

LUXEMBOURG

1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

Net ODA (US\$m)	409
% of GNI	0.92%

Source: OECD/DAC, preliminary 2008 data

In 2000, Luxembourg joined the group of countries that deliver at least 0.7% of their GNI in aid. Its aid budget has continued to grow since then, and has risen by 178% in nominal terms (up from \$147m) since 2002.

1.2. Future Quantity Intent

There is broad cross-party commitment to a target of increasing the proportion of GNI given as ODA to 1%. This increase has now been formally timetabled as due to begin in 2011, and the significant increases in the aid budget in recent years suggest this target is entirely plausible. The DAC therefore predict that Luxembourg will be giving \$395m in ODA (or 0.93% of GNI) by 2010 (DAC, 2009).

2) KEY AGENCIES/MECHANISMS

2.1 Bilateral Agencies and Structures

Ministry of Foreign Affairs, Foreign trade, Co-operation and Defence

Overall responsibility for development cooperation in Luxembourg rests with the Ministry of Foreign Affairs. This ministry manages bilateral cooperation (including the development of Indicative Cooperation Programmes with priority countries), cooperation with NGOs, technical assistance, humanitarian aid and multilateral cooperation with the UN system and the EC's European Development Fund; equivalent to around 85% of total ODA in 2006. Within the Ministry of Foreign Affairs, development cooperation activities are handled by the Development Cooperation Directorate, which has a total of 33 employees at headquarters and in its six regional offices. Despite the recent establishment of the regional offices decentralisation of Luxembourg's ODA is at a very early stage (DAC 2008b).

Luxembourg Agency for Development Cooperation (Lux-Development)

Lux-Development is the implementing agency for Luxembourg's bilateral development cooperation. The agency works exclusively on inter-governmental projects and disbursed \$70m-\$80m for projects during 2006. Supporting a headquarters team of around 55 staff are an additional 6 regional offices (3 in West Africa, 1 in Southern Africa, 1 in South Asia and 1 in Latin America) with around 135 staff in total. These regional offices are responsible for supporting project implementation in Luxembourg's 10 target countries and the implementation of the Indicative Cooperation Programmes. However, field staff in regional offices have

very little decision-making power as decision-making still rests with headquarters in Luxembourg (DAC 2008b).

Ministry of Finance

The Ministry of Finance handles cooperation with the international financial institutions (World Bank, IMF, the EBRD and Development Banks), through which around 11% of ODA was disbursed in 2006 (MFA 2007).

2.2 Key Policies and Legislation

1996 Development Cooperation Act

Luxembourg's development cooperation activities are governed by its 1996 Development Cooperation Act, which states that these should contribute to:

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

It also laid out a wide range of areas in which development cooperation could be undertaken, including: social action (including health, housing, education, vocational training and promotion of women); technical assistance; economic and industrial co-operation; co-operation in the realm of the environment; regional co-operation; cultural and scientific co-operation; actions in the realm of human rights and democratisation; development education (MFA 1996).

The Luxembourg Development Cooperation – Strategies and Principles (2006)

In 2006 the current government published a statement of strategies and principles to guide Luxembourg's development cooperation. This statement explicitly states that the MDGs are to be the primary guide of Luxembourg's development cooperation activities and therefore cooperation would be concentrated in the social domain: healthcare and education (including training), as well as in support of integrated rural development. In addition it states the importance of concentrating Luxembourg's on a limited number of countries through the selection of 10 priority countries, for whom Luxembourg delivers its support through multi-annual Indicative Cooperation Programmes (MFA 2006).

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

3.1. Recipient Countries

Luxembourg has selected 10 priority countries, which together received 37% of total ODA (or 52% of bilateral ODA) on average for 2005-2006 and comprised 10 of the 11 most important recipients (Serbia being a non-priority country) of Luxembourg's aid, as summarised in the table below:

Luxembourg's main ODA recipients (2005/6 average):

	% of total ODA gross disbursements	% of bilateral ODA gross disbursements	US\$ m
Cape Verde	5.6	7.7	15
Senegal	4.6	6.1	12
Vietnam	4.4	6.1	12

	% of total ODA gross disbursements	% of bilateral ODA gross disbursements	US\$ m
Burkina Faso	3.9	5.6	11
Mali	3.8	5.1	10
Nicaragua	3.4	4.6	9
Niger	3.3	4.6	9
El Salvador	3.1	4.6	9
Laos	2.8	4.1	8
Serbia	2.4	3.6	7
Namibia	2.3	3.6	7

Source: DAC 2007

Following recommendations by the DAC (peer reviews in 1994 and 2003) Luxembourg reduced its number of priority countries from 14 to 10 in 1999, its number of project countries from 20 in 2002 to 12 in 2007 and plans to reduce its project countries to 0 in the future (DAC 2008b).

Although other indicators suggest that the geographical concentration of Luxembourg's ODA continues to vary (the proportion of its bilateral ODA going to its 10 target countries was 54% in 2000; 43% in 2001; and 52% on average for 2005-6) increasing allocations to its priority countries suggest concentration of its ODA is currently increasing, a conclusion reached by its 2008 DAC Peer Review (DAC 2008b).

Distribution of Luxembourg's ODA among different groups of recipients (% of country specified ODA, 2005/6):

Least Developed Countries (LDCs)	51.8%
Other Low Income Countries (OLICs)	19.6%
Sub-Saharan Africa (SSA)	51.1%
Latin America and Caribbean	12.9%
South and Central Asia	10.2%
Other Asia and Oceania	12.7%

Source: DAC 2007

In 2005-06 Luxembourg delivered 51.8% of its country specified ODA to LDCs (up from 45.9% in 1995/6) and another 19.6% to OLICs (up from 15.5% in 1995/6), with 71.4% therefore going to LICs (up from 61.4% in 1995/6).

In terms of regions, in 2005/6 51.1% of Luxembourg's ODA went to SSA; 12.9% Latin America and the Caribbean, 10.2% to South and Central Asia; and 12.7% to other Asia and Oceania (DAC 2007).

3.2. Allocation Criteria

3.2.1. Pre-selection criteria

Luxembourg has no pre-selection criteria for country eligibility.

3.2.2. Allocation criteria:

Human development indicators (HDI) are the main formal tool used by Luxembourg to make allocation decisions, with 7 of Luxembourg's 20 largest ODA recipients having HDI rankings of 150-176 and another 12 with rankings of 102-147.

Luxembourg is currently entering a transition phase with 3 of its priority countries (El Salvador, Namibia and Vietnam) because they have been moving up the HDI scale. In the short to medium term these countries will be replaced as priority countries by other countries with lower and more stagnant levels of human development.

Other factors that have had a more informal influence over Luxembourg's allocation decisions include country size, a historical presence (including through the operation of NGOs) and the objective of maintaining a presence across 3 continents (Africa, Asia and Europe) (DAC 2008b).

4) AID POLICIES

4.1. Concessionalality

Luxembourg's ODA is delivered in grants only.

4.2. Types of Assistance

Breakdown of different types of ODA (disbursements):

	US\$m	% of gross bilateral ODA disbursements
Stand-alone technical cooperation (disbursements)	5.5	2.7%
General budget support	0	0%
Sectoral programmes and projects	134	65.5%
Action related to debt	0	0%
Developmental food aid	7.8	3.8%
Humanitarian assistance	37.2	18.1%

Source: OECD DAC CRS database, 2006 data

Note: The breakdown into different types of assistance shown in the table is taken from different OECD DAC data sources. As such, the final column does not add to 100%.

Luxembourg doesn't deliver any ODA in the form of budget support or sector wide approaches and the majority of its bilateral ODA is delivered in the form of projects. However, it is currently studying the possibility of providing budget support on a limited scale in some of its privileged partner countries (DAC 2008b).

Luxembourg's use of technical cooperation is quite limited with only 1.8% of its bilateral ODA delivered in this form, far below the DAC average (c18%) (DAC 2009). Of Luxembourg's technical cooperation reported in the 2008 Paris survey (\$10m) only 20% was coordinated with country programmes with best practice in Kosovo (32%) and Vietnam (30%).

The proportion of Luxembourg's total ODA delivered in the form of humanitarian assistance has increased progressively from 7% in 2003 to 12% in 2006, and 12% of its total ODA was disbursed through NGOs in 2006 (DAC 2008b).

None of Luxembourg's ODA in 2005 and 2006 consisted of debt relief.

4.3. Channels of Assistance

In 2006 Luxembourg allocated 29.6% of its ODA via multilateral organisation, of which 30% went to the UN agencies, 28% went to the EC, 22% went to the World Bank Group and 13% went to the Asian Development Bank (DAC 2007).

The 2008 Survey on Monitoring the Paris Declaration found that of Luxembourg's ODA to the government sector reported in the survey (\$36m or around 13% of its total bilateral ODA) it used government financial systems only in Senegal.

4.4. Sectors and Projects

Sector	% of bilateral ODA (commitments)
Social and Administrative Infrastructure	50.2%
Of which: Education	16.0%
Health	15.9%
Population	6.3%
Water supply and sanitation	5.4%
Government and civil society	3.1%
Economic Infrastructure	3.4%
Of which: Transport and communications	1.2%
Energy	0.2%
Production	4.6%
Of which: Agriculture	2.9%
Industry, mining, construction	1.1%
Trade and tourism	0.7%
Multi-sector	9.2%

Source: DAC 2007

Sectorally, Luxembourg does not routinely use targets, but its recent statement of principles and strategies emphasise very strongly its focus on social sectors and integrated rural development. As a result 50.2% of its bilateral ODA commitments were for social and administrative infrastructure in 2006; with only 3.4% for economic infrastructure and 4.6% for production (DAC 2007).

Luxembourg's current high level of support to social and administrative infrastructure actually represents a declining trend, as the proportion of ODA going to these areas has fallen from around 68% in 2001 and around 58% in 2003. This trend has occurred in small part because the proportion of ODA to economic infrastructure has seen increases from 1.7% in 2001 to 3% in 2006; and that to production has increased from 1.6% in 2001 to 12.2% in 2003, before falling back to 8.5% in 2004 and 4% in 2006 (OECD DAC CRS database).

In line with its commitments through the EU's code of Conduct on Complementarity and Division of Labour, Luxembourg is making efforts to reduce the number of sectors in which it is working in each country, although challenges in phasing out projects mean that this has not yet been reflected in programme strategies (DAC 2008b).

4.5. Flexibility

Luxembourg does not formally utilise measures of vulnerability to contribute to its allocation decisions. However, its mostly informal approach to allocation does allow for such concerns to influence allocations. For example, although Cape Verde has

graduated from its LDC status Luxembourg is planning to retain it as a priority country, in part because of its vulnerability to external shocks (MFA 2008).

4.6. Predictability

Luxembourg's operations in its 10 priority countries are guided by Indicative Cooperation Programmes (ICPs) which are formal agreements signed with the countries. These ICPs lay out the programme priorities and minimum funding commitments for a set period of 3-6 years (their length varies across the country partners), with the ICPs for Mali and Senegal also including annual funding commitments.

In the framework of the ICPs, annual partnership commissions are held alternately in Luxembourg and in each partner country. During these commissions, an assessment of the disbursements versus the indicative budgets is made.

The 2008 Survey on Monitoring the Paris Declaration found that of Luxembourg's scheduled disbursements for 2007 that were reported in the survey (\$71m, equivalent to 17% of Luxembourg's total ODA), 35% of it was actually recorded on recipient's budgets. According to Paris Indicator 7, Luxembourg aid is fully predictable in Cape Verde.

4.7. Conditionality

As most of Luxembourg's aid is project-based and it doesn't provide budget support, it does not attach macro-economic or sectoral conditionality to its bilateral ODA.

4.8. Policy Dialogue

Due to its lack of involvement with budget and sector support programmes has not played a significant role in macro-economic and sectoral policy dialogue in its partner countries.

The ICPs that guide country cooperation are developed in partnership with country authorities and aim to respond to country development strategies and priorities. In developing and implementing these ICPs Luxembourg therefore engages in some informal policy dialogue in relation to the sectors in which it is providing support, a dynamic which has been given impetus by the establishment of 6 regional offices in recent years.

5) AID PROCEDURES

5.1 Conditions precedent

Luxembourg's programming cycles revolve around the ICPs agreed with country partners.

Luxembourg's bilateral assistance is delivered through projects. In some cases, the project document may mention conditions that have to be fulfilled before project activities will start. Such prior conditions may relate to political (adoption of a new law, for example) or technical aspects.

5.2 Disbursement Methods

Given that Luxembourg does not currently provide budget or sector support its funds for bilateral programmes are transferred directly to the Bilateral Implementation Agency, Lux-Development, on the basis of three annual calls for funds. The agency then proceeds to distribute the funds to country programmes through project implementation units.

The 2008 Survey on Monitoring the Paris Declaration found that Luxembourg was operating 13 Parallel Implementation Unit across the 7 countries in which its aid was surveyed and best scores are found in Laos and Senegal where no PIU's were recorded.

5.3 Disbursement Procedures

Luxembourg's bilateral funds in-country are managed by Lux-development not by institutions of the partner countries. The authority for contractual commitments and for payments remains with Lux-Development staff.

5.4 Procurement Procedures

All of Luxembourg's ODA is provided in the form of untied grants. The use of the partner countries' procurement procedures depends on the situation in each country, and where their use is deemed not to be possible Lux-Development aligns itself to the procedures used by the EC in the framework of the EDF (DAC 2008b).

The 2008 survey on monitoring the Paris Declaration found that Luxembourg's ODA covered by the survey utilised country procurement procedures in Senegal only (Indicator 5b).

5.5 Coordination

Luxembourg endorsed the Paris Declaration in 2005 and as a member of the EU committed to Paris + targets and separately signed up to the EU Action Plan on Harmonisation in 2004. However, Luxembourg does not have in place any medium-long term plan for implementing the reforms implied by these commitments, although in 2007 it commissioned a major report to explore what reforms need to be undertaken in order to meet them (DAC 2008b).

Luxembourg's involvement in donor cooperation activities include its role as lead donor in the education sector in Cape Verde, its contribution to multi-donor funds in Niger (health) and Burundi (education) and delegated cooperation activities in Ecuador, an approach it is seeking to adopt elsewhere. There are indications that the permanent in-country presence Lux-development has been able to through its country offices is stimulating its cooperation with other donors in those and some neighbouring countries.

The 2008 Survey on Monitoring the Paris Declaration found that for the 7 countries in which Luxembourg's ODA was surveyed all missions were conducted jointly with other donors in Kosovo and Laos (Indicator 10a) and all analytical work was coordinated in Burkina Faso and Vietnam (Indicator 10b).

Key Sources (*All internet sources were accessed on the 29th of June 2008*)

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