technical and financial partners. Implementation of the Vientiane Declaration is based on a national action plan that spells out the conditions for implementation, monitoring and evaluation. The Secretariat located within the International Co-operation Department of the Ministry of

Planning and Investment is responsible for monitoring the Declaration and measuring progress against it.

Box C.1. Co-ordination mechanisms in Laos

Beyond the framework of the Vientiane Declaration, Laos has selected the roundtable as a mechanism for mobilising and co-ordinating external aid. This process, run by the Laotian government and co-chaired by the UNDP, has improved strategic planning and alignment with national priorities. The mechanism includes a system of meetings and co-ordination forums at different levels:

A roundtable is held every three years to review government strategies and programmes with the country's technical and financial partners (TFP). It is also the occasion for partners to commit future support. It constitutes the political meeting for this mechanism.

Roundtables on implementation are held every year for regular monitoring of strategies and programmes under way.

Lastly, the sector groups serve as discussion forums for improving co-ordination at the sector level and defining priorities to be included in the policy documents. There are eight such documents, covering the following topics: macroeconomics and private sector development, education, health, infrastructure, governance, agriculture, rural development, and natural resources.

Generally speaking, co-ordination in Laos seems to be effective. All the TFPs interviewed during the field mission stressed that the mechanism in place was suited to the national context and to the constraints of the various parties. They also noted that the European Commission plays an important role in co-ordinating the work of European TFPs in Laos, hosting regular co-ordination meetings as well as an annual brainstorming "retreat".

Source: Mission interviews in Vientiane, May 2012

The 2011 survey on the Paris Declaration found that Laos had made progress since 2008 (OECD, 2011a). The survey noted that there has been concerted action between the government and donors to promote the programme approach in particular. Moreover, the survey found that the government, in close collaboration with the TFPs, had developed a robust results framework for monitoring the seventh National Socioeconomic Development Plan (NSEDPlan).

Luxembourg's co-operation programme in Laos

Luxembourg has been present in Laos since 1997 and a co-operation agreement between Luxembourg and Laos was signed in 2000. Luxembourg is now into its third indicative co-operation programme (PIC), the first two having covered the periods 2003-2006 and 2007-2010. The financing allocated by Luxembourg to Laos has been rising steadily, doubling in volume between 2003-2006 and 2007-2010. The indicative allocation for the third PIC 2011-2015 is EUR 50 million, or 10 million per year on average, compared to EUR 9 million during the second PIC.

Luxembourg maintains an open, constructive and long-term relationship with the government and with other development partners, and is regarded by them as a credible and reliable donor.

A programme aligned with the national strategy of Laos

Luxembourg is implementing several aspects of the Vientiane Declaration. In particular, the PIC is aligned, both in its programming (2011-2015) and in its contents, with the country's national socioeconomic development plan (NSED). The PIC was prepared on the basis of needs expressed in the NSED, together with observations and comments from the midterm review of the previous PIC (PWC, 2010) and the recommendations issued by the Luxembourg-Laos partnership commission¹. At the request of Laos, the PIC has expanded its activities to new fields while retaining its focus on the same sectors, as recommended during the midterm review: Luxembourg has 11 support projects under way in the sectors of health, local development and vocational training, including reinforced co-operation in the banking and financial area (figure 1).

Given the size of its programme, Luxembourg needs to maintain a strong sectoral concentration. This will allow it to have a real impact in its key sectors and to take a leadership role in certain niches. Luxembourg could also strive for more synergy between bilateral projects and its support to the regionally-based Mekong River Commission, which focuses on combating the effects of climate change. The current work on formulating a new project for adaptation to climate change, which will call on the expertise of the Mekong River Commission², offers an opportunity in this regard.

The PIC, which runs for five years and has an indicative budget, makes for aid continuity and predictability. Yet Luxembourg's programme remains flexible and can adapt to new situations (chapter 5). Luxembourg's partners – including the government, multilateral organisations and NGOs – appreciate the fact that Luxembourg does not impose a specific format for programme monitoring reports, aligning itself instead with existing formats.

Luxembourg is committed to harmonisation

Luxembourg is supporting efforts to harmonise aid. It is playing a constructive role at the European level by supporting the pilot initiative for joint programming, and it is providing funding for the roundtable mechanism initiated by the UNDP. LuxDev is working with other donors (UN, GTZ, JICA, AsDB) to implement specific projects. Luxembourg is also executing a Belgian technical co-operation project, and it has taken over responsibility for a SIDA-financed project in legal education, building on the results already achieved.

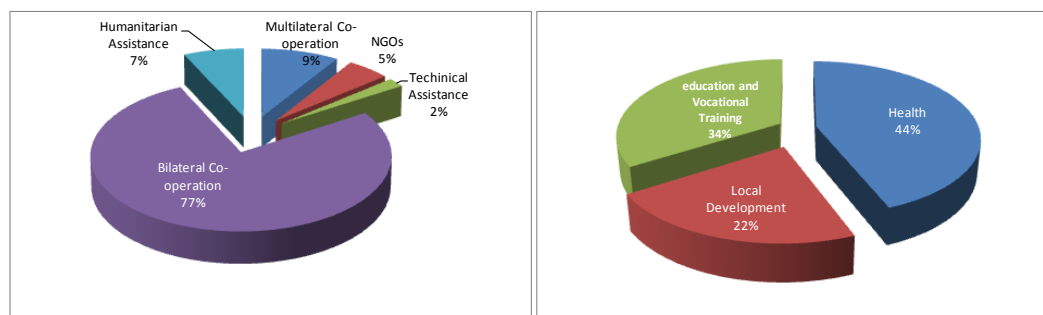
As an example of Luxembourg's support for the UN programme "Delivering as One", it is financing a maternal health programme sponsored jointly by four United Nations agencies. This programme has shown itself effective in harmonising approaches and developing inter-agency synergies for a better impact in the field.

In 2010, Luxembourg channelled 9% of its aid to Laos through international organisations. This multilateral co-operation involves programmes in health, education, rural development and governance. Luxembourg's humanitarian assistance is also provided through multilateral organisations (nutrition work with the WFP, UNICEF and WHO), and it is contributing to de-mining efforts through a common fund managed by the UNDP. Co-operation through multilateral organisations could represent as much as 20% of funding in the 2011-2015 PIC.

In 2010, Luxembourg earmarked EUR 445,000 (or 4% of disbursements) to NGOs operating in Laos. The co-operation office however has no links with the NGOs co-financed by Luxembourg. It would be useful to take a more strategic approach and establish dialogue with these NGOs. In this way, the co-operation office could obtain information

from the field and identify possible synergies with the bilateral programme, while the NGOs would benefit from the experience of Luxembourg co-operation.

Figure C.1. Luxembourg's co-operation in Laos -- 2010



Source: Plaquette de Lux-Developpement, Laos (LuxDEV, 2012).

Greater emphasis on integrated sector approaches and capacity building

The midterm review of March 2010 found that Luxembourg still relies largely on the project approach, despite its intention to use sector approaches, particularly in health (PWC, 2010). Nevertheless, these projects now increasingly include broader sector approaches, and Luxembourg is encouraging local participation at all project stages in order to foster national ownership and reinforce partners' capacities. The programme execution units are integrated into local institutions, and close partner involvement is encouraged through the project monitoring committees. The use of local systems is still limited, but it is expanding through operational partnership agreements in the provinces and districts: 20% of aid now flows through this modality. This participatory approach sometimes causes significant delays in project implementation – in the tourism sector, for example, the institutional framework had to be amended, and much time was spent on developing a national strategy for vocational training. Luxembourg has so far been able to resist pressure for rapid disbursement of available funds, while remaining sufficiently flexible to adapt to the operational constraints inherent in each project's context.

Luxembourg is increasingly gearing its technical assistance to real needs. For example, the design of one local development project³ was revised during the programme preparation phase to reduce the initially planned resort to technical assistance and external consultants by delegating financial management to the different implementation levels, right down to the village authorities. This solution is less costly and appears to be effective for building local capacities. As well, the terms of reference for a new programme under the 2011-2015 PIC⁴ make clear reference to support for local governance and capacity building by working through local institutions and delegating local development funds.

The senior technical advisors (CTPs) are the key players in Luxembourg co-operation. Working together with the national counterpart, they are responsible for managing the project implementation units, and are expected to: (i) ensure that allocated funds are disbursed on schedule; (ii) see to it that Luxembourg's co-operation procedures are applied; and (iii) provide development expertise. With greater local capacities and increased use of country systems, Luxembourg should in time revise the function of the CTPs to emphasise their role as advisors rather than as "project leaders".

Organisation and management of Luxembourg co-operation in Laos

The development co-operation office is based in Hanoi and covers Vietnam and Laos. It comprises a chargé d'affaires, a co-operation officer, and two locally recruited administrative assistants. The chargé d'affaires visits Vientiane about twice a month to hold discussions with the government and other donors.

The LuxDev regional office for Vietnam and Laos is also based in Hanoi, and shares premises with the co-operation office. It consists of a regional representative, two programme officers and two administrative assistants. LuxDev also has a liaison office in Vientiane, with a programme officer⁵ and an administrative assistant. It relies as well on the four CTPs assigned to the main programmes in Laos to keep activities running smoothly. The regional representative averages three trips a month to Laos for monitoring programmes.

Despite the frequent visits by the chargé d'affaires, the lack of a co-operation office in Vientiane frustrates Luxembourg's intention to build dialogue with the government of Laos and poses an obstacle to full participation in donor co-ordination and to efforts to strengthen partnerships with the main donors. The review team notes that this point was already mentioned in the midterm PIC review. The Laotian government and other partners would like to see Luxembourg take a larger role in the sector working groups in the areas where Luxembourg is active. Given the lack of a co-operation office, one answer might be to give LuxDev the possibility to participate in these sector groups – particularly as the agency could then take advantage of experts in the key sectors of co-operation.

The Luxembourg programme is highly valued and LuxDev is recognised by its Laotian partners as a professional agency with solid expertise. However, the centralisation of Luxembourg procedures leads to delays in project approval and implementation. In particular, the signature delegation thresholds, both for tendering procedures and for procurement contracts, are very low, meaning that headquarters must be involved in many decisions.

The co-operation office and the LuxDev regional office maintain close working relations in the field, backed by excellent information sharing. Programme quality and execution are greatly assisted by the co-operation office's ready access to the technical expertise of the LuxDev regional office and the CTPs, as well as by LuxDev's ability to call on the co-operation office to intervene when an issue is bogged down in a ministry. The division of responsibilities specified in the convention is applied flexibly, particularly at the programme identification stage, where resort to LuxDev's technical expertise is very useful, even though this possibility is not mentioned in the convention.

The frequent interactions among the CTPs also allow for in-depth dialogue on project implementation aspects, and this is of obvious benefit. However, such interactions depend largely on individual initiatives. Luxembourg should consider instituting a streamlined mechanism for building on experience and sharing good practices, not only in Laos but also among the countries where Luxembourg has similar programmes (such as in the tourism sector). With sector discussion platforms, field experience could be put to better use.

LuxDev's monitoring and evaluation systems are sound and are useful for reorienting activities when necessary. However, the indicative co-operation programme has no results framework, and it is therefore difficult to make the link between project outcomes and the more general objectives pursued by Luxembourg. The midterm evaluation had already noted the lack of a results-based management system. A results framework, referenced to

the existing country frameworks, is needed to guide the programme and evaluate its results more effectively.

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NOTES

1. These annual meetings bring together the ministers of the two countries and serve to maintain ongoing policy dialogue.
2. The Climate-Adapted Local Development Project in Three Coastal District of Thien Hue Province is a four-year, EUR 8 million project which is currently being formulated.
3. Bolikhamxay Livelihood Improvement and Governance Programme (Lao/21)
4. Climate-Adapted Local Development Project in Three Coastal Districts of Thien Hue Province.
5. This position was vacant at the time of the field visit in May 2012.



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