

EXTRACTS FROM THE DEVELOPMENT CO-OPERATION REVIEW SERIES
CONCERNING POLICY COHERENCE

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AUSTRALIA

POLICY COHERENCE AND BROADER RELATIONS WITH DEVELOPING COUNTRIES

Policy coherence as national policy and in practice

Australia acknowledges the importance of coherent national policies for achieving strategic objectives. *In the National Interest* described the adoption of an integrated “whole-of-nation” approach as essential for achieving the government’s goals. Such an approach means that policy decisions take account of the linkages between domestic and international policy and requires the government to bring an understanding of the linkages across ministerial portfolios to the policy-making process. It also requires good communication among officials working on related issues in different departments and agencies. When presenting *Better Aid for a Better Future* to Parliament, the Minister for Foreign Affairs pointed out that there is no choice between dealing with domestic problems or providing overseas assistance as “the promotion of sustainable development overseas and the pursuit of Australia’s long-term national interest are inextricably linked”. The need for coherence in national policies impacting on developing countries has consequently been endorsed as Australian government policy.

In the National Interest states that an integrated approach “applies not only to domestic and international policies, but also to the various strands of external policy, especially foreign, trade, defence, immigration and development co-operation policies.” To enhance this approach, an explicit effort to articulate the interlinkages and complementarities between the various strands of external policy could help to generate public understanding of the role of aid.

Reflecting the especially immediate and direct importance of development co-operation for Australia, the aid dimension receives due consideration on a wide range of issues. The mechanisms for coherence and consultation across government departments and agencies are comparatively strong and well-functioning. Policy coherence seems to have been enhanced by the grouping of development co-operation, foreign affairs and trade policy within the same ministerial portfolio since 1996.

AusAID, which plays the central role in Australia’s aid efforts, operates in co-operation with DFAT. A range of other departments and agencies contribute to the aid programme or provide core funding to multilateral agencies, including the Treasury; the Australian Centre for International Agricultural Research (ACIAR); Environment Australia; Agriculture, Forests and Fisheries Australia; the Australian Defence Force; the Department of Health and Aged Care; and the Australian Electoral Commission. Through such mechanisms as inter-departmental committees and the circulation of important documents for input and comment, AusAID liaises with these other bodies to ensure a “whole-of-government” approach is adopted.

The Export Finance and Insurance Corporation (EFIC) provides Australian exporters and investors with a range of insurance, guarantee and financing products not normally provided by the private financial sector or where capacity is not available for particular high-risk markets. EFIC is an autonomous government-owned corporation, now under the oversight of the Minister for Trade. A large proportion of EFIC’s operations, which are fully guaranteed by the Australian government, involve activities in developing countries in the Asia-Pacific region. Given the important, sometimes decisive, impact that such

investments can have on the economies of these countries, the coherence of Australia's policies would be improved if AusAID, where it has relevant development experience, were invited to provide consultative guidance to EFIC when government guarantees for investments in developing countries are considered.

The role of civil society

Effective policy coherence requires a place in decision-making processes for consultations and input from a broad range of interests in civil society. The Australian government has committed itself to improving channels of communication with those whose interests are affected by international negotiations and agreements. While pointing out that the Federal government is ultimately responsible for decisions about Australia's international commitments, *In the National Interest* acknowledged that achieving foreign policy goals "will require communication and consultation on policies and priorities among Commonwealth, State and Territory governments, the private sector and NGOs", since policies will only be sustainable if they have the support of Australian public opinion.

There are several recent examples of an opening up of foreign policy matters to a broader constituency in Australian society. The Simons Committee received 250 submissions for its review and held discussions with many individuals, representatives of State and Commonwealth government departments, businesses, tertiary and research institutions and NGOs. Three ministerial advisory committees have been formed - the Foreign Affairs Council, the Trade Policy Advisory Council and the Aid Advisory Council - to present views from civil society on topical issues and to provide ministers with expert advice. The Australian government has also expanded the treaty-making process to ensure greater consultation with civil society on the costs and benefits of international agreements to which the government proposes to accede.

Issues related to aid and Australia's relations with developing countries are considered by Committees of Parliament. In recent years, the Joint Standing Committee on Foreign Affairs, Defence and Trade has considered Australia's regional dialogue on human rights, its trade relationship with India and its relations with Southern Africa and Thailand. It has also held public seminars on the Asian financial crisis, the Simons Committee's review and Papua New Guinea. The Committee is currently holding an inquiry on Bougainville and held a public seminar on World Debt in August 1999. The Senate's Foreign Affairs, Defence and Trade References Committee recently conducted an inquiry on East Timor and released an interim report on 30 September 1999. AusAID and DFAT prepared a joint submission for this inquiry.

Promoting the liberalisation of trade and investment

As a large exporter of agricultural products, minerals and fuels, Australia's trade policy objectives often coincide with those of many developing countries. Furthermore, developing countries are important markets for Australia's exports of primary products. An expansion in exports to third countries of manufactured goods from developing countries could have an up-stream effect of increasing demand for some of Australia's primary product exports.

Promoting the liberalisation of trade and investment is a basic tenet of Australia's foreign and trade policy. Australia pursues its objectives by supporting moves towards rules-based and equitable systems for governing international trade. Any advances Australia achieves on these fronts can also potentially be of benefit to developing countries. While the liberalisation of trade in agriculture has long been an area of particular concern, due to its importance for the Australian economy, AusAID needs to ensure that Australia is also actively promoting trade liberalisation in areas important for developing countries but of less direct benefit for the Australian economy, such as textiles, clothing and footwear.

Australia's strategies for promoting its foreign and trade policy objectives include "coalition building", the putting together of issues-based groups of countries to pursue a shared objective. An example was the setting up of an informal group of like-minded, mainly developing, countries at the World Trade Organization (WTO) headquarters to promote a new round of trade negotiations to cover agricultural trade. Another example is the "Cairns Group" of agricultural exporting nations (see Box 2).

Box 1. The Cairns Group

The formation of the Cairns Group, in 1986, resulted from an Australian initiative. The Group currently comprises three developed countries (Australia, Canada and New Zealand) and 12 middle- and high-income developing countries (Argentina, Brazil, Chile, Colombia, Fiji, Indonesia, Malaysia, Paraguay, the Philippines, South Africa, Thailand and Uruguay). The Australian Minister for Trade chairs the annual Ministerial meetings.¹

It was, in part, through the efforts of the Cairns Group that a framework for reform in trade in farm products was established in the Uruguay Round and agriculture was, for the first time, subject to trade liberalising rules (as set out in the WTO Agreement on Agriculture). Since the conclusion of the Uruguay Round, the Group has continued to push for fair trade in agricultural exports.

The Group delivered a strong message at its 19th Ministerial meeting in Buenos Aires in August 1999, reaffirming its objective for trade in agriculture to be placed "on the same footing with trade in other products", pointing out that it is "unacceptable ... that the most efficient agricultural producers are penalised while barriers to non-agricultural trade are eliminated or reduced to a minimum" and stressing that "for much of the developing world, agriculture is the key for growth and employment, but high levels of protection and subsidies in some industrialised countries block the development process and must be stopped".

In another effort to promote a new round of multilateral trade negotiations, the Minister for Trade launched a report in May 1999, *Global Trade Reform: Maintaining Momentum*², which found that for both developed and developing countries alike, there are compelling reasons to launch a new round.

Helping developing countries participate in the global economy

Structural weaknesses remain in many developing countries which hamper their fuller participation in the global economy. In recognition of this, Australia provides development assistance aimed at strengthening developing countries' capacity to identify and manage the potential economic and social impacts of trade and investment liberalisation, and to identify new sources of revenue and market opportunities. This assistance comprises a portfolio of direct, trade-related activities, as well as more general development programmes which have an indirect impact through improving economic governance.

Australia will provide some AUD 50 million in 1999/2000 for technical assistance and training to help countries develop legal and regulatory frameworks that promote trade and investment flows, including assistance to meet environmental, health and food safety requirements. Australia is supporting several countries' accession to the WTO and assisting WTO Members to implement Agreements and participate in WTO processes, including by funding attendance at meetings. Other activities are assistance for trade policy training and contributions to the Commonwealth Trade and Investment Access Facility. Australia is supporting the Asia-Pacific Economic Co-operation (APEC) Support Programme - which focuses on strengthening intellectual property rights, aligning national and international standards, improving quarantine controls and improving communications and information flows - as well as the development of an APEC Professional Services Directory, to facilitate access by APEC countries to professional services markets. In collaboration with Member countries of the Association of South-East Asian

1. Further information on the Cairns Group is available from the Department of Foreign Affairs and Trade's Internet site at: http://www.dfat.gov.au/trade/negotiations/cairns_group/index.html

2. Available from the Internet at: http://www.dfat.gov.au/trade/opening_doors/index.html

Nations (ASEAN), Australia has developed the Skills Recognition Directory for Professional Occupations that disseminates information on the requirements for entry to professional practice in the region.

Australia's support for activities to improve economic governance include AUD 46 million in 1999/2000 for economic management and private sector development projects and AUD 50 million for human and institutional capacity building projects in key public sector bodies. Another AUD 189 million has been budgeted for infrastructure investments needed to help developing countries participate more effectively in the global economy. In addition, nearly 1 000 students from developing countries are in Australia studying economics, business and administration. Improving economic governance is a major focus of Australia's response to the Asian financial crisis (see Box 3 on next page).

Australia's trading pattern with developing countries

Compared to many other DAC countries, a large and increasing share of Australia's trade has been with developing countries - 35.9% of its exports in 1997 (up from 30.8% in 1994) and 23.2% of its imports (up from 18.7%) (see Table 1). Australia's total two-way trade with developing countries amounted to 7.47% of its GNP in 1994 and rose to 9.74% in 1997. Australia's trade surplus with developing countries has also expanded, from USD 5.3 billion in 1994 (1.64% of GNP) to USD 8.2 billion in 1997 (2.16% of GNP).

Australia's trade performance depends crucially on countries in Asia. Excluding Japan - Australia's largest trading partner - from calculations, Asian countries took approximately two-fifths of Australia's exports in 1997 and supplied more than one quarter of its imports. In contrast, sub-Saharan African countries took 1.7% of Australia's exports and supplied 0.8% of imports. This trade was mostly with South Africa.

Box 2. Australia's response to the Asian financial crisis

The Australian government saw the Asian financial crisis as a systemic challenge and a test to the region. Australia is trying not only to palliate the surface financial problems, but to diagnose and help treat root governance and transparency issues destined to influence the region in the future. Australia has played its part in responding to the crisis including, during the early stages (late 1997 and 1998), committing financial assistance on commercial terms as part of the international financing packages sponsored by the International Monetary Fund (IMF) to Indonesia, Korea and Thailand³, in addition to providing food aid and humanitarian assistance, export credit guarantees and technical assistance on economic governance.

At the 1998 APEC Leaders' Meeting, Australia pledged a three-year AUD 50 million package to enhance economic governance in crisis-affected economies. This package draws on and complements bilateral and regional resources from the aid programme. Within APEC, Australia commissioned a survey⁴ in 1998 by an Australian economic research firm of on-going and possible future economic governance capacity building co-operation activities in Indonesia, Korea, Malaysia, the Philippines, Thailand and Viet Nam. The survey found that information flows, transparency, the quality of economic analysis and the strengthening of early-warning systems were common concerns. It also found that financial and corporate sector governance were two areas where intensive activities were both underway and where regional co-operation was seen as valuable. In 1999, the Australian government sponsored a further study for APEC of the impact of the crisis on children in Indonesia, the Philippines and Thailand (cited above). This report found that while most children had remained in school and continued to receive health services, there had been a shift in demand from private to public service providers, with a consequential increase in pressure on government staff and budgets.

Australia organised an international meeting on development co-operation responses to the crisis in Sydney (March 1999), attended by representatives of 29 countries and 9 multilateral agencies⁵. It was the first meeting at this level to consider the range of economic and social aspects of the crisis. Australia's proposal was adopted to establish an Asian Recovery Information Centre, to address the need for better access to and exchange of information on crisis impacts and responses.

As part of the aid programme, an Asia Crisis Fund was established in 1998/99. Its cumulative funding to 1999/2000 is AUD 18 million. The fund assists countries most affected by the crisis to restore growth, protect social investment and ensure appropriate social safety nets. In each bilateral and multilateral programme in the region, Australia has considered the impact of the crisis and, in many of these programmes, responses have been built into AusAID's work. Responding to the crisis, and particularly to the needs in Indonesia, continued to be a priority in the 1999/2000 aid budget.

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3. As part of the IMF-sponsored second tier support arrangements, Australia committed USD 1 billion each to Indonesia, Korea and Thailand. These commitments are being drawn down as required. As of October 1999, USD 862 million has been provided to Thailand as a currency swap and a USD 330 million loan has been provided to Korea. Discussions continue with Indonesia on the release of the first tranche of a USD 300 million loan.
 4. See Centre for International Economics, *APEC economic governance capacity building survey*, October 1998, available from the Internet at: <http://www.ausaid.gov.au/apec/>
 5. Further information on the *Meeting on Development Co-operation: Responding to the Asia Crisis* is available from the Internet at: <http://www.ausaid.gov.au/mdc-rac/index.html>

Table 1. Australia's merchandise trade with developing countries, 1997

	USD million			<i>For ref.: Net ODA</i>	Per cent	
	Exports	Imports	Trade surplus (+)		Exports	Imports
Developing countries by income group						
Least-developed countries	570	112	+459	126	0.9	0.2
Other low-income countries	5 080	4 708	+372	107	8.1	7.6
Lower middle-income countries	7 752	4 088	+3 365	400	12.3	6.6
Upper middle-income countries	3 857	3 182	+676	16	6.1	5.1
High-income countries	5 264	2 242	+3 022	1	8.4	3.6
Total developing countries	22 523	14 331	+8 193	1 061	35.9	23.2
All other countries	40 291	47 502	-7 211	<i>n.a.</i>	64.1	76.8
Total	62 815	61 832	+982	<i>n.a.</i>	100.0	100.0

Source: OECD.

Among developing countries, Australia's main trading partners are:

Korea. Exports worth USD 5 017 million in 1997 (including gold, coal, iron ore and aluminium) and imports worth USD 2 199 million (including gold, passenger motor vehicles, telecommunications equipment, ships and computers).

China. Exports worth USD 2 951 million in 1997 (including iron ore, wool, copper ores and crustaceans) and imports worth USD 3 513 million (including clothing, toys, games and sporting goods and footwear).

Indonesia. Exports worth USD 2 516 million in 1997 (including cotton, crude petroleum and aluminium) and imports worth USD 1 680 million (including crude petroleum, gold and jewellery).

Malaysia. Exports of USD 1 752 million in 1997 (including milk and cream, aluminium, copper and wool) and imports worth USD 1 557 million (including computers, telecommunications equipment, integrated circuits, crude petroleum and furniture)

Chinese Taipei and Singapore, which are no longer eligible for ODA, are two other large trading partners.

Australia's trade pattern has changed somewhat in the wake of the Asian financial crisis. Although Australia's imports from crisis-affected countries have continued to increase, its exports have declined and Australia is now running a trade deficit with Indonesia and Malaysia. Nonetheless, owing in part to the importance of primary products from Australia for these countries and their effort to trade their way out of economic difficulties, the fall in exports is not as much as initially anticipated.

Australia's tariff regime

Australia has been lowering its tariff rates over the last decade, which has opened up the Australian market to exporters from both developed and developing countries. In addition, two groups of developing countries - least-developed countries and countries in the Pacific (including Papua New Guinea) - have special access to the Australian market. Through one or both of these schemes, 11 of Australia's 20 largest ODA recipients in 1997-98 receive privileged access to the Australian market. Nonetheless, non-tariff barriers, such as quarantine restrictions, can still be an obstacle for importers.

For most of the century, Australia has protected domestic industries by erecting high tariff barriers to restrict imports. In 1988, Australia reversed this policy and in 1991 announced a programme of tariff reductions which led to the fall of all tariffs - other than those on passenger motor vehicles and on textiles, clothing and footwear - to a maximum of 5% on 1 July 1996. Australia is now a comparatively open market, with 44% of tariff lines having a zero tariff rate.

In spite of these general tariff reductions, Australia's textiles, clothing and footwear industries continue to receive relatively high tariff protection. Tariff levels are nonetheless declining. "Peak" tariffs for clothing and finished textiles will decline from 31% in 1998 to 25% on 1 January 2000, and will remain at that level until 2005. The government plans to reduce the peak tariff to 17.5% on 1 January 2005. Similarly, tariffs on other textile, clothing and footwear products will decline from their present range of between 5% and 22% to between 5% and 10% by 2005. Tariffs on passenger motor vehicles are scheduled to fall to 15% in 2000 and to 10% in 2005.⁶

Under the Australian System of Tariff Preferences (ASTP), goods imported from least-developed countries receive a five percentage point margin of preference where the general tariff is 5% or higher. Where the general tariff is already less than 5%, goods are imported tariff free. The ASTP now applies to all products, which is not the case with many other donors' General System of Preferences (GSP) Schemes. Nonetheless, only 0.2% of Australia's imports in 1997 originated in least-developed countries, as compared to 0.1% in 1988.

Trade between Australia, New Zealand and developing countries in the Pacific is governed by the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA). This agreement provides developing countries with duty-free and unrestricted access to the Australian and New Zealand markets for all products - with certain exceptions including passenger motor vehicles and textiles, clothing and footwear - on a non-reciprocal basis. Some Pacific countries, such as Fiji, have welcomed and exploited the opportunities created through the Agreement. At his address at the 50th Anniversary Conference of the South Pacific Commission (SPC) in 1997, the President of Fiji noted that "I have always stressed that quite the best aid the major countries can provide for our island territories is the provision of markets for our fruit and vegetables and other island produce, and the opportunity to trade on fair and viable terms. The SPARTECA Agreement, despite difficulties, is an example of such an opening." In 1997, 1.6% of Australia's imports originated in developing countries in the Pacific, up from 0.6% in 1988.

6. See WTO (1998), TPRM Australia.

Australia has also initiated and supported specific measures to encourage imports from developing countries, such as running seminars on how to access the Australian market and providing funds for pest surveys to evaluate compliance with quarantine regulations (needed to confirm claims of area freedom). Australia also funds the South Pacific Trade Commission in Sydney, which promotes trade and investment between South Pacific Forum island countries and Australia by providing technical and financial assistance as well as advice to partner governments and the private sector.

BELGIUM

AID INSTRUMENTS: POLICIES AND APPROACHES

Cross-cutting themes

Sustainable development and the environment

Under the International Co-operation Act, “Sustainable development is predicated on the satisfaction of current needs, without compromising the needs of future generations, and its achievement entails a process of change adjusting the utilisation of resources, the allocation of investment, the targeting of technological development and institutional structures to meet current and future needs alike”.

Sustainable development entails a viable process for all the members of society. The close interdependence between the economic system and the resources of our natural environment needs to be rebalanced in favour of responsible management of the planet’s resources: relentless consumption of non-renewable resources will condemn the generations who will succeed us on Earth. The effects of unsustainable consumption are already affecting the whole of mankind, but the poorest suffer first.

In adhering to the objective of sustainable development, the government undertakes to comply with the recommendations of the major international conferences of the past ten years when preparing its co-operation programmes. In order to incorporate the environmental dimension in all its development operations, DGCI has adopted the bifocal structure previously employed by AGCD: an Environment unit in the strategy department, and an Environmental Programmes unit in the multilateral co-operation department. It is proposed to strengthen the Environment unit by hiring a qualified specialist.

Operations to protect the environment are largely governed by treaties and conventions negotiated at the international level, involving both the industrialised countries and the countries of the South. DGCI is responsible for a whole range of aspects, from desertification to biodiversity, ozone-depleting substances (Montreal Protocol) and climate change (Kyoto Protocol). Contributing to the protection of biodiversity is a major aspect of Belgian policy. In principle, no bilateral or multilateral co-operation will be conducted involving programmes which release genetically modified (or transgenic) substances into the environment. Research into consequences and alternatives, on the other hand, will be encouraged, in conjunction with the developing countries.

Box 3. The Belgian approach to fundamental needs¹

Belgium considers that the fundamental needs of the poor have to hold a central place in development co-operation policy. Quite clearly, there are minimum essential requirements without which life is impossible or is unacceptably reduced to mere survival. But the concept of fundamental needs that is often employed is a materialistic one which confuses actual need with the means of meeting it. For instance, needs are assimilated to consumer items or services peculiar to western culture (as when the need for education is considered as a need to go to school). What is more, needs are treated as though they existed quite apart from their socio-cultural and environmental context, and as though they were the same for all. This presents a uniform picture of poverty, denies the culture of the individuals concerned and refuses them any right to choose a novel path of development in line with their own potential. It also bars the way to any plurality of development paths, since it assumes that poverty may be relieved simply by transferring given quantities of standardised goods and services to the most disadvantaged.

Needs never exist as entities distinct one from another. Any physiological need, for instance, always includes a social and cultural dimension. In addition, essential needs are not confined to the physiological sphere. Human beings, whether poor or rich, have spiritual, psychological and emotional needs whose intensity and expression are also influenced by the specific context.

One need which development co-operation has so far overlooked too often is the need for participation in cultural life, to be recognised as a member of a cultural entity and the need for a wholly recognised cultural entity or community. Belgian development co-operation aims to devote greater attention to this cultural dimension of needs. That entails recognising cultural diversity and cultural rights, especially for minorities. It means taking both equality and diversity into proper account.

The Process Integrated Management (PRIMA) method used by DGCI in preparing its development operations provides, in the identification stage, for criteria to determine the viability of the operation and its impact on the natural environment. The identification report must deal with the operation's effects on the environment or the health status of the population. When adverse effects may occur, it must specify remedial measures. A further important point is to determine whether the operation will ensure that management of the environment and natural wealth lies with the groups and institutions directly concerned.

Apart from a few projects which are specifically concerned with protecting the environment, Belgian co-operation funds numerous bilateral operations where the environmental component is not inconsiderable, in particular in rural development, re-forestation around villages, exploitation of natural resources and combating desertification. On the multilateral side, Belgian assistance contributes to three international programmes: i) the World Environment Fund (WEF), with DGCI scheduled to provide 1.66% of total contributions over the period 1998-2002 to the WEF Global Environment Facility Trust Fund (GEFTF); ii) Action 21, through support for the plan of action approved in Rio de Janeiro in 1992, in particular for the treaty on combating desertification [in this context, an important role is played by the Federal Council for Sustainable Development (CFDD), established in 1997. CFDD issues opinions on sustainable development policy, at the request of the government or the federal parliament or on its own initiative, through holding forums and symposia.

1. See *La qualité dans la solidarité. Partenariat pour le développement durable* (Eddy Boutmans, State Secretary for Development Co-operation, 5 April 2000). Policy Memorandum.

Its members are drawn from civil society: NGOs, organisations of consumers, workers and employers, energy producers and scientists. Representatives of the federal government, the communities and regions and of councils dealing with environmental and socio-economic issues are non-voting members]; and iii) the Montreal Protocol, through contributions to the multilateral fund to finance additional investments needed for a transfer towards more environment-friendly technology (contributions of USD 1.85 million in 1998 and USD 1.94 million in 1999).

Poverty alleviation

For Belgium, as for other DAC countries, combating poverty holds a central place in efforts to achieve sustainable development. Belgium considers that poverty has to be defined in qualitative as well as quantitative terms, covering for instance inadequate access to natural resources and to essential public goods and services. That links up with the broad concept of “fundamental needs” described in Box 1. Moreover, the reference to the political dimension of poverty highlights the close relation between the fundamental needs of human beings and human rights as defined in the Universal Declaration. But elementary needs cannot be satisfied unless a number of preconditions are met. For this reason Belgium couples respect for the safety and freedom of men and women living in insecure circumstances due to war and social injustice with its priority aim of combating poverty. This goes hand in hand with special attention to the rights of children, who are the first victims of poverty and war. Belgian co-operation policy seeks to integrate these political dimensions explicitly. Strategies to combat poverty must supersede any one-dimensional approach in sectors and projects. Combating poverty is also a matter of redistribution and empowerment, in short a matter of rights.

This approach to combating poverty needs to become an operational practice in development co-operation, across all sectors and themes, and be materialised in the co-operation programmes concluded with partner countries and regions. A number of basic principles have been endorsed for this purpose (see Box 2).

Belgium attaches undeniable priority to combating poverty. Its approach and the operational principles that it has defined take full account of DAC directives on the subject. It is expected in particular, that the country strategy and sector strategy notes will take account of this priority and will be written within the strategic framework of the fight against poverty. But there is still a long way to go in order to anchor this operational priority in country and sectoral strategies and put in place a system of monitoring and evaluation to determine whether objectives have actually been achieved.

Box 4. **Basic operational principles**

Strengthening rights: strengthening the capacities of individuals, social groups and public authorities, in various forms, must be the central strategic thrust in operational programmes.

Participatory development: co-operation programmes will be determined on the basis of consultation with recipients who freely express their needs and report their specific problems, and on the basis of initiatives and solutions proposed by the recipients themselves.

Quality of management and institutions: good governance should not be an absolute precondition for engaging in co-operation. The requirement could establish a vicious circle, since the lack of good governance can in fact be an essential element in a country's development problems. Rather, Belgian co-operation seeks to contribute to strengthening and enhancing the institutions concerned and hence securing gradual achievement of this condition. A differentiated approach, which includes strengthening parliament, local and regional government, the judiciary, mediation services, citizens' groups, and so on, is called for.

Partnership - a differentiated approach: Belgian co-operation will evaluate the various forms of partnership in conjunction with the recipient countries and on the basis of their development agenda. This applies both to dialogue on policy and priorities and to the operational aspects of co-operation.

Attention to culture: Belgian co-operation intends in future to devote more attention to the cultural dimension. It will incorporate cultural aspects in its operations at various levels.

Impact on the environment: The identification and preparation stages for operational programmes should include a procedure for assessing their likely impact on the environment in various forms (biodiversity, depletion of natural resources, waste, urban development, etc.) and the formulation of corrective measures to protect or rehabilitate the environment.

Gender: Systematic attention must be devoted to re-balancing the rights and opportunities of women and men.

Decentralisation: Belgium will provide support to decentralisation initiatives where they are part of the country's policy. Decentralised co-operation will also be pursued in countries where the central government is deficient. In such cases, however, Belgium will associate this course with efforts to strengthen the central government's institutional capability.

Flexibility: Belgium is seeking to conduct a modern human resource policy to secure continuity and quality, allowing wider responsibilities to case managers and reducing their supervisory duties. It wants to achieve more flexible allocation of financial resources through a less rigid framework for the development co-operation budget in terms of appropriations and financial years. It is seeking to devise more flexible arrangements for consultation with the authorities in partner countries.

Co-ordination, complementarity and coherence: Belgium is endeavouring to achieve complementarity among the large number of actors involved, by arranging meetings for consultation. The latter is an essential aspect of co-ordination and division of duties among actors in the field, at the initiative of the developing countries. Last, Belgium is seeking to secure greater coherence by harmonising the poverty alleviation policies conducted by government departments.

Integration in long-term planning: In the context of sustainable development, long-term planning with the partner countries and the range of actors involved is essential. Concentrating bilateral co-operation on a limited number of countries may be a first step. On the same principle, the programme approach needs to be given greater emphasis with Belgian actors in indirect co-operation.

Conflict prevention and consolidation of society

Conflict prevention, democratisation and promotion of the rule of law have become priority objectives for Belgian assistance. A special unit was set up within AGCD in 1997 for this purpose. In June 2000 a Conflict Prevention unit was established in the DGCI's strategy department: the unit is responsible for managing projects and programmes to do with conflict prevention and with thematic and conceptual follow-up.

In conflict situations, development co-operation can contribute in various ways to conflict management or establishing peace. This may be within the traditional co-operation framework, by strengthening the social fabric or broadening the scope for development through greater access to health care and education. It can be supplemented by operations to promote human rights and exploit the potential for conflict management, by mine clearance, by reforms in the administration of justice and police

services, and by enhancing the legitimacy of government and strengthening civil society. All these operations aim to counter exclusion and marginalisation and should hence restrict the use of armed force.

Over the period 1997-99 the main aspects of the programme in this area were clearance of anti-personnel mines, support for democratisation, human rights and elections, and support for the judiciary. Attention to child victims of conflict is a new aspect which was taken up in the DGCI budget for 1999. In geographical terms, development operations have been concentrated chiefly in central and southern Africa, apart from some in south-east Asia (Cambodia, Laos and the Philippines) to support mine clearance projects and the social reintegration of ex-combatants.

One theme which has received special attention is insecurity and arms. Most of the conflicts currently under way in the developing countries rely on light weapons, which cause immense damage. Apart from the human victims, light weapons promote crime and insecurity, destroying the outlook for development. Following an international conference on disarmament for sustainable development (Brussels, October 1998) and publication of a *Call for Action*, two meetings were subsequently held in conjunction with the World Bank's post-conflict department.

With regard to policy and strategic options for conflict prevention, in extreme crises there is scope only for humanitarian action. In less serious conflicts, the strategy of Belgian co-operation seeks to take the underlying causes of internal strife into account. These strategies will depend substantially on each country's circumstances, the type of policy being conducted, and the capacity of local institutions.

Dialogue, consultation and, where possible, functional co-operation are pursued with non-governmental actors and other donors. In the Great Lakes region - Burundi, Democratic Republic of the Congo, Rwanda - the major efforts by Belgium focus on humanitarian aid and peace-building in the broad sense. As a contribution to structural stability, these efforts will as far as possible be consolidated in the more traditional sectors of co-operation. New initiatives in peace-building and conflict control (reform of the judiciary, human rights, the child-soldier issue) will be extended. In reality Belgian co-operation pursues a two-stage policy, seeking first to foster peace and stability and then to help build up more structured co-operation over a longer timescale. In the case of the Democratic Republic of the Congo, Belgium is initially seeking to establish a partnership for peace and structural stability. It provides financial support for work by the peace facilitators in Burundi (Nelson Mandela) and Congo (Masire).

Belgium has played a pioneering role in the international drive against anti-personnel mines. It is also one of the small group of countries taking a leading part in countering the proliferation of light weapons. The emphasis on child security will be reflected in particular through support for UNICEF, under the child rights programme and operations for the release and re-socialisation of child soldiers, and support for the special UN representative for children's rights.

Gender equality

Since 1999 the law on international co-operation has given statutory force to the principle of gender equality. The provision referring to "rebalancing the rights and opportunities of women and men" endorses three guidelines that have been applied since 1995: strengthening capacity in partner countries, integrating the concept in overall international co-operation policy, and acceptance of the relevant orientations and guidelines set out by DAC and the European Union. Gender equality is mentioned in the law as one of the criteria for assessing the relevance of operations. It is also one of the three trans-sectoral themes that Belgian co-operation has to take permanently into account.

The Belgian Government has established a consultative committee on women and development, for which DGCI provides secretariat services. The committee has 24 full members and 12 alternates, including

representatives of NGOs, universities, women's panels, DGCI and individual figures. The committee has been active since 1994. It has prepared papers for the State Secretary concerning the Beijing platform (1995), the policy memorandum from the Women and Development unit (1996) and a number of sectoral issues. One-day events highlighting the situation of Afghan women under the Taliban regime were organised in March 1998. In the following year the committee launched preparatory work for a symposium on co-operation and sustainable development, and closely monitored the preparation of Belgium's country reports in the framework of Beijing +5, and the preparation of women's marches in 2000.

Belgian co-operation seeks to promote gender equality via a two-stage strategy: i) according gender equality a central role by incorporating women's interests in programmes and sectors, strengthening the active participation of women in programmes and sectors receiving support, and bolstering women's contributions to enhancing the quality of international co-operation as a whole; and ii) providing direct support for women's groups in partner countries, via capacity promotion and backing for the development of policies and activities targeting the needs of these groups.

The strategy will involve the following specific operations: building an overall vision, raising awareness and training on gender issues; translating positive experiments at project or micro level into national or meso strategies and into international relations at the macro level; support for institutional aspects, notably via support for the DGCI's Women and Development unit through recruitment of a specialist, strengthening the gender dimension in PRIMA management instruments, seconding local experts on gender issues to partner countries, reviewing the advisory and awareness roles of the committee on women and development, and making the gender dimension operational in priority sectors and themes.

Debt relief

Debt relief transactions for developing countries have assumed considerable importance, above the DAC average: 7% in 1997, 13% in 1998 and 5% in 1999 of total Belgian ODA, against an average of 4% for all DAC members in 1999 (see Annex I, Table I-2, ODA by major headings). Three actors are involved here: DGCI, the Ministry of Finance and the National Del Credere Office. The law establishing CTB provides that this agency too may take an active part in implementing operations of this kind. But its precise role has not yet been clarified. It may relate to the management of environmental or social counterpart funds linked to some debt relief transactions.

Relief of commercial debt to the private sector in Belgium was by far the principal category. Debts relating to ODA loans, on the other hand, accounted for only a marginal proportion of overall transactions. The main beneficiary countries, over the period 1995-99, were Bolivia, Tanzania, Côte d'Ivoire, Madagascar, Cameroon, Benin and Togo. 1998 was an exceptional year, with a record USD 122 million in debt cancellations. Recent decisions on the Heavily Indebted Poor Countries (HIPC) initiative, with which Belgium is involved, indicate that this component of Belgian ODA will rise in 2001 and subsequent years.

In September 1991 the Development Co-operation Department committed itself, for a period of 10 years, to devoting an annual average of BEF 550 million (USD 12.6 million) for debt relief or debt service transactions for over-indebted developing countries. The transactions concerned debts held by OND on behalf of the Belgian State. The types of transactions covered here are:

- DCD repurchases of debts held by OND on behalf of the State, for countries with which Belgium has co-operation links.
- Interventions via the Paris Club through financial contributions by DCD in the framework of relief transactions agreed by Belgium within the Paris Club.

In 1997-99 Bolivia, Benin, Côte d'Ivoire and Surinam benefited from transactions in the first category and Tanzania, Bolivia, Madagascar, Togo and Ethiopia from transactions in the second category.

Promotion of the local private sector

Belgium recognises the key role of the local private sector, especially small and medium enterprises (SMEs) and micro-firms. As a result, Belgian co-operation has recently established a policy, a programme and appropriate instruments to promote the private sector in poor countries. The new approach is entitled the "private sector development programme". It is in line with the guiding principles of Belgian assistance as laid down in the law on international co-operation, the guidelines and operations set out in the government statement and the DAC priorities and guidelines relating to official financial support for the development of SMEs and micro-firms.

The operations proposed will be mainly in the following areas:

- Macro-economic, tax, regulatory and legal action, designed to promote an environment for business growth. Here, Belgian co-operation will generally have an auxiliary role in overall approaches devised and co-ordinated with the support of multilateral organisations.
- Promotion of additional fair trade channels.
- Strengthening the scope for the poorest developing countries to take part in multilateral negotiations on trade and the international financial system.
- Training for young entrepreneurs and business managers.
- Establishing diversified, effective and viable local or regional structures for financial and technical support to SMEs and micro-firms.
- Organising and securing representation of the private sector as a full-fledged component of civil society, helping it to assume its position as a partner for governments and local authorities in policy dialogue and in the establishment of support services tailored to the specific requirements of local business.

It is in terms of intermediate institutional capability, the meso level between general policy formulation and direct assistance to business, that the private sector support programme will largely operate. The aim in particular is to help establish and strengthen effective local or regional organisations close to their customers - namely businesses, groups of entrepreneurs and local authorities.

The operations may take a variety of forms, including: i) free consulting services and technical assistance for central and regional governments and local authorities; ii) standardised and relatively diversified training and technical support for the private sector, such as standardised training courses for young entrepreneurs and existing businesses to raise their management capabilities; iii) financial support, returnable at least in part in the form of shares in the capital of financial and investment corporations, leasing companies, mutual credit and local savings institutions, and technical support firms etc.; lines of credit to these institutions; participation in guarantee schemes; conversion of debt into risk capital or funding for technical support services to business; temporary start-up subventions for essential support services to business, in particular micro-firms in the informal sector or firms operating in the social economy; and iv) dialogue with the private sector in Belgium and business promotion agencies in Belgian communities and regions, to raise awareness of opportunities for partnership in the developing countries.

To work effectively as a facilitator, Belgian co-operation must equip itself to participate, along with other funding sources and local partners, in establishing and co-managing reliable specialist structures that can manage financial or non-financial support for business effectively. Technical support in the form of grants or other non-recoverable contributions will usually be handled by CTB. But direct and indirect financial contributions, in the form of recoverable investment, will be handled through a society created in partnership with the Belgian corporation for investment in developing countries. It will be a society for promoting investments in developing countries, BIO, which is to be set up this year. In this regard, it is important that BIO's articles of association, procedures and criteria for intervention give priority to the least developed countries, strengthening local institutional capacity and the fight against poverty, in particular through support for small and medium-size enterprises.

Policy coherence

The federal government's ODA administration has partnership relations with a large number of institutional actors: public authorities and non-governmental structures in partner countries; other federal ministries and regional or local authorities; NGOs, indirect co-operation via universities (in particular VLIR and CIUF) and research institutions, as well as specialist agencies established under private law such as APEFE and VVOB; multilateral agencies; the private sector, etc. In its role as a lead player, DGCI strives to achieve greater complementarity within the federal government and between the latter and other partners, ensuring that the range of contributions, approaches and forms of intervention are mutually complementary. Such internal consistency is an ongoing challenge, however, against a federalist background where there are manifest centrifugal tendencies.

Consistency and harmonisation of the federal government's ODA operations with other policies impacting on the countries of the South are approached via statute, policy and administrative structures and are tackled at the functional level as well. The Law of 25 May 1999 outlines the statutory framework for Belgium's international co-operation. It provides for a number of strategy memoranda with which all the operations funded directly or indirectly by the public authorities must comply. The starting point for policy coherence is the government statement of July 1999 and the two policy memoranda prepared by the foreign policy and international co-operation sectors. The Council of Ministers is the highest forum for securing consistency in federal policy. For a number of years an inter-ministerial working party for development co-operation has been seeking to promote greater synergy between operations by individual federal ministries responsible for formulating and implementing policy and action impacting on the countries of the South. On 22 September 2000 the Council of Ministers decided to reactivate this working party. It is made up of the following members of the government or their delegates: the Ministers or State Secretaries for the Budget, Foreign Affairs, Foreign Trade, Finance, Agriculture, Defence, the Environment, Sustainable Development and Development Co-operation. The working party can also call in other members of the government when topics relating to the spheres of policy for which they have responsibility are being discussed. The following matters are considered:

- Trade relations with the developing countries.
- Belgium and international financial institutions.
- Debt relief.
- Food security.
- Environmental aspects of the sustainable development plan.
- Climate and environment conventions and their relevance for the developing countries.

- Solidarity operations by individual ministries with particular developing countries.

Similar administrative arrangements are found in several other areas of government activity. For instance, representatives of DGCI sit on the Finexpo committee which advises the State Secretary for Foreign Trade on trade support operations (super-subsidies, interest rate stabilisation). The same committee also advises on government-to-government loans.

For matters of special importance such as policy in the Great Lakes region, multilateral negotiations on international trade, arms exports, the diamond trade, asylum policy and other policies impacting on the developing countries, particular functional arrangements ensure that the viewpoint of international co-operation is taken into due account. Within the European Union, Belgium strives most particularly to harmonise the various facets of policy to foster sustainable development in the South.

Missions in the field identified a potential problem of consistency in trade policy. That is the case in Vietnam where the trade representations (with three regional delegates) seek to promote Belgian firms in their regions (Flanders and Wallonia) and the delegate for the French community seeks to promote firms in the Wallonia-Brussels entity. It is left to the Ambassador to ensure that the Belgian stance in these spheres is coherent in the field, but the task is no easy one.

As in every DAC member country, contradictions remain within the range of policies impacting on the developing countries. The inter-ministerial working party's response could be a significant first step towards identifying these contradictions and seeking to resolve them in the way that is most effective for the aims of development policy.

Information and public awareness policy

Unfortunately DGCI has no recent research on the views of the Belgian public towards co-operation. This is a major handicap in defining a properly targeted policy on information and public awareness. In practice the latter depends increasingly on cultural activities, involving music and folklore. More measured consideration of development and poverty does exist but is often confined to specialist circles. The media cover topics such as globalisation, food supplies, immigration and refugees. International co-operation is dealt with in the media, but largely from the standpoint of the living conditions in developing countries.

The DGCI information department has two appropriations for funding public information activities. One is for co-financing third-party initiatives, and the other for the government's own activities. Belgian NGOs which are approved by DGCI also receive credits as co-financing for their development education work in Belgium. The overall budget for these activities rose between 1997 and 2000 from BEF 376 million (USD 10.5 million) to BEF 582 million (USD 13.3 million). Around two-thirds of the total is allocated to Belgian NGOs.

The appropriation providing grants for third-party information work serves in particular to fund the awareness drive *Annoncer la couleur*. Covering the academic years 1997-98 and 1998-99, the first stage in this drive was designed to familiarise primary and secondary pupils with the day-to-day realities of life in the South. This stage was organised in conjunction with nine of the country's ten provinces, the Museum of Central Africa in Tervuren and NGOs. As 1999-2000 was a year of transition, the federal government has decided to extend the campaign into 2000-03. The approach will be much the same as in earlier years, except that overall co-ordination has been assigned to the new *Maison internationale* in Brussels, rather than approved NGOs. This institution was established in May 1998 by a decision of the Council of Ministers, and it became operational in September 1999. Since then, it has hosted meetings and exhibitions, including a photographic exhibition on the Aids epidemic in Africa and another on Sudan. The *Maison Internationale* is responsible for co-ordinating the awareness drive *Annoncer la couleur* and for

promoting fair trade. It also provides facilities for voluntary associations whose aims are similar to those pursued by international co-operation.

The second appropriation serves to fund information work organised and managed directly by DGCI. There are four main objectives here: i) institutional information, to secure greater visibility for international co-operation, notably by producing and distributing DGCI's annual report, its fortnightly newsletters *DGCI-Contacts* and *DGIS Info*, and preparing and distributing the State Secretary's policy memoranda. A travelling exhibition was launched at the end of 2000; ii) general information on international co-operation issues, chiefly through co-produced radio and television programmes. A number of programmes are produced each year in this way with the French- and Flemish- language radio and television stations, at a total cost of some BEF 20 million a year. DGCI's bi-monthly magazine *Dimension 3* also comes under the general information heading; iii) development education: DGCI has a systematic presence in schools at all levels, through some fifteen delegates who lead group or class discussions on particular topics, present audio-visual material, and so on. Each year, 35-45 000 school children are thus reached by the DGCI presentations. Adding in *Annoncer la couleur* and the work of a number of NGOs in schools, it can be seen that teachers are well supplied with services dealing with development co-operation in Belgium. At the same time the supply is somewhat piecemeal, with no direct link with the normal academic programmes; and iv) logistical support by the information department for DGCI events such as international conferences, foreign trips by journalists, etc. One example of such activity involves the international conference on disarmament for sustainable development, in October 1998.

CANADA

POLICY COHERENCE FOR DEVELOPMENT

Canada's approach to policy coherence for development

Promoting overall coherence of non-aid policies with regard to their impact on global poverty reduction has become an important issue for the G8, the OECD and other international organisations. When agreeing to the *Action for a Shared Development Agenda* in 2002, OECD members reiterated their commitment to elevate policy coherence for development as a general concern in non-aid policies and to enhance the understanding of the development dimensions of such policies and their impact on developing countries. In this context, Canada agreed to be assessed in terms of the checklist of suggested strategic issues for systematic policy review contained in the *DAC Guidelines on Poverty Reduction*. Canada's progress in promoting policy coherence can be assessed at three different levels: political commitment to poverty reduction at the highest level; co-ordination and implementation mechanisms within and across federal departments; and ability to undertake the necessary analysis.

Political commitment

Canadian political leaders have recently demonstrated a strong interest in responding to the development challenges faced by poor countries and the need to ensure greater policy coherence for development. At the International Conference on Financing for Development, Canada's Prime Minister emphasised the important role of trade, investment and debt reduction for economic development along with aid. Canada made a major turnaround in announcing at the last G8 Summit its decision to increase market access for products from LDCs.

Canada has endorsed the principles for effective development, which include the need for greater coherence between aid and non-aid policies, as set out in the *DAC Strategy for the 21st Century* and reiterated in the *Guidelines on Poverty Reduction*. At the same time, Canada's commitment to policy coherence for development remains to be articulated in a comprehensive way so as to better mobilise efforts across federal departments. *Canada in the World*, the only government-wide policy basis for development co-operation, which dates back to 1995, recognises the importance of coherence among the foreign policy instruments pertaining to developing countries. At the same time, coherence is expressed mostly in terms of consistency and complementarity among various components within international assistance, rather than coherence of non-aid policies with development. In its *Policy Statement on Strengthening Aid Effectiveness*, CIDA for the first time provides a substantive description of policy coherence for development with a recognition of the need to ensure that efforts to reduce poverty are not undermined by non-aid policies and actions of other federal departments. The document elaborates two new initiatives taken to enhance policy coherence: increased market access for almost all products from LDCs and aid untying. However, the document only briefly suggests that CIDA should review the impact of Canadian non-aid policies on developing countries and assess opportunities in improving policy coherence for development, without further elaborating on the way forward. Since Canadian aid is an instrument serving foreign policy objectives, there is a risk that development policies and programmes could place Canadian socio-economic interests ahead of responding to the needs of developing countries.

Government co-ordination

Inter-departmental co-ordination for international affairs takes place formally only at the Cabinet level though this does ensure co-ordination and leadership at the highest level of government. CIDA is represented in the Cabinet by the Minister for International Co-operation. For inter-departmental co-ordination at lower levels, officials meet regularly on a more informal basis as needs arise. Inter-departmental co-ordination is perceived as satisfactory, which does not mean that diverging views are always easy to reconcile nor that global poverty reduction always supersedes other Canadian objectives. Whether the efficiency of decision-making in international development could be increased with more structured co-ordination is a question that Canada could consider. The creation of monitoring mechanisms and the reinforcement of existing ones would enable the government to exercise enhanced oversight in some areas that have a bearing on policy coherence for development (*e.g.* screening of draft legislation, assessment of social and environmental standards in export credits and guarantees extended for projects in developing countries, oversight of corporate social responsibility of Canadian multinationals, prosecution of Canadians who engage in exploitative sexual activities with children abroad, etc.). Experience shows that such mechanisms could enable CIDA to play an enhanced role in the inter-departmental community.

In the context of policy coherence, many development agencies face the challenge of not being perceived as equal partners by other government bodies. CIDA's status was strengthened in 1996 by the appointment of a separate Minister for International Co-operation with responsibility for CIDA. At the same time, DFAIT acts as a co-ordinator for the entire government's international activities - its Bureau for Global Issues was established with the purpose of strengthening the consistency of the government's response to a number of global issues.¹ The respective roles and responsibilities of CIDA and DFAIT in promoting greater policy coherence for development may need to be further defined.

Analytical capacity

For a more systematic approach to policy coherence for development, Canadian non-aid policies (*e.g.* trade, agriculture and immigration) need to be analysed in terms of their impact on developing countries, with the findings discussed in inter-departmental policy co-ordination fora. In the area of trade, progress has been made in that DFAIT is now consulting CIDA on development-related issues. DFAIT and CIDA jointly fund a CIDA-staffed position at Canada's mission to the World Trade Organisation to cover trade and development issue. Given its knowledge and experience, CIDA appears to be well-positioned to promote the interests of developing countries within Canadian government forums. The recent strengthening of its Policy Branch gives it the means to undertake the necessary analysis and to make appropriate recommendations on behalf of the Canadian government. CIDA has strengthened its Policy Branch with a view to playing such an advocacy role in a pro-active and systematic way.

The checklist from the *DAC Guidelines on Poverty Reduction* has been designed to encourage DAC members to establish the capacities and systems to help them enhance policy coherence for development in their decision-making. Accordingly, there are a number of specific areas - some of which are indicated hereafter - where Canada could pursue more analysis in order to promote an informed debate on non-aid policies. Two specific issues, trade and immigration, are elaborated in the next section of this chapter.

- **International trade, foreign direct investment and international finance.** Concerning export credits, Canada has agreed to implement recent OECD proposals to ensure that official export credits and guarantees are consistent with the objective of sustainable development. CIDA could be more systematically involved in the screening process of

1. Global issues include environment, population growth, international migration (including refugee issues), international crime, human rights, democratisation, preventive diplomacy and post-conflict peace-building.

projects in countries eligible for ODA. Regarding foreign direct investment, there are a number of Canadian companies active in the extractive sectors of natural resources in developing countries. Canada could usefully deepen its assessment of the impact of such investment in terms of poverty reduction, environmental sustainability as well as political and social stability.

- **Agriculture and food aid.** Developments in Canada's agricultural policy have shown considerable improvements towards market orientation. Support to producers is about half the OECD average; and producer prices for most commodities - with the exception of dairy, poultry meat and eggs - are aligned with world market prices. Nevertheless, total support to agriculture in 2001 amounted to CAD 8 billion (USD 5.2 billion), which was over three times the amount of ODA. Agricultural subsidies undermine potentially competitive farming in developing countries by reducing world market prices and inducing these countries to import cheaper surplus foods from OECD countries, while most of their economies depend on agriculture. Canada is therefore encouraged to take account of how its new Agricultural Policy Framework as well as future policy developments may affect developing countries. In addition, Canada continues to provide tied food aid, although it has adopted in recent years more flexible forms of this assistance. Nevertheless, Canada should show greater flexibility in sourcing food aid from developing countries as appropriate, in order to support the latter's efforts in developing their own agricultural production.
- **Natural resources and environmental sustainability.** The promotion of sustainable development and sustainable use of natural resources is a key priority for Canadian development co-operation. Canada's announcement at the World Summit on Sustainable Development in Johannesburg to ratify the Kyoto protocol is welcomed - and Canada is encouraged to ensure its implementation, since poor people in developing countries are more vulnerable to the consequences of climate change.
- **Health issues.** Canada is a strong supporter of global efforts to fight infectious diseases, particularly HIV/AIDS. Canada has been actively involved in debates on trade-related intellectual property rights (TRIPs) in the context of improving access to drugs in developing countries. Canada is encouraged to remain engaged in these debates to ensure that the development dimensions of TRIPS are fully explored.
- **Governance and conflict.** Implementation of its legislation to fight international bribery,² including monitoring the activities of Canadian enterprises abroad, will require sustained attention.

Recent achievements and remaining challenges for Canada

Trade

Like other OECD countries, Canada has over the years introduced several preferential schemes aimed at improving market access for selected goods from certain groups of developing countries. These include the Generalised Preferential Tariff, the Commonwealth Caribbean Countries Tariff and the Least Developed Country Tariff. Canada has also signed free-trade agreements with several countries, mainly in Latin America. Almost all agricultural imports from LDCs have been able to enter Canada duty free, with

2. Canada's legislation to comply with the OECD Convention on the Bribery of Foreign Public Officials in International Business Transactions became effective in 1999.

the exception of dairy, poultry and eggs. However, the importation of textiles and clothing products has been excluded from these schemes - a sensitive issue for Canada - while these products are important for a number of developing countries, including some LDCs. In fact total imports from LDCs were facing the highest average tariff rates with 8.8%,³ as compared to the overall developing country average tariff of 2.45% and an average world tariff of 0.82%. Canada collected CAD 28 million (USD 19 million) in custom revenues in 2000 on imports from Bangladesh, which was equivalent to half of Canadian bilateral aid to the country. Textile and clothing industries in developing countries have also been affected by Canadian exports of used clothing, which is a top Canadian export to many African countries.⁴

As announced at the last G8 summit, Canada has joined the growing international trend to provide increased market access for LDCs. Recognising the importance of enhancing trade opportunities to reduce poverty in developing countries, the government of Canada will extend, as of January 2003, duty free and quota free access to all imports from LDCs⁵ - with the exception of three agricultural products (dairy, poultry and eggs). These exceptions are not likely to affect trade with LDCs, although further analysis may be necessary for a full assessment. Canada's initiative is welcomed. The government decision was made following public consultation which met general support.⁶

In the absence of detailed analysis by Canada, it is difficult to predict the impact of the Canadian initiative on LDCs. Imports from LDCs into Canada (CAD 415 million - USD 279 million) are insignificant, since they represent only 0.12% of total Canadian imports, which is the lowest share among G7 countries. A country like Bangladesh is likely to benefit the most, since clothing imports from the country represented 50% of Canadian imports from LDCs in 2000. Canada could help African LDCs - which constitute the majority of LDCs but contribute only to a third of imports from LDCs into Canada - explore opportunities in the Canadian market. The rules of origin will be an important factor to determine the extent to which LDCs can take full advantage of market liberalisation.⁷ Canada intends that its rules of origin will be the simplest and most generous of any major country, including for textiles and clothing. In general, increased trade opportunities may also be influenced by other non-tariff barriers, such as health and safety standards, phyto-sanitary measures as well as human rights and labour standards.

Within its aid programme, Canada has been active in supporting trade capacity building in developing countries in order to enhance effective market access. Such efforts aim at strengthening the capacity of developing countries to participate in international trade negotiations, to develop domestic policy and institutions in trade-related areas and to establish supply capacities for exports. Specific focus on LDCs, which has so far been limited, will be reinforced with additional resources for trade capacity building made available as part of Canada's commitment to Africa announced at the last G8 Summit.

Immigration

Canada has always been a country of immigrants, with currently one in six citizens born abroad. A new Immigration and Refugee Protection Act came into effect in June 2002 that reinforces Canada's efforts to attract skilled workers and entrepreneurs as well as extends the dependent children's age limit under family reunion. Like many OECD countries, Canada faces challenges stemming from an aging

3. Half of Canadian imports from LDCs were actually facing tariffs averaging 19%.

4. In 2000 used clothing was among Canada's top three exports to 23 countries in Africa and 5 in Asia.

5. Myanmar is not eligible for political reasons.

6. The government expects employment loss to be limited and is planning adjustment programmes for Canadian workers likely to be affected in the textile and clothing sectors.

7. Rules of origin, based on North American Free Trade Agreement (NAFTA), will require a 25% value-added in LDCs for products using raw materials not originating from LDCs.

population and a slow population growth rate. Once a country dominated by migration from the United Kingdom and other European nations, Canada's most important migration flows today stem from countries in the developing world, with skilled migrants specifically being targeted. Of the 250 000 immigrants and refugees who entered the country in 2001, 53% came from the Asia and Pacific region (16% from China and 11% from India), and 19% were from Africa and the Middle East. In addition, Canada accepts up to 30 000 refugees and displaced persons a year. Of total immigration, 55% were economic migrants (mostly skilled), 27% were family reunions, and 11% were refugees.

This reality has implications for many sending countries – notably developing countries - that cannot be ignored. Migrant remittances increase inflows of foreign currency to sending countries and returning migrants may invest and bring skills. The interaction between developing countries and their diaspora in advanced countries can be a new dynamic for development; at the same time, the departure of much-needed human capital can also be detrimental to a developing country. This is especially important in the different areas of basic social services, such as health care and education. One issue that has received attention recently is the problem of OECD countries such as Canada actively recruiting health care workers from developing countries to meet a growing domestic shortage. As a result, the sending countries are left depleted of a scarce resource when improvements in their own health systems are badly needed. Furthermore, the age of dependent children under the new family reunification scheme has been extended from 18 to 22 years. This has implications for developing countries, which would lose human resources that they have invested in through training and college education. Canada, in turn, would stand to benefit from these skilled and educated people without having invested in them. In general, there is an opportunity cost for developing countries in allocating scarce resources to higher education as opposed to primary education, particularly in light of achieving universal primary education.

While freedom of movement is fundamental in a globalised and democratic world, OECD countries must ensure that their immigration policies are designed to reduce rather than aggravate poverty in the developing countries concerned. Canada should assess the potential impact of its immigration policy on developing countries' human resources development. Migration and development are interconnected and CIDA can play a role in conducting analyses to better understand the linkages. It is important that relevant federal departments, such as Citizenship and Immigration Canada and DFAIT, work together with CIDA to develop a comprehensive policy on international migration and its relationship to development issues.

Tied aid

Canada's aid is highly tied by nature because of the drive to maintain a strong involvement of Canadian civil society and private sector organisations. According to DAC statistics, Canadian bilateral ODA (excluding technical co-operation and administrative costs) in 2000 was 75% tied, which was one of the highest rates among DAC members. Tied aid generally has higher costs and it risks undermining the principle of partnership and ownership pursued by Canada. This is, for example, confirmed by a review carried out in 1997-98 on food aid – 90% tied - which found that cost effectiveness could be enhanced by diversifying procurement within and beyond Canadian sources. However, in order to maintain public support, CIDA has always emphasised income and employment for Canadians as benefits of its aid programme. CIDA staff are required to fill out a section on benefits to Canada in the Annual Project Performance Reports and to devote a section on this topic in the Agency's Annual Report to Parliament. However, in recent years CIDA's policy statements have emphasised poverty reduction as the most important result for Canadian interests and against the background of renewed public communication efforts (see Chapter 1), CIDA is encouraged to further strengthen this focus on the results achieved in developing countries through development co-operation rather than on the returns to the Canadian economy.

In 2001, the DAC adopted the Recommendation on Untying ODA to LDCs, which took effect on 1st January 2002. The Canadian Cabinet approved a new untying policy to comply with the DAC Recommendation in June 2002, some six months beyond the deadline, indicating the difficulties this issue presented in the Canadian context. Implementation modalities have yet to be approved by the Treasury Board. Since procurement of goods is small in the Canadian aid programme, and technical assistance is excluded from the DAC Recommendation, its implementation is not expected to have a substantial impact on reducing Canada's overall level of tied aid (less than 1.5% of Canadian aid to LDCs, according to CIDA estimates). Consequently, Canada should, as the recommendation encourages, undertake its best efforts to identify and implement supplementary untying opportunities beyond the provision of the Recommendation so as to promote a more balanced effort sharing among DAC members. CIDA has already sought and obtained authority to award service contracts to non-nationals. An experiment is also being piloted in Honduras, where the procurement of all goods and services within the programme of the geographic branch is to be untied and managed through the local United Nations Development Programme (UNDP) office.

One of CIDA's instruments consists of providing grant funding to create credit lines to offer private enterprises in partner countries the foreign currency for acquiring Canadian goods and equipment. The repayments by the private enterprises are deposited into counterpart funds which then become available to partner countries to cover various local costs in support of CIDA's country programmes. In Bolivia, such a fund (CAD 15 million for five years) represents 25-30% of the annual core bilateral aid budget. CIDA is completing an update of the current counterpart fund policy. In this context, it is encouraged to review the relevance of these instruments for poverty reduction and local ownership.

Future considerations

Canada's commitment to policy coherence for development needs to be supported by a system for mobilising efforts across the government, including more structured collaboration between CIDA, DFAIT as well as other federal departments and agencies.

Canada should take a more pro-active approach in analysing the impact on developing countries of non-aid policies such as trade, agriculture and immigration.

Canada's recent decision to increase market access for LDCs is welcomed. Canada is encouraged, in its initiative, to provide liberal rules of origin.

Canada is encouraged to move forward in implementing the DAC Recommendation on Untying ODA to LDCs and to further untie its aid in order to increase ownership and capacity in partner countries.

DENMARK

AID MANAGEMENT AND IMPLEMENTATION

Policy responsibility and policy coherence

Policy responsibility

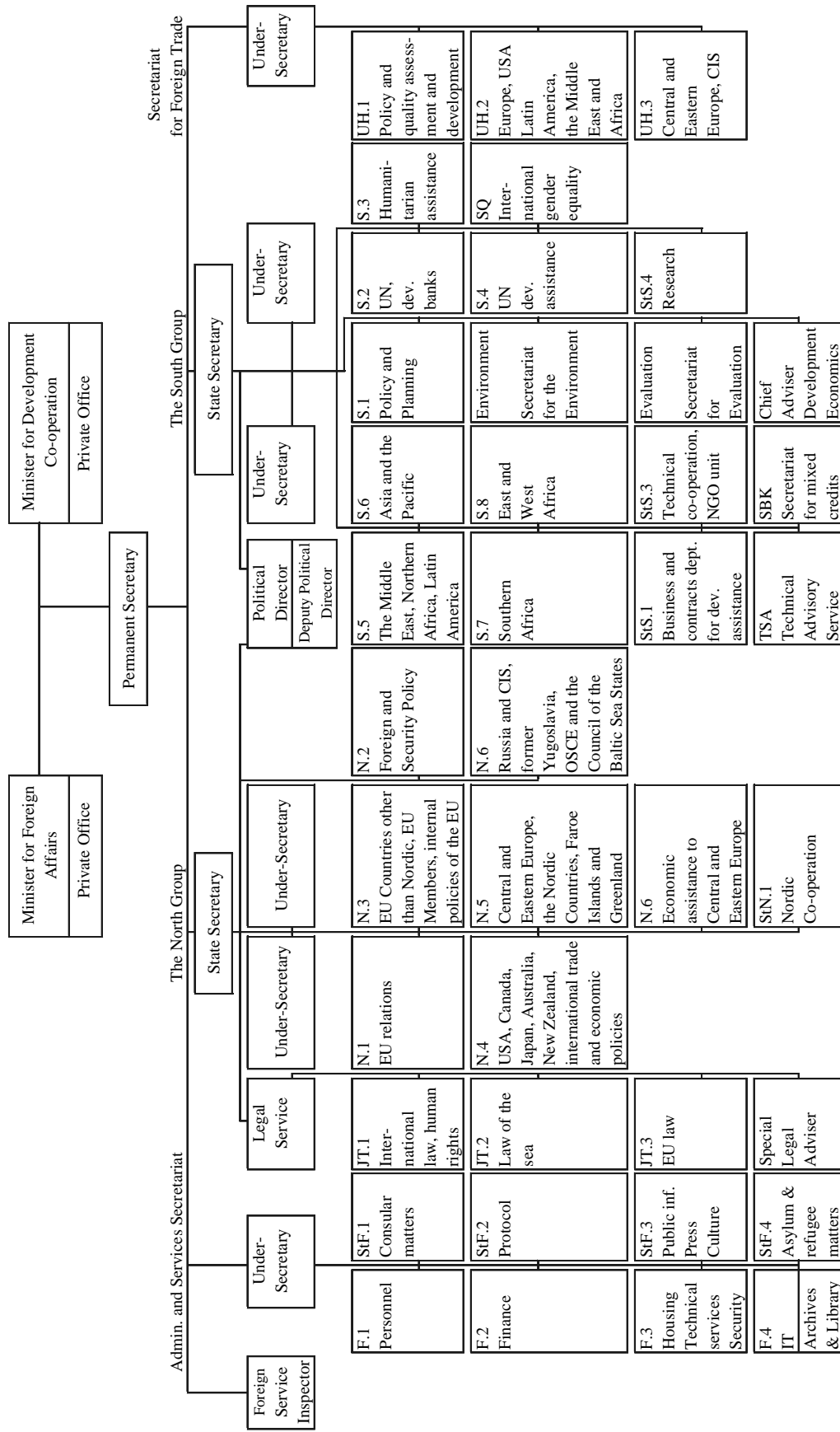
Overview

One of the strengths of Denmark's development co-operation is its organisational coherence. It is therefore not surprising that there has been almost no change in this area since the last aid review. In fact the basic organisation has remained in place since 1991. At that time Danida was a separate entity within, but an integral part of, the Ministry of Foreign Affairs. In order precisely to enhance the coherence of the aid system, the reorganisation implied that the South Group, one of the three main departments in the MFA, dealt with all relations, multilateral as well as bilateral, with developing countries. Thus regional and country desks dealt with all aspects of foreign relations: official and private development co-operation, foreign policy, trade and other commercial considerations. Consequently Danida missions in the field, where they existed, were merged with the Embassies, which at the same time were given responsibility for implementation of the aid programme. This was followed by the appointment in 1993 of a Minister for Development Co-operation, with the objective of bringing additional policy focus to the organisation, in favour of development assistance (previously the Minister for Foreign Affairs was at the same time Minister for Development Co-operation). Policy coherence is indeed the objective which has been re-affirmed by *Strategy 2000*: "Danish development policy encompasses all our relations with developing countries, economic and political as well as multilateral and bilateral. The official development assistance is a central instrument in development policy". As will be seen below the only substantial factor which may impair this coherence is the tying status of Danish ODA, however informal it may be.

The Ministry of Foreign Affairs

Since 1991 the organisational structure of the MFA is characterised by the division between the South Group and the North Group, with a joint Administrative and Services Secretariat, as can be seen from the chart below. It shows that there is also in the MFA a cross-cutting Secretariat for Foreign Trade. It was established in 1993, reconstituting to some extent an export promotion department which had existed before 1991, and has competence for developing countries, but its activities are more related to OECD member countries. When it deals with countries of the South Group, it co-ordinates at staff level with the Departments involved, and so do similarly staff in the North Group if needed. The Minister for Development Co-operation is, within the South Group, responsible for development policy and assistance. All other matters under the MFA are under the authority of the Minister for Foreign Affairs. The Ministers also co-ordinate on a regular basis. All in all the reform seems to have brought about a better co-ordination of the various activities, by shortening the communication

Chart 1. Organisational structure of the Ministry of Foreign Affairs



Source: MFA

channels, improving the circulation of information, and therefore by reinforcing the potential for policy coherence, with a unified and clear decision making structure. After a few years of experience, integration at field level has been especially fruitful.

The North Group is in charge of relations with industrialised countries, Central and Eastern Europe and most States of the former Soviet Union, whereas the South Group is in charge of relations in all policy areas with developing countries. Multilateral organisations are under the responsibility of either the North or the South Group, depending on the main orientation of their activities. The administrative structure is based on geographic lines. The South Group is thus composed of four departments for major regions, three departments for groupings of multilateral agencies [four, if the general policy department, which also deals with European Union (EU)-assistance, is included], and eleven other departments or units. Two are in charge of cross-cutting issues: gender and the environment. There is a strong Technical Advisory Service which includes 40 of the 60 technical advisors working in Danida, assembling 15 different professions and expertise in specific areas such as tropical agriculture and medicine or tropical forestry. It has an important input, since it is in charge of the technical preparation of projects up to their presentation to the Board for International Development Co-operation. In 1997 the Evaluation Unit was removed from the Department of Evaluation, Research and Documentation to become more autonomous as a Secretariat reporting directly to the State Secretary heading the South Group.

Out of Denmark's 102 Embassies or other missions (non honorary) there are 19 in the 20 programme countries, the only programme country without an Embassy being Niger, where activity is in fact low. Since 1991 the number of staff working for the South Group has increased sizeably, at a quicker pace than the aid programme, i.e. from 272 in 1991 to 434 in 1997 (a 60 per cent increase, against a 36 per cent rise for ODA in US dollars). These figures includes 140 officials working in the Embassies, whose number has increased even more, from 74 in 1991 to 140 in 1997 (plus 89 per cent). As a result the ratio of headquarters/field office staff has decreased from 2.7 to 2.1.

However, a new and more accurate method for calculating total staff resources engaged in aid administration has been introduced in 1999, in order to take into account the fact that staff members in the South Group, both at headquarters and in the field, also perform other functions relevant to the MFA than aid administration. New figures, which are approximately 20 per cent lower than the previous ones, have therefore been recalculated for the period from 1997 to 1999. These figures, which are not comparable with the earlier ones, appear in Table 1 below. They still show that there has been over the last two years a sizeable increase in staff resources: by 20 per cent at headquarters and 26 per cent in field offices (22 per cent overall). The capacity to manage the increasing volume of ODA, included the increased environmental assistance, has therefore undoubtedly improved.

Table 1. Number of staff

1997			1998			1999 ¹		
Headquarters	Field	Total	Headquarters	Field	Total	Headquarters	Field	Total
201	137	338	230	147	377	241	172	413

1. = estimated numbers
Source: Danida.

All Embassies have local programme officers, usually well qualified, which ordinarily facilitates the liaison with local authorities as well as capacity-building. All this is consistent with the responsibilities of the Embassies. However, due to the limited number of staff in each Embassy, it is not sure that the MFA has always the right skill-mix and does designate people who have enough technical expertise to assume the primary responsibility for the implementation and monitoring of all the various projects and programmes.

Danida's staff are generally competent, highly motivated and dedicated to their work. Although candidatures are presented and recruitment is done for the MFA as a whole, in general only people who have an interest and a background in development co-operation are sent to programme countries or to other developing countries, after they have received in-house training. There is a Training Centre in Danida, which provides specific training, in particular on new issues like for instance SPS. In practice, given the relatively high prominence of development co-operation in Danish foreign policy, there appears to be no distinct difference in career prospects or status between South Group staff and people working in the North Group: there are possibilities to go from one group to another at any point in a career, a one or two year stay at headquarters before being sent back to the field. Access to Ambassadorial posts is open to people in both groups. In order to foster mobility between Copenhagen and the field, staff normally has to be appointed to headquarters after each assignment in an Embassy.

The division of labour

As far as division of labour is concerned, primary responsibility for the implementation and monitoring of the aid programme has been given since 1991 to Danish Embassies, and within the Embassies the Ambassador has clear authority for the aid programme. Beyond implementation and monitoring *stricto sensu*, Embassies are responsible for drafting and preparation of country strategies, in co-operation with the Regional Department at headquarters, and for projects and programme identification and preparation, in co-operation with the Regional Department and the Technical Advisory Service. The latter is responsible for the appraisal, under terms of reference established by the Regional Departments, which prepare the final documents, and are also in charge of the approval process. However the Embassies prepare draft approval documents and finalise Government Agreements. Once implementation is over they are also responsible for the completion process.

Embassies are also fully responsible for the preparation and implementation of small projects, up to an amount of DKK 3 million per project, within a yearly envelope of 10 per cent of the core bilateral programme. It gives an extra flexibility to the programme, since it is most often used outside the main sectors of intervention. A number of these small projects are prepared with and implemented through local NGOs, or the local offices of multilateral agencies (in line with the policy of active multilateralism). An evaluation of these so-called "minor projects" gave them relatively good marks, although sustainability can be an issue. Although the local grant authority has generally proven to be an effective way of providing poverty-oriented support, the instrument is not always used to its full extent because of lack of capacity in the Embassies, where this capacity is often overstretched relative to increased responsibilities in aid management.

The workload is indeed heavy, but is rendered manageable, as in many other aid systems, by a high and systematic recourse to consultants, which may sometimes be excessive: while there is certainly good expertise in Danish consultancy firms, they cannot substitute Danish permanent staff at the Embassies, since they do not have the same long term perspective and responsibility.

The decision making process

Ambassadors and heads of department can decide freely for project financing up to DKK 3 million per project, ambassadors, however only within the annual envelope of 10 per cent of the programme amount in their country. All projects and programmes above DKK 3 million must be submitted to the Advisory board, which has delegated its advisory role to its Chairman regarding financing proposals between DKK 3 and 5 million (in the sake of rapidity, to be able to react quickly in case of emergency situations). In all cases the final responsibility is that of the Minister for Development Co-operation. Bilateral appropriations above DKK 20 million and multilateral appropriations above DKK 8 million have to be submitted for approval to the Finance Committee of the Danish Parliament. For humanitarian assistance the threshold of DKK 8 million also applies; these appropriations, however, are not submitted to the Board. These procedures guarantee that there is democratic control over financing decisions.

The Board for International Development Co-operation, moreover, plays an unusually important role relative to most DAC Members' systems. It is composed of nine members, all appointed by the Minister for a three-year period. It is constituted in such a way as to bring together organisations and groups of Danish society which are involved in development co-operation, and therefore it fulfils a useful bridging function between Danida and these organisations, which are part of the resource base. The Chairman of the Board currently comes from the academic world. The Board usually meets every month and gives advice to the Minister on policy issues, strategies, i.e. on all the proposals that are sent to the Parliament's Foreign Affairs Committee and on programmes and projects which go to the Finance Committee. The Foreign Affairs Committee is consulted on country strategies as well as on sector policies, or guidelines on cross-cutting issues.

Policy coherence and untying

Policy coherence as discussed here does not refer to the internal coherence of the aid programme strategy, organisation and management, which is obviously very strong, but to the external coherence between development policy and its main goal, which is to reduce poverty, and the objectives of other policies pursued at the same time in other areas like trade, investment, agriculture, fisheries, and so on.

In fact the only area where there could be a real bilateral problem in this respect (as opposed to problems deriving from EU policies) relates to the policy of "informal"tying, which aims at ensuring a return to Denmark of a proportion of its bilateral assistance. Denmark's procurement policy differs from that of any other DAC Member. Its objective is ensuring *ex post* procurement of Danish goods and services at a level of about 50 per cent of total bilateral assistance. This policy of "informal tying" came into force in 1989 after the discontinuation of tied development loans and has been adhered to ever since. In practice, project components for which there are Danish suppliers are reported as tied; parts for which recipient procurement -- or procurement through international competitive bidding -- is expected are reported as untied. On the basis of this policy, and according to Danida's 1997 annual report, the proportion of Danish bilateral assistance considered as tied increased to 55 per cent in 1997 from 53 per cent in the previous year. These figures represent the so-called "return percentage" and are calculated on a different basis than ODA reported to DAC.

Partner countries and DAC Members have expressed concern with practices involving tied aid, because this form of aid can impair local ownership and capacity building, while recipients incur

substantial economic costs. Against this background, the DAC High Level Meeting (HLM) agreed in 1998 on a mandate to work towards a Recommendation, to be presented to the 1999 HLM, to untie ODA to the Least Developed Countries. The initiative was subsequently endorsed by the OECD's Business and Industry Advisory Committee, the Ministerial Council Meeting and the leaders of the G-8 Birmingham Summit. During the 1998 DAC Development Partnerships Forum, on aid untying, procurement and capacity development, participants pointed out that if donors are serious about aid and the development partnerships strategy, there is no alternative to untying aid.

Although the Danish authorities accept in principle all the arguments in favour of untying, they fear that the untying initiative could create a problem with Danish public opinion, because of their concern about balance among donors. Denmark has a high ODA/GNP ratio and a relative large share of bilateral ODA is going to LLDCs (in 1997, 46 per cent of total gross bilateral aid expenditure allocable by country, against a DAC average of 26 per cent). The Danish authorities are reluctant to risk undermining the public consensus on development assistance by further untying Danish ODA to LLDCs. They fear that the initiative could be interpreted as benefiting poor performers among donors, i.e. those with very low levels of ODA going to LLDCs. This argument ties to traditional strong Danish advocacy of better performance by other industrialised countries.

The DAC Mandate on untying recognised the need to take into account differences in the structure and starting points of Members' programmes with respect to volume, ODA/GNP ratio, distribution and existing untying of aid. Denmark's has requested that DAC Members agree to the following proposal: *"Following the coverage and other provisions that will ultimately be agreed by the DAC, each DAC Member should untie ODA to LLDCs up to an amount equivalent to 0.15 per cent of its GNP. Untying above the 0.15 per cent level should be voluntary. If a Member's total ODA to the LLDCs is less than 0.15 per cent its untying effort will be correspondingly smaller"*. For the period 1996-97 (and on the basis of reporting on the actual tying status to the CRS), untied Danish ODA to LLDCs represented 0.17 per cent of GNP.

Most DAC Members, however, do not see "formula" or "benchmark" approaches as offering satisfactory solutions to these issues. Moreover, burdensharing is first and foremost an issue among the donor community, with little or no interest to recipients. Finally, there are many different starting points and special positions donors could claim. To take account of these differences in structure would undermine the essence of a multilateral untying initiative and constitute little towards implementing the Partnership Strategy. In general, DAC Members are mindful and appreciative of the efforts of high performance donors. They are willing to recognise and applaud the leadership role of Denmark and other high performance donors in the Recommendation. However, to claim an exception to the general application of the draft Recommendation would unravel the consensus that is building in taking a multilateral step towards the implementation of the partnership strategy. Denmark's full participation in this effort is essential to deliver the strategy, but equally to maintain its leadership role in the field of development co-operation.

Country programming and sector concentration

Country programming

Country strategies

Country-specific strategies are the basis for the medium-term planning and programming of Danish assistance in the programme countries. They are compiled with a five-year perspective, with poverty reduction as their overriding objective, and are supposed to be revised every five years. This process has started in Viet Nam, where the first country strategy dates back to early 1994. Strategy formulation is a

complex process that aims at securing local ownership and extends over almost a year, with the participation of representatives of both the recipient country and the Danish civil society. It usually begins with discussions in the field between the Embassy and a working group of local researchers and NGOs, which draft papers on sectors which could be of interest for Danish assistance, and on selected cross-cutting issues.

The outcome of these discussions, with proposals on sectors to be selected, is then submitted to Copenhagen, where hearings are held with representatives of the civil society. Danish NGOs are indeed constant partners and give their opinion on country strategies and sectors selection. This lays the basis for in-country discussions between the geographical department in the South Group and the authorities of the recipient country on the final selection of sectors and instruments of Danish aid. The Embassy then provides a draft of the country strategy, which is discussed with the authorities, usually on the occasion of annual aid consultations, before the strategy is finalised. The corresponding papers have been systematically published, between 1994, with the Strategy for Viet Nam, and 1997. As indicated above, strategies for Kenya and Niger are pending, because of the unwillingness of the government to discuss human rights and democracy related issues, in the first case, and because of internal unrest in the country, in the second case.

Although country strategies do not contain firm commitments of ODA, they include indicative planning figures for five-year periods. They also provide the planned indicative division of ODA in terms of sectors/sector programmes. The actual allocations of ODA to countries and programmes are set out in a five-year rolling plan for the whole aid programme, which is submitted to Parliament in December each year, and approved with the annual budget. These procedures allow both for a certain degree of continuity, through the five-year planned figures, and for the necessary flexibility since the figures are revised annually. These revisions are made on the basis of a dialogue with the recipient country authorities on the content and organisation of development co-operation. This dialogue takes place in particular on the occasion of annual consultations addressing overall issues and discussing the whole aid programme and its “country frame”(indicative figures over five years and for all the selected sectors), and second at regular meetings on individual sector programmes, or sector reviews.

Annual consultations

Annual consultations at country level are a useful mechanism to ensure a good communication between Danida and the recipient country authorities, which might explain, at least partly, why Danida has a comparatively good record on projects disbursement and implementation. These consultations are more political and policy-oriented than they used to be in the past when they focused mainly on projects. They are preceded and prepared by annual technical consultations, which themselves build on annual sector reviews. Both consultations always take place in the recipient countries, with the participation of senior staff from Copenhagen: the Danish Delegation to the “political” negotiations is usually headed by the Head of the Geographical Department in charge of the country. There are clear procedures that imply that the Delegations, which are provided with extensive and detailed mandates, systematically address:

- Political issues: human rights and democracy, ratification of United Nations (UN) Conventions.
- Macro-economic issues [on the basis of International Monetary Fund (IMF) and World Bank policy papers], which are of growing importance with the move to SPS; and include issues like fiscal policy, in particular the poverty orientation of taxation.
- Poverty reduction, through a discussion of the distribution of budgetary expenditures to the social sectors (health, education and water and sanitation) in a follow-up of the

20/20 principle adopted by the 1995 World Summit for Social Development, although a recipient country's adherence to this principle is not in itself a precondition for receiving Danish aid.

- Selected sectoral policies.

Although in some countries the government's capacity to take the lead in these strategic discussions is quite weak, the objective is to foster as much as possible local ownership. There are countries where the partner can really be said to be in the driver's seat, like for instance Eritrea, or big countries like India or Egypt. In any case Danish Delegations do not confine themselves to meetings with government officials, but also hold discussions, in a separate meeting, with representatives of the civil society.

Agreed minutes are established for both the "political" and technical consultations, and signed by both parties. They are not considered as confidential documents. On the contrary they are useful reference instruments, which are disseminated to other donors, in order to ensure complete transparency of the aid programme and to facilitate co-ordination among donors. Although preparing and holding these annual consultations might be seen as and is indeed a time-consuming process, they are viewed as indispensable, not only for the sake of dialogue with partners, but also for internal reasons like the need to report to the head office and to justify to Parliament and to the Danish taxpayer.

Sector concentration

Strategy 2000 had stressed the need to concentrate Danish assistance in each country on a limited number of sectors or sub sectors, selected on the basis of the needs of the recipient countries and of the existence of a good degree of Danish expertise in the areas involved. Consequently, three to four sectors have been chosen for each country; with the exception of Mozambique, where Danida has retained five sectors, and Eritrea, where the number is only two.

The choice of sectors shows that there has been a balanced approach aiming at granting assistance both to productive sectors, to bolster economic growth, and to social sectors that ensure the development of human resources. Health has been chosen as a sector for development co-operation in 9 out of 20 countries, and education in 5 of them, both sectors representing 20 per cent of bilateral ODA in 1996-97. However, taking into account other sectors like water and sanitation (in 8 countries), women focused or democracy related projects and a few others, aid going to social infrastructure and development represented 41 per cent of bilateral aid in 1996-97. Moreover the most frequently selected sector is agriculture, which appears in 15 countries. Of all the productive sectors it is the one where most of the poor in developing countries are concentrated, which again testifies to the strong orientation of the Danish programme towards poverty reduction

Moreover, it is worth noting that this orientation is still reinforced, as indicated earlier, by the geographical concentration of the projects in the poorest regions or provinces of the programme countries, a policy which has been observed on the occasion of both field visits. This geographical concentration is also improving the overall efficiency of aid, since it tends to maximise the synergy between projects in different sectors, for instance between rural development, water management and reform of public administration projects in the Dak Lak Province in Viet Nam, one of the poorest areas in this country.

Private sector promotion

Overview

Following a 1993 report on the *Strategy for involvement of Business and Industry in Bilateral Development Co-operation, Strategy 2000* has proposed a greater involvement of the Danish private sector, as part of the resource base, in organising and implementing development assistance. Business and industry are now considered as partners in the development process. At the same time, as developing countries are recognising the importance of the private sector as an engine for propelling future growth, Danida has expanded the instruments to promote private sector development.

The private sector development (PSD) programme

A Private Sector Development Programme has been tested during a trial period from 1993 through 1995 in Ghana, India and Zimbabwe. Following the recommendations of a review in 1995 it has been made permanent and extended to include Egypt, Uganda and Viet Nam as well. Recently India was excluded from the programme. It was replaced by Bangladesh at the beginning of 1999.

The core of the PSD programme is a business to business component, to support the establishment of partnerships between Danish and local companies. The form of co-operation can range from a narrowly defined management or production agreement to a joint venture with capital injection from both parties. Companies can apply for subsidies in connection with preliminary activities such as initial visits and pilot/feasibility studies, or for project subsidies for environmental investments and improvements to the working environment as well as grants for training, technical support and export work. The programme also included two other components, namely support in improving the commercial environment, and support for the commercialisation and privatisation of state-owned enterprises.

The 1995 review had been somewhat critical of the administrative handling of the individual applications, pointing out that the process should not be made more complicated than absolutely necessary, but it is supposed to have been streamlined. However, some in the Danish business community consider that things could be dealt with quicker if the staff in the PSD Secretariat in Copenhagen had a more private sector way of thinking and more links with the Danish industry. In any case the programme is quite sizeable, given the limited number of countries which it covers, since the Danish Government has provided it with a DKK 750 million budget for the five-year period 1996-2001, being understood that the funds are not pre-allocated on a country-specific basis. It has been effective in helping so far 140 Danish companies to establish partnerships in the six eligible countries. It is thought that there is a need to better link it to the mixed credit scheme.

In addition to the PSD programme, a major private sector development programme is being implemented under the Transitional Development Programme to South Africa -- called the Business-to-Business (BtB) Programme Denmark/South Africa. The facilities of the BtB programme are similar to those of the PSD programme, while there are differences in regard to objective and target group. The objective of the BtB programme is to develop and strengthen business opportunities and create jobs for the disadvantaged population groups of South Africa, through the support to the development of commercially viable businesses, based on formation of business partnerships between South African and Danish companies. DKK 190 million have been allocated to the programme during the transitional period 1995-2001. By the end of 1998 the programme has facilitated the establishment of 40 partnership co-operations. A total of DKK 166 million has been allocated for preparation activities and running projects.

The mixed credit programme

A mixed credit programme, sometimes called associated financing, was created in 1993. It benefits from an annual indicative budget of DKK 300 million. These funds, which are managed by a Secretariat for mixed credits in the South Group of the MFA, are subsidies used to reduce the interest rate of export credits extended on commercial terms by Danish banks, to finance projects involving Danish exporters in accordance with the Helsinki package, so that there is a grant-element of 50 per cent for credits to LLDCs, or 35 per cent for other developing countries. However, Danida has decided that countries eligible for this scheme should have a GNP *per capita* lower than 80 per cent of the limit for World Bank 17-year loans, i.e. USD 2 492 in 1997/98. This self-imposed threshold is criticised by the Danish business community, since it excludes countries like Thailand. Furthermore the scheme is no longer used for India and Pakistan, because of the nuclear tests, and China, because of the human rights issue. The scheme approximately represents 3 per cent of total ODA. At the end of 1998, 40 per cent of the programme was related to the financing of windmills.

The credits can finance development projects where Danish supplies represent at least 50 per cent of the contracts, meaning that local supplies cannot be higher than 50 per cent. Deliveries from third countries are authorised up to a maximum of 30 per cent. There must be at least a limited competitive bidding if the buyer belongs to the public sector, which can be restricted to Danish companies if they are in sufficient number. If this is not the case an international competitive bidding is required. For private sector procurement the contract might be based on direct negotiations with at least two to three suppliers. Price verification may be applied by Danida. Credits are guaranteed by the Danish Export Credit Fund (EKF) which in co-operation with the MFA publishes a list of eligible countries, quarterly updated.

In 1997 the Committee for Mixed Credits, set up by the Minister for Development Co-operation, appropriated support to 12 projects, with a total Danish contract value of USD 143.7 million.

The Industrialisation Fund for Developing Countries (IFU)

The IFU is a self-governing fund that started operating exactly 30 years ago to promote investment in developing countries, mostly by providing risk capital to joint venture companies, but also by extending loans and issuing guarantees. The initial funding by the Danish government was DKK 300 million, and from 1979 to 1995 IFU has been totally self-financed. However, in order to cope with the increase in its activities the Danish Government decided in 1996 to allocate DKK 150 million per year to IFU, as new capital over the period 1996-2000. At the end of 1997 its total equity amounted to DKK 1 400 million. It can invest in developing countries with a GNP *per capita* lower than USD 5 445, but investments from the new resources will support projects in developing African countries with a *per capita* GNP lower than USD 2 500, i.e. the same limit as the one used for mixed credits.

From its creation through end 1997, IFU has financed 350 projects in 68 countries. In 1997 alone IFU carried out investments in 43 companies for a total amount of DKK 319 million. In all the projects there must be a Danish co-investor who must provide an amount of equity at least equivalent to IFU's investment (there are only two cases where there is no Danish partner: the West Africa Growth Fund in Côte d'Ivoire managed by IFC, and an investment fund in Kenya). Although local partners are looked for and welcome, it is not compulsory to attract IFU's financing. An investment is kept on average 7-8 years, since the intention is to act as a catalyst, and then to disinvest, ideally with a profit. At the end of 1997, it had an investment portfolio in 200 companies.

IFU plays its catalytic role, not only through the seed-money it brings, which usually does not exceed 30 per cent of the share capital, and goes with valuable expertise and advice, but also through its relationships with International Development Finance Institutions, which are co-investors in around 20 per

cent of the projects, and in particular the International Finance Corporation (IFC). IFU requires the share capital not to be less than 40 per cent of the total investment. IFU normally seats at the board of the companies it invests in. Although it is not involved in their daily management, it can play an active role when needed.

IFU has a ten-member Board of Directors, mostly from the private sector. They are appointed by the Minister for Development Co-operation. IFU has a small staff of 35 people in Copenhagen, and four regional offices in China, India, Mexico and Zimbabwe. There is also a network of 21 IFU advisors in developing countries. IFU works in close co-operation with Danida, which can provide supplementary financing through the mixed credit scheme and the Private Sector Development Programme in the six eligible countries, and contributes to training activities in projects cofinanced by IFU. These interventions have a very good leverage: all investments since the beginning, corresponding to DKK 3 166 million at the end of 1997, have triggered total investments of DKK 34 808 million, and generated 54 000 jobs in developing countries. As for the geographical distribution of its portfolio, almost 50 per cent is invested in Asia, around 25 per cent in Latin America, and around 25 per cent in Africa.

It is not easy to know whether this policy can be considered as quite effective. The current environment is rather difficult, especially in Sub-Saharan Africa, and has deteriorated in Asia. A cost-benefit analysis of its impact on developing countries does not seem easy to figure out either. Moreover IFU is not bound by the same guidelines on strategic and cross-cutting issues that other Danish ODA is following. Therefore there is room for strengthening synergies and consistency between the various instruments available and for expanding Danish SMEs investments in developing countries.

Aid evaluation, efficiency and performance measurement

Objectives

Aid evaluation has generally two main purposes:

- Accountability about the aid process, by providing the political community and the general public with professional documentation, in order to maintain public awareness about the deployment and results of Danish development assistance and resources.
- Learning from accumulated experience, by gathering and analysing data about current and completed aid activities, with the aim of determining their effectiveness, efficiency and impact, to help make ongoing and future activities more effective and thus improve Danish development assistance.

Organisation of the evaluation process

There has been an Evaluation Unit in Danida since 1982. After a first restructuring in 1991, it was transferred on 1 December 1997 from the Department of Evaluation, Research and Documentation, in which it was a subdivision, to become an independent unit. It has been renamed as a Secretariat and it reports to the State Secretary heading the South Group. This is in line with DAC recommendations for aid evaluation, which stress the need for independence of the evaluation function. The Evaluation Secretariat is a small unit of four professionals and two trainees. It implements an evaluation policy which has been approved in August 1997. The policy paper states that the Secretariat is responsible primarily for preparing multi-annual and annual evaluation plans, in a dialogue with the operational departments and Danish Embassies, and presenting them to the Board of Danida for approval.

There are 8-10 evaluations per year. All of them are carried out by external and independent professionals. The terms of reference of the evaluations are prepared by the Secretariat, in consultation with Danida's management and staff as well as the relevant representatives of recipients. The Secretariat also selects the consultants, following special procedures for awarding contracts, in order to protect its independence. It is interesting to note that 20 per cent of the evaluations are carried out by foreign companies, and that 50 per cent of the experts are non-Danish (half of them come from developing countries). The corresponding budget represents on average DKK 15-18 million a year.

Scope of the evaluation process

The scope of evaluations covers ongoing and completed projects and programmes, Danish aid to a particular country (one such evaluation of a country programme is in progress), one or more sectors in a particular country or a sector in a number of recipient country (the health sector is currently under review), aid instruments (aid via NGOs, mixed credits, emergency aid, etc.), and multilateral aid, primarily in co-operation with other donors. For the moment, it is too early to evaluate SPS. In the future it will be difficult to assess the activities of Danida in an isolate way (although it might be possible to focus on the value added of Danida "software"). This implies an increasing number of evaluations will be joint evaluations carried out in close co-operation between donors and the recipient countries.

Implementation of evaluations

Since 1997, it has been decided to better distinguish between the two main purposes of evaluations, each evaluation being classified depending on its objective, i.e. accountability or accumulation of experience:

- As regards accountability to the general public and the Board, the Secretariat will provide once a year a paper summarising the findings, which will be published starting in 1999.
- As for lessons learning, the evaluations can cover multidisciplinary subjects, like strategies or cross-cutting themes (gender, environment, capacity building, and so on).

Evaluations usually involve Danida management and staff as well as the representatives of recipients, which have to participate in the analysis and in the formulation of lessons learned, conclusions and recommendations. They consider the issues of relevance to Danish aid policies, the achievement of objectives, the sustainability of aid as well as its organisation and efficiency, and the experience gained. The evaluation team has the final responsibility for the content of the reports, which are all published in English, together with a brief summary on the main conclusions and recommendations.

Follow up to the evaluations

There is a very systematic follow up to each evaluation, which starts with the elaboration of a follow up memorandum taking note of Danida's position on the conclusions and recommendations and identifying the departments responsible for the agreed follow up activities. The evaluation Secretariat controls the implementation of these activities. It is also in charge of disseminating or contributing to the dissemination of the evaluation results and experience to Danida staff in other departments, authorities in recipient countries, other interested bodies and to the Danish public. It organises seminars or workshops for staff and assists Danida's training centre in the dissemination of evaluation experience. Further it contributes to the incorporation of lessons learned in policies, strategies and guidelines.

Performance measurement

An attempt has been made in 1997 to assess past performance of Danish aid from the analysis of 50 evaluation reports corresponding to 267 projects covering the five-year period 1992-96. The conclusions of this exercise were rather favourable, since 25 per cent of the projects were considered as clear successes, 55 per cent were deemed acceptable, meaning that they had reached their objectives despite some problems mainly related to maintenance, and 20 per cent or 47 projects, including 33 government loans -- a form of aid now abandoned -- had been found unsuccessful.

In order to meet the need of providing tangible evidence of the visible results of Danish development assistance, Danida has issued in April 1998 a set of guidelines for an output and outcome indicator system, for all major sectors within Danish bilateral assistance. The system has still to be implemented. It will be used in performance monitoring, in particular as an input into the annual sector reviews, and as a side effect should facilitate and further streamline the overall evaluation process. The indicator system is indeed viewed as a communication tool and the start of a more elaborate documentation of the results of bilateral assistance, before becoming a management tool.

As already mentioned, the major evaluation of poverty reduction in Danish development assistance, shows that Danida's activities have positive results on the ground, and a tangible impact on the achievement of poverty reduction, which is the paramount objective of Danish development assistance.

Overall assessment

The DAC Expert Group on Aid Evaluation reviewed Danida's Evaluation Unit in 1996, and a survey of users of Danida's evaluation report was completed within this framework in 1997. It concluded that "Danida's Evaluation unit and evaluation system are among the top group of donor evaluation systems in terms of compliance with the DAC's Principles for Evaluation of Development Assistance", and that "the views of the users of Danida's evaluations and an examination of the evaluation procedures within Danida generally support this conclusion".

Humanitarian assistance and transitional assistance

Humanitarian assistance

Although humanitarian assistance is not covered by the Act on International Development Co-operation, it is recorded as ODA, and represents a significant amount: USD 131.6 million in 1997 channelled through multilateral institutions like the UNHCR, the WFP and UNICEF. Of this total, USD 83.6 million is for specific emergency appeals. NGOs also play an important role in implementing this type of aid.

Danida encounters the same difficulties as other donors to deliver this type of assistance, which is demand driven and hard to plan, and has to be implemented in extremely difficult situations. Various institutions have been put in place to address these difficulties. First, a Humanitarian Contact Group with representatives of Danish NGOs and relevant ministries has been established in 1995, under the chairmanship of the MFA, to monitor and coordinate Danish humanitarian efforts in conflicts and catastrophe situations on an ongoing basis. It also follows the humanitarian activities of the Environment and Disaster Relief Facility. Second, an International Humanitarian Service (IHS) has been set up and is operational since the beginning of 1995. It is in charge of posting Danish experts and other personnel as part of the civilian element of humanitarian, conflict-preventing and peace-keeping measures. Experience to date is considered as positive since the IHS has built a highly experienced and professional corps of experts. In 1997, they were involved in several countries, in particular in Bosnia-Herzegovina and Croatia for the Organization for Security and Co-operation in Europe (OSCE), to support the enforcement of the Dayton Agreement, and in Hebron to help implement the agreement on the Israeli withdrawal.

It is a stated policy to better link humanitarian assistance and the long term development process. This implies to provide continuity between emergency relief and development oriented assistance, which has to be seen in a longer-term perspective. A project in a drought-affected area in Ethiopia tries to mix humanitarian support and long term initiatives and a policy paper is being prepared on the subject. However, due to the concentration of aid, these long term efforts are limited, programme countries being put aside, to countries receiving what Danida calls "transitional assistance".

Danish transitional assistance (DTA)

Humanitarian assistance makes the bulk of transitional assistance, defined as assistance to non programme countries undergoing a period of political transition (typically following war or a change of political system) or of economic transition (e.g. from a planned to a market economy). The concept of transitional assistance introduces some flexibility in the programme by creating an intermediate category of countries between programme countries and non-programme countries: the list of those which received such transitional assistance in 1997 has been indicated in Chapter 1 above.

As permitted by the DAC under the category of emergency and distress relief, Danida reported USD 94.6 million for first-year costs of receiving refugees in Denmark in 1997. Other transitional assistance is usually allocated within multi-year time frames. To give but a few examples Angola has been

granted USD 34.5 million over the period 1996-2000. These funds will be used for providing emergency relief and assistance to resettling repatriated refugees and the internally displaced, support to demobilising soldiers and to land-mine clearance. The most important recipient of transitional assistance has been South Africa, with a contribution of USD 129.4 million over the period 1994-98, to support and develop democracy in South Africa and to contribute to solving the country's serious poverty problems. This funding has been complemented by an allocation of USD 23 million to prolong the programme up to 2001.

A major evaluation of the first five-year programme of DTA to South Africa has been carried out by a team of experts from Denmark, South Africa and the United Kingdom, and their report has been published in August 1998. It concludes that Danish assistance "has been speedy, flexible and courageous", and that "Denmark has supported many important policy reform efforts and acted as both facilitator and catalyst in change processes, aimed at consensus building". The report also considers that "the various areas have complemented each other and all have to some degree contributed to the overall objectives of democratisation and reforms aimed at poverty reduction". However, another evaluation of transitional assistance as a whole for the 1990-95 period, published in 1996, was somewhat more critical, since it indicated that the quality of project preparation varied from excellent to unsatisfactory, and that sustainability of transitional assistance was very difficult to achieve, particularly in support to human rights and democratisation.

Policy regarding debt forgiveness

For almost two decades there have been London Club reschedulings of external debts owed to private banks, together with Paris Club rescheduling of public or publicly guaranteed debts. They take place after agreements are achieved with the IMF and the World Bank on large financial packages, which solve the debt-servicing problem in the short term. However, the relief is only temporary, and the problem re-emerges in the long run since the debt burden is in fact increased as a result of transfers in the form of new loans, including from the Bretton Woods institutions. The question of debt reduction is particularly acute, at the moment, in the case of highly indebted low income countries where around 30 per cent of debts are owed to multilateral creditors which, as a matter of principle, do not reschedule their debts.

Therefore, further improvement in their situation required the reduction of this type of debt. Since 1990 Denmark has made increasing bilateral contributions to the servicing of multilateral debt owed by its poor and highly indebted programme countries. At the Copenhagen Social Summit in 1995, Denmark launched the idea of forgiving concessional multilateral loans. This may have contributed to the launching by the World Bank and the IMF of the Debt Initiative for the Heavily-Indebted Poor Countries (the HIPC initiative), which was approved in 1996. It requires all creditors, including the multilateral financial institutions, to contribute to debt reduction relative to their share of a country's total debt so as to make the remaining debt burden sustainable. In this connection Denmark has undertaken to contribute DKK 170 million (or USD 32 million), to the HIPC Trust Fund, which is administered by the World Bank, and out of which USD 9 million have been earmarked for Nicaragua. This makes Denmark one of the important contributors to the Trust Fund.

Apart from Denmark's contribution to this initiative, new guidelines for Denmark's contribution to ODA debt reduction have been adopted in May 1995. This policy relates to the outstanding amount of old government loans, which have been abandoned in 1989. The new criteria for eligibility to debt forgiveness are: LLDC status, low-income and highly indebted status according to World Bank criteria, and status as one of Denmark's programme countries, many of which are heavily-indebted. Priority is to be given to countries meeting several of these criteria. Furthermore, when there is a concessional Paris Club rescheduling for a country with outstanding ODA debt to Denmark, Denmark would normally forgive all debt falling due during the consolidation period. The amounts involved have been declining from 1995 to

1997 (see Chapter 3 below), but cancellation of outstanding ODA-loans disbursed by Denmark amounted to 42 per cent of the stock as per November 1998.

Official aid to Central and Eastern Europe

By definition, this type of aid is not accounted for as ODA, and it is not managed by Danida, but by the Secretariat for Assistance to Central and Eastern Europe, which belongs to the North Group in the MFA. It has competence for Russia and Ukraine, but not for countries in the Caucasus or in Central Asia. The MFA has its own support programmes to these countries, the most important being the programme with the Baltic States and Poland to help them prepare for membership of the European Union, called the FEU programme. Around DKK 100 million have been allocated to it for the period 1996-98. Activities elsewhere are limited.

Other Ministries and agencies, 18 of them in total, administer their own programmes within their respective spheres of competence, the Secretariat being in charge of overall co-ordination, both internal and external, with recipient countries and with other donor countries or multilateral institutions. Environment is by far the main field of intervention, since it will receive DKK 2 billion, provided by the Environment Fund, out of the DKK 2.5 billion allocated to the Baltic States and Poland alone during the period 1998-2001. The remaining DKK 500 million mostly go to technical and administrative assistance.

EUROPEAN COMMUNITY

POLICY COHERENCE

The EC has made a systematic attempt to improve policy coherence with development objectives. The “Everything but Arms” initiative is an important example of how further policy coherence is being sought between trade and development policies in the external relations area. There remain several policy coherence challenges, especially where internal EC policies, such as the Common Agricultural Policy and Common Fisheries Policy, come into contact with development policy. New institutional mechanisms have been developed in the EC reform process, and these help to address several coherence challenges. These could be further developed to address more complex issues.

EC policy on coherence

The EC has a policy environment defined by Treaty obligations, the overall development policy, regional co-operation agreements and bilateral agreements, and community policies. The Maastricht Treaty set out the importance for the EC of the 3 Cs – Complementarity, Co-ordination, and Coherence. This chapter focuses on coherence, which concerns the need to ensure that the objectives and impacts of different policies and agreements do not contradict or undermine one another. Given this policy framework, this Peer Review welcomes the determination of the EC to address issues of policy coherence in a systematic manner.

The joint statement of the Commission and the Council on Development Policy includes the following sentences on coherence: “Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. The way to achieve this is to make a systematic and thorough analysis of any indirect effects of measures in especially sensitive areas and to take development problems into account in the Commission decision-making processes.” In the Cotonou Agreement, there are further statements that back up this intention. Other regional agreements are coming up for renewal, and may make similar statements. In other EC activity areas (*e.g.* trade and fisheries) there are also similar statements about the need to ensure coherence with external relations and development policies. (See Annex IV.)

Challenges of policy coherence

Seeking coherence

There is a need for the EC to address two main types of coherence between development policy and (a) external policies of the RELEX family *e.g.* trade or foreign policy; and (b) internal Community policies *e.g.* Common Agricultural Policy (CAP), Common Fisheries Policy (CFP).

In the area of external policies the Everything but Arms (EBA) initiative is an important example of the EC trying to achieve greater coherence between trade and development policy. The removal of

restrictions on the exports of least developed countries to the EU is widely considered a positive step.¹¹ The challenge is for the least developed countries to meet the non-tariff barriers to market entry (e.g safety and phyto-sanitary standards). Indications of the impact of this change are not yet available, as the EBA only became applicable as from 5 March 2001.

The College of Commissioners adopted the Directorate-General for Trade (DG Trade) proposal during 2000, following intensive consultations, firstly between departments and later between Commissioners. The striking aspect of this initiative was the widespread interest it provoked. RELEX Director-Generals discussed the EBA initiative before the Commission adopted the proposal and coherence was thus actively sought. The ACP States were also consulted as soon as the Commission had formally adopted EBA. It was discussed with them during meetings of the joint ACP-EC bodies in the context of the Cotonou Agreement. Although the least developed countries were not officially consulted, there were systematic contacts with representatives in Geneva and several meetings were held with representatives in Brussels after the adoption of the EBA regulation by the Council. NGOs were also consulted through the Civil Society Dialogue mechanism of DG Trade. Within the EC, there has also been a specific "social dialogue."

While EBA is a positive example of seeking coherence, there are also situations when policy incoherence may arise. Such situations particularly concern the internal Community policies (see below). Causes may include the diversity of EC institutions involved in the decision-making and insufficient exchange of information and co-operation in policy formulation. Another cause might be when certain interest groups are able to influence the decision-making process so that insufficient account is taken of other stakeholders' interests. The following case studies highlight some of the challenges for the EC in addressing such issues.

Textile trade and development

Developing countries have been affected by different EC trade arrangements depending on their geographical location and trade preference status. In the textiles sector, the Multi-Fibre Arrangement (MFA) was signed under the auspices of the WTO in 1974 placing quantitative restrictions on imports of textiles and clothing from low-cost countries. However, least developed countries were exempted from quota restrictions under the MFA. In 1995, the Agreement on Textiles and Clothing (ATC) replaced the MFA and made provisions to phase MFA out over 10 years (1995-2005) through progressive raising of quotas and integration of products into the WTO. Although welcome overall for developing countries, many of which will benefit, a few least developed countries are expected to lose, including Bangladesh. (See Box 6 and Annex VI.)

¹¹. It has been noted that the EBA may be extended to all developing countries in the near future. Although this would assist these countries, it will erode any competitive advantage that the least developed countries had.

Box 5. Bangladesh: trade in garments and development opportunities

EC market access for garments

EC co-operation with Bangladesh is guided by the EC's development policy (2000), the ALA Regulation (1992), the EC Strategy towards Asia (2001), the EC-Bangladesh Co-operation Agreement (2001), CSP (2002-2006) and a raft of wider policies on trade plus secondary bilateral agreements and regional agreements. These policies are broadly coherent in their objectives at a macro level, and Bangladesh has benefited greatly in recent years from the economic growth generated by quota-free access to the EU market for its ready made garments (RMG). Over the past couple of decades, Bangladesh has also benefited from the EU's Generalised System of Preferences (GSP), which provided for duty free access for all semi-manufactured and manufactured goods originating in least developed countries. In 1986 Bangladesh signed a bilateral textiles agreement with the EU, which confirmed its preferential access for textiles and garments. Since the mid-1980s, Bangladesh has achieved moderate success as an exporter of Ready Made Garments (RMG), which constitute 70% of exports, especially to the EU. The main reasons for Bangladesh's success has been the low cost of its garments to EU consumers due to its cheap labour and duty free status.

Threats to the garments trade

The EC's arrangements for rules of origin make it particularly difficult for Bangladesh, which still imports a higher percentage of textiles than are allowed under the EC rules. The Government of Bangladesh argues that, with the previous arrangements there have been backward linkages from garments so that the supply of buttons and stitching thread, with the support of foreign investment, is now 100% Bangladeshi. The government further argues that, if the proportion of allowed imports were increased, Bangladesh could still be competitive in the EU market and would further increase the proportion of Bangladeshi material.² The EC might help the Government by improving the competitiveness of RMG; by putting in place measures to protect the poorest from a loss of livelihood; and by reducing dependence on RMG through diversification of the export sector and taking advantage of the preferential arrangements under the EBA.

Nonetheless, Bangladesh is expected to lose out to new developing country competitors, such as India, Indonesia and Pakistan (and China when it joins the WTO), which will be in a position to increase their exports to the EU when quotas are removed. These countries also have low labour costs and are likely to be more competitive than Bangladesh as they have their own domestic textiles industry (to supply the garments industry) and in some areas are more efficient due to better infrastructure, marketing etc. The losses that Bangladesh is likely to suffer will include a decline of export earnings and a loss of employment for many thousands of workers, primarily female. Such losses would undermine several of the EC's development co-operation objectives in Bangladesh, including poverty reduction, gender equality, economic growth, and improvement of social indicators (health, education, nutrition and population).

New opportunities offered by the EBA

The EBA offers an opportunity for Bangladesh to diversify its exports to compensate for the likely losses of RMG exports. The options for Bangladesh in ensuring competitive export diversification are limited so the full support of the EC development co-operation and trade co-operation is needed to tackle the challenges. One of Bangladesh's major products with export potential is rice, but since this is a sensitive product, access to the EU market will not be fully liberalised until 2009 under the EBA. The EC may be able to help Bangladesh identify other opportunities through its development co-operation.

². Interview with the Minister of Finance, 10/3/2002.

The EBA initiative opens up new opportunities for all least developed countries. EBA has removed all the quantitative and tariff barriers to the EU market for least developed countries with the exception of bananas, rice and sugar where transitional periods have been agreed before full liberalisation is granted. The objective is to enable the least developed countries to achieve higher economic growth and better integration into the world economy by increasing and diversifying their exports. There are, however, some **non-tariff constraints**, such as rules of origin.³ Many developing countries are involved in the added value processing or manufacturing, but many of the raw materials may originate from non-least developed countries. If the proportion of raw material from non-least developed countries is above 50% they are not accorded preferential treatment. In practice, the benefits of the EBA to least developed countries depend on two critical factors - the extent to which the initiative represents an improvement on their current terms of access to the EU market; and their capacity to increase their exports of the newly favoured products.

Development effects of the Common Agricultural Policy

The CAP requires the EC to dispose of surplus product on the world market through the use of subsidies. The EU market is also protected from agricultural imports. There are also tariff and non-tariff barriers to developing countries trying to increase and diversify their exports to the EU. Since the late 1980s, these arrangements of the CAP have been criticised for the adverse effects of developing world agriculture, livelihoods and food security. Specific cases of EU export subsidies that have been criticised include: Beef exports to coastal West Africa in the late 1980s; Tomato concentrate to West African markets (1999); Dairy exports to Tanzania, Brazil and Jamaica (1999); and Canned fruit and vegetables undermining the South Africa industry (1999).

The incoherence arising between development policy and the CAP in Burkina Faso illustrates very clearly the adverse impacts that EU export subsidies on agricultural products could have on local development and the livelihoods of the poor. In essence, the CAP has, for decades, undermined the EU Poverty Reduction programme in Burkina Faso, which not only included livestock development projects, but other rural livelihoods projects managed by DG Development. (See Box 7.) Critics claim that the subsidies were used later to market their products to southern Africa and then to Russia. The EC points out that EU farmers in receipt of subsidies decide where to market their products; the Commission does not regulate the flow of products to market.

The reductions of export subsidies made under obligations of the Uruguay Round Agreement on Agriculture (URAA) implemented in 1996 had little effect, as EU subsidies remain very high, and since this time, there have been several cases of export subsidies undermining local markets. The extent and pace of liberalisation in the current negotiations of the WTO in the Doha Development Agenda agreed in 2001 will be important and it is also a key area in which to improve coherence.

Another key area concerns barriers to market access. The URAA reduced import tariffs on agricultural products by 36%, with a minimum of 15%, by 1 July 2001. It also stipulated that export subsidies and volumes had to be cut by 36% and 21% respectively by 2001. It has had a limited affect on the high EU tariffs. There also still remain prohibitive non-tariff barriers. Reform of the CAP has been proposed in Agenda 2000. There will be a review of the CAP in 2003, which may give the opportunity to reduce the barriers to imports and subsidies on exports. Although this reform process was supposed to include consideration of development interests, it has been estimated⁴ that the level of aggregate reforms

3. Other constraints on trade include sanitary and phytosanitary safeguards on foodstuffs and agricultural products.

4. *Levelling the field; will CAP reform provide a fair deal for developing countries*, Stevens C., Kennan J. and Yates J. (IDS, 1998).

might actually have a slightly negative overall impact on developing countries as they will reduce some distortions from which developing countries benefit and leave other important distortions unchanged.

Box 6. EU policy incoherence in West Africa, particularly Burkina Faso

EC co-operation with Burkina Faso is guided by a number of different policy and strategic documents including: the EC's development policy (2000), the Cotonou Agreement (2000), the Burkina Faso CSP (2001-2006), the EBA plus secondary bilateral agreements and regional agreements. In terms of development co-operation, the EC has been engaged in Burkina Faso for more than 40 years and has been the principal donor since 1997. Its new CSP for Burkina Faso sets its strategy firmly in the country's own national poverty reduction strategy (the DCSLP). The main areas of EC intervention are: macro-economic support via budgetary aid (EUR 150 million) and sectoral support (EUR 100 million) to the rural transport sector and rural development sector with a focus on food security.

Burkina Faso's main industries include cotton lint, beverages and agricultural processing. Its agricultural products include peanuts, shea nuts, sesame, cotton, sorghum, millet, corn, rice and livestock. In 1999, its total exports were worth over USD 220 million and included cotton, livestock and livestock products and gold.

EU export subsidies on beef and Burkina Faso's livestock industry

Burkina Faso has limited exports to the EU, but they had a thriving market in live cattle with their neighbouring countries such as Ghana, Benin and Côte d'Ivoire. During the 1980s, EU beef exports to West Africa increased sevenfold due to the granting of export subsidies to EU farmers. The subsidised beef in the coastal regions of West Africa was 30-50% cheaper than local cattle. Although the subsidies may have helped EU farmers, it had an adverse impact on poor livestock farmers in West Africa, and critically damaged the local market for Burkinabé exports.

In 1993, European NGOs launched a campaign on EU subsidies on exported beef to West Africa, on the basis that it was a clear example of policy incoherence under Article 130V of the Maastricht Treaty and undermined livestock development projects financed through the EDF. The EC reduced the subsidies admitting there was incoherence. According to a Commission paper (1994) on coherence in Community policies, "It is therefore necessary to take measures to end the serious incoherence that exists between the agricultural policy and development policy of the Community. Such measures are all the more urgent because this harmonisation is a duty imposed by the Treaty on European Union" (Article 130V).

EU export subsidies on tomato concentrate

Despite the lessons apparently learned from the 1980s in West Africa, in 1999, EU farmers received subsidies for tomato concentrate exported to West African markets. Again, as in the case of beef exports above, EU tomato concentrate arrived in West African markets at lower prices than locally produced concentrate and undercut the local market. This had a negative effect on both the local agro-processing industry and tomato growers.

The EBA covers a few important agricultural products for developing countries. Bananas, rice and sugar are key exports for a many developing countries so liberalising access for these products to the EU could have a positive impact on many developing countries. Nonetheless, these products are considered sensitive for the EU. Those countries that have been exporting at high EU prices under the

Lomé protocols, such as Mauritius, Fiji and Guyana, will be losers in the new liberalised context and the effect on them could be devastating. For this reason these product have been included on a phased basis⁵ to mitigate the adverse effects of rapid liberalisation of these products.

There are concerns about the effects of both protection and liberalisation on the other developing countries (*i.e.* not the least developed), which are seeing an erosion of their preferences to the EU market at the same time that duties are being reduced. Some of them are highly dependent on single products and

⁵. Bananas in 2005, rice and sugar in 2009.

will need significant help with adjustment measures especially to modernise or diversify their agricultural production and economic base.

Reforming the Common Fisheries Policy

The Common Fisheries Policy (CFP) is concerned with the legitimate interests of the EU fishing industry. The legal basis is in Article 33 of the Maastricht Treaty. The CFP covers all fishing activities, the farming of living aquatic resources and the processing and marketing of fisheries products. The CFP focuses on four main areas: a) the conservation and management of marine resources; b) fisheries relations and agreements with non-member countries and international organisation; c) structural measures and d) the common market organisation for fishery and aquaculture products. As an integral part of the CFP, DG Fisheries is tasked to conclude a series of bilateral fisheries agreements with third countries in order to secure alternate sources for fish for the EU where there are problems of declining fish stocks and over-capacity of fleets in home waters. This practice, endorsed by UNCLOS,⁶ mostly involves a type of financial compensation agreement, where the EC pays financial compensation to the country in return for access rights. DG Fisheries argues that this cost is justifiable as it contributes 25% of Community fish production, supports 40 000 jobs, relieves pressure on depleted resources and secures supply for EU market. This type of agreement has been concluded with 15 ACP countries. (See Box 8.)

Box 7. Fisheries in Mauritania

The Coalition on Fair Fisheries Agreements (CFFA)⁷ had launched a campaign in 1999 regarding the re-negotiation of the EU bilateral fisheries agreement with Mauritania, expressing concern over the depleting stock of Octopus, one of the key products in Mauritania export earnings, of which fish products account for 50%.

Mauritania and the EU ratified a new Protocol in 2001, which renewed its fisheries agreements for 5 years from 1 Aug 2001. The new protocol increases the authorised number of Community cephalopod boats by 30% and justifies this by the “*departure of Asian vessels*”. At the same time, the Protocol contains many of the new provisions stipulated in the Green paper on the future of the CFP (e.g. to monitor resources with the national fisheries research body, to increase surveillance, to give a financial package to develop artisanal fisheries).

Despite these provisions, the CFFA believes the new Protocol is fundamentally flawed, arguing that an investigation revealed that the Asian vessels were loaned to Mauritanian fishermen on the basis of a commitment to certain yields. When local fishermen did not meet these due to dwindling stocks of demersal and cephalopod, these boats were taken back. Moreover, the CFFA claims that the European Commission completely ignored figures on safe catch levels from the national Mauritanian Fisheries Research body (CNROP) which set the maximum sustainable yield at 35 000 tonnes / year and recommended that the ideal catch rate should be 20 000 tonnes / year. Even before the increase in vessels, the EU has been catching 26 000 tonnes a year, leaving very little for the Mauritanian fisherman. CFFA argues this is a major reason for the fall of Mauritanian exports of octopus of 50% since 1993 and why many ships are at a standstill.

Within the EC there were also concerns. No impact assessment was carried out, even though it is a 'region of concern' for DG Environment. This was apparently because it was a '*renewal extension*', rather than a new agreement and it seemed that DG Fisheries was not obliged to follow their own new guidance in this case. Furthermore, information on the agreement was only passed on to DG Development for 'rubber stamp' approval after it had been signed. The Council of Ministers, after expressing a lot of concern, commissioned a study and then introduced a requirement to hold a review every three or four years.

⁶. The UN Convention on the Law of the Sea (UNCLOS) states that coastal countries that are unable to fully utilise or harvest fisheries resources within their Exclusive Economic Zone (EEZ) should allow other industrial vessels (i.e. countries) access to surplus stock.

7. CFFA is a Brussels-based NGO including members from Friends of the Earth, Green Peace, European Research Office, and others.

Although the CFP addresses the legitimate interests of EU fishing fleets and charges DG Fisheries with its implementation, other parts of the Commission have interests in the CFP that are quite different from those of DG Fisheries. In summary, the following have been the main criticisms within the EC of the bilateral fishery agreements negotiated by DG Fisheries under the CFP:

- **The costs of EU Fisheries Agreements do not justify the ends.** The EU Court of Auditors is concerned with the efficiency of EC expenditure in achieving the policy objectives it sets out. It argues that, not only does the Community pay large sums of money for rights to fish in the waters of third countries, but the EC also subsidises up to 80% of the cost of long distance fishing fleets, with vessel owners only paying 20%.⁸ By 1996, the EU budget for international fisheries agreements was EUR 280 million, up from EUR 6 million in 1981. Some developing country governments themselves have at first welcomed the financial returns from the agreements but have later regretted the effects on fish stocks and community livelihoods.
- **The agreements may undermine the development of the artisanal fisheries sectors** in many developing countries and therefore threaten the livelihoods and nutritional base of local small scale fishing fleets and coastal communities. DG Development is responsible, under the Cotonou Agreement, for increasing the means of protecting fisheries resources and monitoring their exploitation and increasing the contribution of aquatic resources to economic growth, food security and the fight against poverty. These objectives may be undermined by the financial compensation⁹ in fisheries agreements that encourage governments to open their waters to EU fleets despite the effects on local artisanal fisheries.
- **There is a danger of over-fishing and further damaging declining fish stocks**, especially as there is often a lack of monitoring of catches and stocks. DG Environment is tasked to ensure sustainability, particularly of natural resources, a core aspect of the Community. They are increasingly concerned with depleting fish stocks worldwide and believe this is aggravated by many bilateral fishing agreements, which do not involve adequate monitoring of fish stocks. DG Environment is now pressing for a Code of Conduct for "Responsible Fishing".

The Common Fisheries Policy is currently under review (from March 2001) and its reform is likely to be agreed by the end of 2002. The Commission's Green Paper does recognise the need to take account of development objectives and contains broad statements on the need to protect local small-scale coastal fisheries and ensure sustainable stock management. However, in terms of concrete action to take, these fall short of the expectations of DG Development and others. The actions listed are mainly technical assistance to help with research, stock management and surveillance and the development of local professional organisations. Much more could be done including the systematic introduction of impact assessments.

Despite various commitments by DG Fisheries to take increased account of development interests in the formulation of fisheries agreements,¹⁰ NGOs cite further recent examples of DG Fisheries not taking sufficient account of development interests or implementing their own guidance. Vessel transfers to local

8. Subsidies come in various forms, including construction and modernisation of powerful vessels, costs of access to other waters, and vessel transfers to non-EU fleets.

9. The annual disbursement of financial compensation is EUR 280 million and, in particular countries, the compensation may be greater than all European aid.

¹⁰. Examples include concluding 'second generation' agreements with the aim of greater involvement of partner countries; provisions to protect local coastal fishing; help with scientific research; the commitment that it will promote the consultation of traditional fishing communities in the use of EU funds. Commission Communication on "Fisheries and Poverty Reduction" (November 2000).

boat owners reduces the overcapacity of the EU fleet, but contributes to over-fishing and increased competition, especially considering the power and capacity of the large trawlers (*e.g.* Mauritania and others). Insufficient impact assessment is made of the local fishing industry and stock levels (Mauritania and others). EU market access via tariff reductions was made conditional on the signature of a bilateral fisheries agreement (South Africa).

The EU has come up with a range of solutions to address the issues outlined above and to improve coherence. The CFFA has also made suggestions to the EU (see Annex IV).

EC institutional mechanisms to strengthen coherence

The huge task of reforming the EC is in progress. The aim of the reform is to clarify the mandates and responsibilities, strengthen accountability, improve efficiency and develop greater transparency. Although the white paper on reform does not specifically refer to 'improved coherence,' this will be one of the outcomes of the reform. Coherence, co-ordination and complementarity were set out in the Maastricht Treaty¹¹ to ensure effective policy development, programming and implementation. Through the reform process in the EU generally and the Commission in particular, improved coherence will result from new or modified institutional mechanisms:

Overall governance of the EC programme was described in Chapter 1. Coherence issues arise in relation to the discussions between Member States in the Council of Ministers and the different Management Committees for the various programmes (EDF for the ACP countries, ALA for Asia and Latin America etc). In essence, the regional programmes are now comparable since they are all within the Development Policy framework focused on poverty reduction, but in practice Member States also have different interests, which, in the EC context, have expression in the Committee discussions. Taking the Mauritanian fisheries as an example, some Member States may primarily have interests in fisheries production for EU consumers, while others, without large fisheries interests, may primarily express general scientific and development issues.¹² All these interests need to be expressed in the Committee discussions so that the EC can address primary concerns with coherence. The case studies above also demonstrate the importance of the Court of Auditors for bringing forward issues of coherence.

The different composition of the regions, the different priorities, Commissioners and DGs, also mean that there are different perspectives within the Commission. The regional programmes also have their own regulations but there has been a process to harmonise these in recent years. The RELEX "family" was set up in 1995, and EuropeAid established in 2001 to harmonise implementation. The RELEX family operates formally at the level of Director General and Commissioner, with the intention of assuring coherence on horizontal questions across the area of external relations. It operates as a kind of inter-service consultation mechanism with civil servants from the different RELEX DGs producing briefings on the policy issues of interest to more than one DG. DG RELEX contains a Secretariat to this family known as the RELEX Planners. When there is a difficult external relations coherence issue to resolve, this group takes the

¹¹. Article 130U of the Maastricht Treaty (which became Article 177 in the Treaty of Amsterdam) sets out the objectives of EC development co-operation as: i) the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them; ii) the smooth and gradual integration of the developing countries into the world economy; iii) the campaign against poverty in the developing countries. The "Coherence Article 130V" in the Treaty of Maastricht (which became Article 178 in the Treaty of Amsterdam) obliges the Community to take account of its development objectives in the policies that it implements, which are likely to affect developing countries.

¹². Interviews suggested that Germany was the prime exponent of developmental and environmental interests in the discussions of the renewal of the CFP agreement with Mauritania, while Spain expressed the EU producer and consumer interests. On other issues, Member States may express different priorities.

decision. Europe Aid is the implementing arm of the RELEX family and has a mission to develop the programmes to match the policies, assess the resources required for them and manage their implementation in conjunction with key workers in the field. Already employing over 1 000 staff, it is expected that this will expand in the near future. It carries out a wide range of implementation functions, some of which can contribute to the 3 Cs. (See further information in Chapter 5.)

The role of the RELEX family in policy coherence has been criticised because it focuses only on external Community policies so it misses some key incoherence issues arising from internal Community policies (*e.g.* fisheries - CFP, agriculture - CAP). Its mandate is limited to examining new policies, not existing policies, so it tries to ensure that new policies are coherent with old policies that may need reform.

The RELEX family now has a new role in producing the new Country Strategy Papers (CSPs). In principle, this role should overcome the criticisms made above because of the innovations about policy coherence in the CSP. Commission guidance on CSPs, in June 2000, stipulated that the section on the EC's co-operation strategy should contain a "coherence paragraph" in which the EC "policy mix" in a country is explained, covering the various linkages and identifying any incoherence. For example, this section should include, for the ACP, a look at future negotiations on EPAs if appropriate and deal comprehensively with trade issues affecting the country. (See Box 9.)

The CSP and the process of checking the policy mix will require attention to the established inter-service consultations with other DGs. This is an important institutional mechanism for bringing out coherence issues. Consultation often takes place informally, even before the official process of consultation when putting forward a Communication to the Council and Parliament. This consultation process is aided by the drive to aid the Commission's effectiveness in information exchange and procedure simplification, and serves as a central tool for embedding coherence. The new internal information system and integrated web site, allows a more effective, integrated user-friendly search system, which not only identifies the Units, but also 'focal points' and the 'Country teams' organised around each CSP.

The quality of the CSP is being examined by a new service, the Interservice Quality Support Group (iQSG). The iQSG has a President, nominated by the RELEX Commissioners and 12 representatives, in their personal capacities, from external relations DGs. A Secretariat consisting of three civil servants has been set up within DG Development charged with drawing up the annual work programme, preparing meetings, documents and reports. Operational since 2001, the iQSG is a quality-screening body that focuses on the programming process for external aid and in particular the establishment of the EC's country and regional strategies. Its mandate is "to ensure that programme documentation (and periodic revisions) respect minimum quality standards, the results of evaluation studies and the objectives set by the RELEX group of Commissioners" (Commission Communication, 16 May 2001, Part 2.1). One of the many quality control functions of the iQSG is to ensure that the issue of coherence is comprehensively dealt within programming documents such as the CSP. (See Box 9.)

Box 8. “Policy Mix” in Country Strategy Papers

“The principle of coherence or consistency with other EU Policies requires attention... Starting with overall assessments of the EU’s strategic priorities, to be reflected in comprehensive ‘Strategic Framework Papers,’ programming should subsequently produce the right ‘policy mix’ for each country or region incorporating both external assistance and other Community/EU policies and priorities (trade, CFSP etc). The linkages between external assistance and other Community policies in fields such as fishery, agriculture, commerce, conflict prevention, food security and migration should, as appropriate, be examined and dealt with in this section ...” (The Reform of the Management of External Assistance”, Commission Communication, May 2000.)

In May 2001, the RELEX planners issued an informal guidance note on achieving the right ‘Policy Mix’ in Country Strategy Papers (CSPs), “CSPs and Policy Mix: Guidelines for the examination of the issue of Policy Mix in Country Strategy Papers.” This informal paper says that CSPs, in considering how EC resources should be spent in a partner country or region, must take account of a much broader range of issues and must consider whether the overall policy mix is satisfactory or not. However, as it is unrealistic to expect the CSP itself to contain a full analysis of all Community policies, it should therefore just contain a summary of the analysis and conclusions. Instead a special and non-public analytical document should be the vehicle for a candid assessment of EU policies. This would be considered by the iQSG and RELEX DGs and RELEX Commissioners.

The formation of the iQSG is undoubtedly a positive move. Although the group is fairly new, it has already screened 115 proposals which led to the adoption of 50 CSPs with a clear and recognized improvement of their quality. Constraints on the ability of the iQSG include a huge mandate of which coherence is a very limited part and the understaffing of the responsible Secretariat in DG Development for the amount of work.

A ‘focal point’ on coherence has also been set up in DG Development to screen other DG’s policy proposals for their consistency with development policy. It was suggested to this peer review¹³ that Quality Support Groups (QSGs) will be set up in each external relations DG to help develop the ‘policy mix’ non-papers for presentation to the iQSG and RELEX Group along with the CSPs. However, the EC subsequently points out that this suggestion is not a formal proposal and none have been planned.

The Evaluation Unit is now required to report directly to the Board of Commissioners for EuropeAid. It is programmed to conduct several studies relating to coherence issues discussed above¹⁴. (See also Chapter 5.)

Future considerations

Although there are good arrangements in place for looking at the coherence of new policies, there are major challenges with regard to examining existing internal Community policies (*e.g.* CAP and CFP). These policies are under review by the EC, and the RELEX family could make strategic alliances with other concerned DGs to highlight the various coherence concerns. At the same time, it may be necessary to strengthen further the linkages between concerned DGs by establishing clear focal points and facilitating the development of information exchange, including through intranet and internet.

The CSP plays an important role in stimulating inter-service consultations between different DGs and for raising issues of coherence for Member States in the Management Committees. Questions arise whether

¹³. Peer Review interviews with EuropeAid in Brussels, February 2002.

14. Studies include the 3 Cs: Coherence, Complementarity and Co-ordination (with member states 2001-04); the linkage between fishery agreements and poverty reduction (2002); the effects of trade policy on development (2003); the links between environment and development (2004); and the ‘Policy Mix’ synthesis (2005).

the roles of Commission services and Member States at these different levels are satisfactory. To what extent should the Member States be focusing on strategic issues, such as overall EU interest and policy coherence, rather than on the details of country policies? To what extent should DGs be able to address all relevant policy coherence issues in policy and programming documents?

The CSP also has a central role in providing a framework for analysing policy coherence issues, and identifying the areas of incoherence. However, the EC recognises that the CSP cannot address all the relevant issues, and that the analytical capacity of the “Country Team” and of the iQSG to highlight the causes of incoherence and to make recommendations is necessarily limited. The issue of analytical capacity, staff skills, and training is taken up again in Chapters 5 and 6, and here we note that these issues also encompass the need for capacity in policy coherence issues.

Linked to the above question of analytical capacity is the capacity of the EC to monitor policy coherence and to evaluate impact. The studies of the Evaluation Unit have been noted favourably, but there appears to be a staffing deficit to ensure the capacity of the EC staff to monitor the emergence of coherence issues and to feed results back into policy and programming discussions. The extent to which these issues might be addressed by “deconcentration” may also be considered in Chapters 5 and 6.

FRANCE

THE COHERENCE OF DEVELOPMENT ASSISTANCE POLICY

Development assistance and the tying of aid

Tying aid reduces its effectiveness

Virtually all of France's bilateral aid, except for debt relief, is tied to the procurement of goods and services originating in France, or recipient countries, and France therefore considers it to be partially untied. But it is not considered as partially untied under the DAC definition, for to qualify as such most developing countries would have to be eligible. Nevertheless, this "clause of origin", as it is also known, is worded so as to allow French aid to cover the local costs of projects without limitation, except in the case of financial protocols, which generally set a ceiling on such costs. However, investment financed through aid generally involves the importation of capital goods that can only be supplied by French firms (when they are unable to do so, exemptions from the clause of origin are generally granted, with the approval of the Adviser for Commercial Affairs). Furthermore, these capital goods are often in fields in which competition among French companies is relatively limited or non-existent, or can be circumvented through agreements between companies. In addition, in some sectors or sub-sectors there is only a single company, which can raise costs substantially and obviously lessens the effectiveness of aid.

A report submitted to the Prime Minister by Yves Marchand in 1996 entitled *Afro-realism: An urgent call for a new enterprise policy in Sub-Saharan Africa*, considered that the following disadvantages of tied aid justified its abolition:

- Tied aid restricts the recipient country's freedom, without guaranteeing the quality of the products concerned.
- It slows down the aid process because of the complexity of supply-source verification (since most industrial goods contain imported components, it is the criterion of overall value added, the bulk of which must be of French origin, that was selected in practice, but this is difficult to verify).
- Captive markets are not a good commercial reference for firms *vis-à-vis* their clientele.
- The untying of aid at the EU level would certainly be advantageous for France.

Four years after this proposal, it must be admitted that nothing has been done to untie aid, even though all the system's actors are convinced that this is a necessary step. But the lobby of the major French corporations and of the *Mouvement des Entreprises de France* (MEDEF), through the DREE, seems sufficiently powerful to have been able to block all attempts to do so thus far.

The DAC initiative on untying aid to the LLDCs

In 1998, the High Level Meeting of the DAC approved the decision to work on a recommendation on untying aid to the LLDCs. Since then, DAC Members have agreed on a number of the recommendation's provisions, in particular the list of most of the ODA activities to be covered and the provisions for ensuring transparency and equality of treatment. However, a full consensus could not be reached at the 1999 High Level Meeting.

France laid down four conditions for its joining the consensus on a draft recommendation:

- Maintaining the level of aid to the LLDCs is a key concern for France. It considers that the aid effort in favour of the LLDCs is insufficient and that further reduction would be unacceptable. France cannot be satisfied with the draft recommendation's commitment to maintain ODA levels to the LLDCs and to ensure that aid allocations to the LLDCs will not decline as result of this initiative. Instead, France proposes an incentive mechanism defining an eligibility threshold for the untying of aid. This envisages that only those DAC member countries whose ODA/GDP ratio to the LLDCs is equal or superior to a certain threshold, which might be fixed at the average of DAC Member countries, i.e. 0.03%, would untie their aid between themselves.
- The complete exclusion of technical co-operation is considered to be another essential condition in order to preserve a sense of national involvement in development assistance in public opinion and among policy-makers in donor countries.
- Food aid must be covered, since there is no justification for excluding it as it is a genuine form of development assistance. Any recommendation must therefore provide for covering this type of aid on the basis of a well-defined timetable.
- European Community aid should be excluded from the coverage of the recommendation.

At the 1999 High Level Meeting, DAC Members expressed their commitment to continuing to work towards a recommendation, an objective supported by the annual OECD Ministerial meeting and the G8 Summit in Cologne. A substantial majority of DAC Members do not share France's views on untying. These Members are in agreement on the basis of a consensual recommendation, focusing on the similarities between the different approaches proposed by Members or groups of Members. But considerable efforts are still required to meet the concerns of the other Member countries and reach a consensus at the High Level Meeting in May 2000. France's position will be decisive to the success of the efforts to reach a consensus in DAC on this major initiative for improving the quality of aid to LLDCs, in line with the DAC's partnership strategy.

Development assistance and cultural policy

The cultural dimension of French co-operation policy

France considers that the cultural dimension is an essential component of its international co-operation policy. The importance that it attaches to this dimension is based on the view that globalisation is a factor that exacerbates cultural competition. The document presenting the aid reform contains an analysis in this regard that underscores the risk of a dominant culture being spread by the market economy, possibly prompting reactions of rejection. It observes that the market-based approach has now expanded beyond the audio-visual sector to new fields, such as the higher education market.

This document also points out that the “cultural” field is continually expanding. Starting from the initial core of the fine arts and language, it has progressively broadened to include scientific and technological knowledge and then, with the audio-visual sector, the field of entertainment. It has subsequently spread to the field of sports, so that culture now encompasses the overall image of a country. Similarly, the number of actors has multiplied, with many entities becoming involved, such as multilateral organisations, local and regional authorities, NGOs, foundations, companies, universities and other ministries. Lastly, there has been a diversification of the means of transmitting culture, new media having been added to the traditional transmission networks (cultural institutes, primary and secondary schools).

In a world that must remain multi-polar, the Francophonie is considered to be an essential component. It has to constitute an area of linguistic and cultural co-operation that is capable of meeting the key challenges of the modern world, such as the information society, Internet and the audio-visual sector. The document referred to above also stresses the fact that “if they are to be dynamic, societies must be able to have a cultural project that gives equal emphasis to creative initiatives and national cohesion. Openness to the modern world, coupled with values of solidarity and sharing, explain the attachment to the aim of promoting the culture of the French-speaking world. But it must now be convincing to the elites in these countries as well as responsive to the needs of their populations”. This approach explains why the full title of the minister in charge of aid is the Minister for Co-operation and the Francophonie.

In the eyes of those responsible for co-operation, this analysis justifies placing cultural co-operation on the same level as development co-operation. In particular, it justifies the fact that “in the present competition situation, one of the priorities must be to strengthen the media and support the audio-visual sector abroad. The new information and communications technologies, which are indispensable tools for conveying knowledge, sharing know-how and providing training, will also receive special attention. They should facilitate access to scientific and cultural information for all development actors and to the exchange that they expect the Francophonie to be able to provide”. The network of cultural institutions, centres and *Alliances Françaises* plays a key role in this regard.

Implementation of cultural policy

In the field, cultural co-operation takes many forms. As the same document again points out: “relying on the world’s foremost network, which is highly operational and field-based, cultural, scientific and technical co-operation carries out co-operation projects, participates in university programmes, organises cultural events and sponsors numerous exchanges of grant-holders, trainees and experts on the basis of mutual interest”. In practice, however, it is very difficult to determine the share of cultural co-operation in France’s ODA, since it is not listed among the sectors into which the ODA reported to DAC is broken down. It is likely that some of these amounts are not reported to DAC, that some are reported as non-sector allocable aid (the annual average of non-sector allocable aid was USD 113 million in 1997-98), and that most are reported under education. Chapter 4 described the main components of this very important segment of French aid, in particular educating foreign pupils in French primary schools, the costs incurred in enrolling foreign students in the French higher education system and scholarships and grants. As part of the effort to promote French higher education, a new agency called Edufrance has just been set up. By bringing together the MFA and the Ministry for National Education, it should play a role in professionalising the international initiatives of French universities.

The difficulty in making an overall estimate is also due to the fact that the French presentation of the budget does not match the breakdown of the different DAC sectors. According to the categories listed in the report appended to the 1999 budget recapitulating appropriations for co-operation in 1998, appropriations to the MFA in this field in the initial Finance Act were as follows: subsidies to public institutions, FRF 504 million (USD 85 million); cultural, co-operation and research institutions abroad, FRF 225 million (USD 38 million); cultural and scientific co-operation, FRF 1.12 billion

(USD 190 million); and subsidies to audio-visual operators, FRF 538 million (USD 91 million). Expenditure on development research, which forms part of the budget of the Ministry for National Education, Research and Technology, amounted to FRF 1.17 billion (USD 200 million). In all, total expenditure on cultural co-operation very broadly defined, but consistent with France's conception thereof, can be estimated at just over FRF 6 billion, or approximately USD 1 billion and 17 to 18% of France's ODA.

Cultural co-operation: complementarity or coherence

On-site visits confirmed the diversity of the initiatives suggested by the information provided above. In fact, this diversity raises a problem, for it means that cultural co-operation is highly fragmented among many small initiatives and small projects. Even though they all are aimed at promoting France's cultural policy, they do not seem to be adequately co-ordinated or to form part of an overall plan.

Other programmes of a cultural nature are aimed at promoting local cultures (see Box 5). However, these cultural development initiatives are carried out through the same channels used to promote the international cultural policy of France abroad and in the French-speaking world, i.e. the extension of French culture. This twofold responsibility can create confusion, at least in the perception of other development actors, which complicates the comprehension and visibility of cultural development. What is more, although cultural development and cultural co-operation in the broad sense are in no way at odds with development co-operation, one may well wonder how these activities are directly related to poverty reduction. Furthermore, most of those we met in the field agreed that cultural co-operation and poverty reduction require separate approaches and, even though the two types of initiative are complementary, they cannot be combined within a single basic objective.

BOX 9. Aid to Cultural Development

The French position. Traditional development aid is insufficient without additional measures to strengthen the capacity of developing countries to modernise. Consequently, culture is intimately connected with development inasmuch as it determines these countries' ability to adapt to change, and especially to the change triggered by the development process. In fact, artists often treat themes dealing with the changes in the society in which they live and become spokespeople for their compatriots. Development cannot be lasting unless society perceives it as a positive process and accepts the forms it is taking and unless it contributes to social cohesion. Artistic creation, the appreciation and promotion of a people's cultural heritage and active involvement in audio-visual media are all part of the development process. So it is the ambition of cultural development to make the cultural sector one of the actors of social development.

The identity of the peoples of the world and their resulting diversity are an essential aspect of the French conception of development and are promoted by international co-operation. One of France's objectives is to enable its partner countries to resist the globalisation and homogenisation of cultures. Furthermore, culture is one of the means of enabling the population to participate directly in development. Together with support for democratic institutions, freedom of cultural expression is a means of promoting democracy and good citizenship. Consequently, culture, which is seen as a key aspect of social and economic development, has a very important place in French co-operation.

Lastly, culture is an economic sector open to civil society and individual initiative that contributes to job creation and requires relatively little capital.

The objectives of cultural development. The objectives of cultural development are to help countries design and implement a cultural policy, to promote cultural goods in sub-regional and international markets, to support private creation initiatives (such as cultural enterprise incubators) and to promote the training and professionalisation that are the essential to pursuing an artistic career.

The actors of cultural development. The policy of supporting cultural development is implemented in the field by French cultural centres, bi-national cultural centres, *Alliances Françaises*, technical assistants and experts working in co-operation projects and actors in the field of intercultural dialogue. Technical assistants are part of national structures and appear in the organisation charts of the national Ministries of culture. They operate within the framework of a letter of engagement, drafted jointly with the host country, and thus come under two separate sets of administrative authorities.

Nevertheless, a number of questions remain unresolved. French initiatives in this field are still not fully consistent with those of multilateral development agencies and an effort should be made to ensure that they are more complementary. In addition, these activities are not currently being evaluated since the criteria for such an evaluation have still to be defined.

An example of aid to cultural development is the project for supporting the production, promotion and diffusion of the performing and visual arts of contemporary Africa, for an amount of FRF 17 million (USD 2.8 million). This project made it possible to found the "Sanga" African dance festival organised by the Association "*Afrique en création*". Described by the French press as an "historic event", this festival was preceded by extensive preparation and workshops throughout Africa, and involved some 60 dance companies from Tunisia to South Africa; it "revealed to the rest of the world African artistic expression as a combination of tradition and modernity". Following the third festival held in November 1999, the winning African dance companies were able to go on a European tour.

Mention should also be made of the support granted to the Hanoi Ethnographic Museum and to African museums.

Investment in the oil sector: the inconsistencies

The National Assembly's recent information report

To ensure a secure supply of energy, and of oil in particular, has always been a challenge for the industrial countries. Like other countries, France has therefore supported the efforts and projects of the major French oil companies, particularly by granting development aid or more directly official aid and guarantees for projects to exploit hydrocarbons in producer countries. This largely explains the magnitude of the development aid -- over and above the financing and guarantees directly provided by oil companies - - received by countries such as Gabon or the Congo, and even by Angola in the early 1990s, or the inclusion of Nigeria in the ZSP.

A parliamentary fact-finding mission recently examined these issues. Its investigations were prompted by the proposal that a commission of inquiry be established to take stock of the activities of the company Elf-Aquitaine and its subsidiaries in African countries and their impact on France's relations with these countries. The report, approved by the National Assembly's Foreign Affairs Committee, was published in November 1999. It is entitled *Reconciling Oil and Ethics*, and is critical of how oil companies intervene in developing countries and of the support they receive from the French Government.

The report analyses the impact of oil on France's African policy, and "calls for more transparent management of relations between France and Africa in the name of ethics and the interests of France and its companies in these countries". It considers "that in Africa, the revenues generated by oil have not contributed to development, for heads of state have used them to buy arms in Angola and Congo-Brazzaville. In Gabon, Cameroon and Nigeria, it is difficult to say how oil revenues were used, since the debt has grown, the populations have become poorer and infrastructures are in a deplorable state. Dictators maintained in power, corruption, latent violence, repeated violations of human rights and deterioration of the environment -- this is the sorry record of oil operations in all of Africa, part of Latin America and certain Asian countries".

The report also points out that some of these countries have scant respect for human rights and that corruption is rife in major international oil contracts, which are rarely awarded without paying large commissions. Lastly, the exploitation of oil is often harmful to the environment, mainly but not exclusively in producer countries. The report concludes by stating, *inter alia*, that “the parliamentary mission considers that all too often an “exception” has been made when oil has been involved (in Burma, Nigeria, the Congo and Cameroon), for, whatever the amount of funds invested and the quality of projects, development and poverty reduction are not easily reconciled with the existence of armed rebellions, latent civil wars and corrupt dictatorial regimes”.

The report’s recommendations favour a more coherent approach

The report states that “the rules of conditionality of official aid granted to oil projects must be applied more stringently. The mission considers that the economic interest of an oil project is not in itself an adequate criterion in terms of development and poverty reduction. For the official aid granted by French institutions to oil projects in the ZSP to be effective, the rules of conditionality must be strengthened upstream, by requiring that the recipient country have adopted legislative measures to include oil revenues in the budget before disbursing the aid, and by ensuring that aid is managed transparently, that parties injured by the exploitation of hydrocarbons receive compensation and that environmental standards have been put in place”.

To achieve greater coherence, the report recommends “that Parliament be informed of decisions to grant official aid and guarantees to projects for the exploitation of hydrocarbons, as the rules of conditionality currently in force appear to be insufficient. Being based on economic criteria, they do not take the social and environmental impact of the exploitation of oil sufficiently into account. The *Agence Française de Développement* cannot continue to help finance oil projects in indebted countries that use these oil revenues to purchase arms, that manage them opaquely without including them in the budget or use future production as collateral to obtain loans. Good governance and respect for human rights must be the prerequisites for granting official aid for projects of this kind”. The report also considers that “the existence of a double standard regarding respect for human rights, anti-corruption laws and social and environmental standards is not acceptable. France must encourage the extension of anti-pollution agreements, combat social dumping and co-operate with its partners in fighting corruption”. The use made of the oil rent is being considered from a number of angles, and the DAC encourages France to pursue these efforts.

Lastly, the parliamentary mission suggested encouraging dialogue between multinationals and associations for the defence of human rights. It recommended that a body be created to monitor the enforcement of social and environmental standards by firms, and that a human rights bureau be established in the Ministry for Foreign Affairs to provide interested firms with information on such ethical issues and to liaise with NGOs.

Development aid and policies for defending democracy and human rights

France is the home of human rights and traditionally defends them vigorously. But in 1990, with the President of the Republic’s la Baule speech, there was a change in policy that established a link between eligibility for French aid and democracy in the recipient country. In this perspective, France has placed increasing emphasis on good governance and promotion of democracy and the rule of law, including on a regional basis. The link between aid and democracy was reaffirmed in what was known as the “Balladur doctrine”, formulated in September 1993, which sought to ensure that aid was only provided to countries that were correctly managed, enjoyed civil peace and had democratic regimes.

This “democratic conditionality”, which makes the granting of aid, or at least the amount of aid, conditional upon the recipient country’s respect for democratic principles, began to be applied at that time, to Togo in particular, where co-operation was suspended. In 1995, the doctrine shifted due to a more flexible interpretation of democratic conditionality. This interpretation, which is shared by other DAC Members, consists of considering that conditionality does not apply to all types of aid, but only to direct aid to governments, i.e. only budgetary aid in the broad sense (together with structural adjustment aid). However, all forms of project aid (including in the form of aid to government) may be maintained because it is considered to be primarily of benefit to the population.

This greater flexibility seems to go together with a determination not to become involved in complex situations, but to stand back and take stock. In some cases, such as Togo, French co-operation has been slowed down, as is currently the case. But it is sometimes difficult to envisage stopping French aid in franc area countries, where it might lead to an economic collapse that would have systemic consequences. The French position is aimed instead at fostering the process of democratic change. France also generally supports the decisions of the European Commission, which has become more stringent in this regard since the revision of the Lomé IV Convention. It has reinforced its own action in this field in recent years. However, the composition of the ZSP raises some questions regarding the application of democratic conditionality.

GERMANY

POLICY COHERENCE

A key feature of German development co-operation is its effort to attain coherence between national development policy and the other national policies related to it. Policy coherence principles have been re-affirmed at the highest political levels, including Parliament, and special leadership responsibilities have been given to BMZ. Because of the multiplicity of actors, possible domestic political constraints and the limited political base of the BMZ, the implementation of effective policy coherence will undoubtedly require a sustained political commitment in the years to come.

Germany's approach to developmental policy coherence

The BMZ has regularly stressed the need for greater policy coherence in its official statements and documents. For example, as early as 1992, the BMZ raised the issue of EU subsidised beef exports by first commissioning an in-depth study on their impact, then worked to raise the consciousness of the Federal Ministry of Agriculture, which then supported the decision in the EU Council for Agriculture soon thereafter to lower the size of export subsidies. The coherence issue has been a topic of periodic debate within the Parliament over the last several years, but particularly since 1998. Parliament has periodically sought to further strengthen the BMZ position to influence overall government support for development policy coherence.

Box 9. Coherence: 1998 Coalition Paper Statement of Vision

"The new Federal Government will further develop the basic guidelines of existing German foreign policy", including "the promotion of lasting development in all southern countries. ... In the face of new economic, technological, social and ecological challenges it will develop its foreign and security policy as a contribution towards safeguarding our global future. ... It will be guided by a commitment ... to an economically, ecologically and socially just balance of interests between the regions of the world and the world-wide observance of human rights. Development policy today is global structural policy, aiming at the improvement of the economic, social, ecological, and political conditions in developing countries. It is oriented towards the guiding principle of global sustainable development. The new Federal Government will reform, develop, and improve development policy along these principles, ensuring the coherence of this policy among the different ministries. The current scattered nature of tasks of development policy will be removed. Authority will be concentrated in the BMZ. The BMZ will from now on be the leading actor in questions concerning EU-development policy. The BMZ is to become a member of the Federal Security Council. The new government wants to commence a reform of foreign trade promotion, in particular the issuing of export guarantees (HERMES) according to ecological, social, and developmentally conform aspects. Internal debt relief initiatives for the world's most impoverished and indebted countries will be supported. The new Federal Government commits to a new orientation for IMF and World Bank structural adjustment policy, following criteria of development conformity and ecological sustainability. International economic regimes such as the WTO and the planned Multinational Investment Agreement (MIA) have to be re-designed according to ecological and social criteria."

Upon taking control of government in 1998, the entering political coalition proposed broad reforms to "renew Germany" along the lines of its Coalition Agreement. The vision embodied in that Agreement was interestingly specific in relation to development policy (see Box 2) and advocated a fairly radical re-orientation of international relations towards "Global Structural Policy" and the concentration of

authority for leadership of development policy in the hands of the BMZ. This political statement of vision has proven to be an important starting point for the series of subsequent actions that are building toward an operational framework for developing country policy coherence. Nevertheless it needs to be remembered that the BMZ cannot act alone in matters of development policy coherence. It has yet to sufficiently develop the analytical capacity necessary to carry out its substantive mandate, and frequently needs to argue its case with more powerful ministries within the German system. As it progressively operationalises its growing mandate for policy coherence, the BMZ has already learned the importance of alliances with developmentally involved German actors such as the Federal AA, individual NGOs or NGO groups [e.g. Association for Development Co-operation (VENRO), Working Group on Poverty Reduction (AKA)] or specialised lobby groups. It also calls upon specialists from key aid implementation agencies (e.g. GTZ or GDI) to carry out specific policy analysis and support.

Global structural policy

Undoubtedly because of the country's historical realities,^{1 2} including German re-unification and the construction of Europe, the German Government and people appear to have largely accepted current theories of globalisation, and situate many national priorities in relation to it. Taken at the level of their developmental policy, it asserts the interdependency of nations in a global context. It prescribes the need for German development co-operation to shape its development assistance programmes so as to address globalisation issues, and, perhaps more importantly, to play a proactive role for all members of the German Government to ensure broadest possible economic, social, ecological and political coherence, wherever the German Government has a role to play. Early in his mandate, the Federal Chancellor asked leaders of his administration to design policies in such a way as "to make globalisation and the convergence of markets a positive force for all".

In relation to German policies towards the developing world, the BMZ has taken on a variety of roles to ensure more systematic coherence. These include: i) policy discussion within the Cabinet by the Minister, who is a full member; ii) the use of the new BMZ mandate to systematically review, for development coherence, all new laws proposed by the government; iii) the creation of a poverty *Programme of Action 2015* as a framework to guide overall government development policy and action; iv) the creation of new development-oriented guidelines for, and the participation of BMZ on, both the Federal Security Council (arms exports) and the Inter-ministerial Committee on Export Guarantees. More specific information on items (iii) and (iv) is noted below.

Implementation of coherence

To mount a comprehensive approach to policy coherence, Germany has targeted three different levels of intervention: i) The first level of intervention encourages a greater coherence between the various **international arrangements and institutions**, so as to better define international policies and standards

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1. See *Guido Ashoff*, "The Coherence of Policies towards Developing Countries: The Case of Germany" produced by DIE and GDI, April 1998, for a more complete analysis of the German approach to policy coherence.
 2. The broader German interest in maintaining national policy coherence begins with the German Constitution, which requires all ministries to manage their respective portfolios in a manner that is coherent with the political guidelines laid down by the Chancellor. Policy coherence did not become an explicit issue for development co-operation until the 1990s. Precipitating factors included (i) the increased German political awareness of the cross-border character of development problems, (ii) the need to improve the impact of aid in a time of evolving budget constraints, (iii) public debate on a variety of policy incoherence issues, generally triggered by NGO campaigns, and (iv) the Treaty of Maastricht, which gave the call for policy coherence its legal expression.

and so as to ensure that the developing countries have an equal role to play as partners. ii) The second level of intervention is to advocate **structural coherence** among all partners in Germany. Within Germany, all policies, laws and structures will be examined for developmental coherence. iii) Finally, the third level of intervention supports the **recipient countries** themselves in implementing reforms and structural changes that are necessary to their development. To date, this three-pronged approach has been most specifically used as conceptual reference in the context of the new German *Programme of Action 2015 for Poverty Reduction*.

International arrangements and institutions

Germany is broadly supportive of the OECD and other international organisations which work to deepen international policy coherence in order to create opportunities for better growth and development in the developing world. Coherence issues supported by Germany include work on international trade and direct investment, international finance, food and agriculture, natural environmental sustainability, social issues, and governance and conflict.

One of the first actions of the current government with respect to this international agenda of coherence issues was its sponsorship of the “Enhanced HIPC Initiative” at the 1999 Cologne Summit on debt relief and reduction. Germany strongly supported this initiative, which permitted an integrated approach to development debt around the operational mechanisms of HIPCs and PRSPs. Germany saw this debt reduction framework as a concrete step toward the promotion of international financial policies that are more coherent and supportive of international development policies. It also saw this initiative as simultaneously innovative in relationship to international partnership, shared perspectives, and joint participation in the field. The German programme for LDC debt forgiveness (USD 53 million in 2000) is now focussed on the HIPC process.

Germany has embarked on a variety of other international initiatives, including **trade** (“how can we offer aid while depriving them of markets for their agricultural production?”³), creating an **investment climate** in the developing world that is attractive to foreign direct investors, and even **health** issues such as AIDS or malaria (given their potential to wipe out the benefits of growth and debt forgiveness). One final example of the importance of international initiatives is in the treatment of **corruption** in development policy. The German Government implemented in 1998 the EU convention on the fight against corruption involving officials of the European Communities or officials of Member States of the European Union. In November 1998, the OECD convention on combating bribery of foreign public officials in international business transactions was signed, in February 1999, the penal law to combat international bribery became effective. Germany is now moving its attention to the downstream operational issues of such initiatives, including the manner in which it will be implemented and monitored.

Structural coherence in Germany

Poverty reduction

The coherence of German Government development policy was given a major boost with the Cabinet approval of its new poverty strategy, the *Programme of Action 2015*, mentioned previously. The BMZ successfully made its case to Cabinet that, in a globalised world with its risks and threats, developing world poverty is a matter that merits becoming the overarching priority of German development assistance. The *Programme of Action 2015* lays out the different levels for co-ordinated action on the part of the German Government, as well as its priority areas for action. Key action areas are at the level of pro-poor growth,

3. Quote from the BMZ Minister during a Peer Review interview.

agrarian reform, trade, debt and development financing, social protection, environment, human rights, gender, good governance and conflict prevention.

The poverty strategy, by virtue of its widespread political acceptability and its strategically framed agenda, provides a potentially powerful framework for joint international action and German Government partnership toward a common and coherent agenda in terms of development policy. The real challenge of this approach now lies in the future. First, an implementation plan for the Programme, which will have to be negotiated with other partners within Germany, is expected early in 2002, following which the best intentions of the government will need to be translated more operationally into today's realities.

Coherence on German exports

Germany maintains a large national programme of export guarantees and supplier credit coverage, essentially managed by the agency HERMES, and which is subject to specific review by an Inter-ministerial Committee, composed of representatives from the Ministries of Economy and Technology, of Finance, of Foreign Affairs, and of Economic Co-operation and Development. The size of the export guarantee coverage in 2000 was EUR 19.4 billion, representing 3.3% of the value of total German exports. HERMES statistics suggest that some 87% of these guarantees were for exports destined to developing world countries.

While the Inter-ministerial Committee has existed for over 20 years, it has long been criticised by specialised German NGO and watchdog groups as overly supportive of German exports that may be harmful to the environment or other developmental concerns. In part due to these domestic pressures, and in part due to international consensus building within the DAC and elsewhere, the new German Government agreed in April 2000 to new "Guiding Principles" as binding criteria for the review of Inter-ministerial Committee actions. These guidelines highlight key global concerns, including ecological, social and developmental impacts. They appear to provide a valid initial screening mechanism to ensure coherence between German Government-sponsored exports and development policy. Central to the acceptance of these new guidelines was a recent agreement in principle by all OECD members to adopt a "recommendation on common approaches on environmental and officially supported export credits" by the end of 2001.

Existence of guidelines does not, of course, mean that they are adhered to.⁴ Because of the large size of, and the sensitivities surrounding, export credit schemes, it would seem appropriate for the German Government, as a further confidence building measure, to undertake an independent analysis of the extent to which the new guidelines are actually applied. These checks, if properly carried out, will hopefully permit a more broadly believable and accepted agreement on guideline coherence in the German context.

Germany generally does not isolate its national policies on exports from those of the European Union. It is important to note that Germany intends to pursue, with other European nations, trade promotion policies that are consistent with its developmental policies. German officials assert that their influence contributed significantly to the March 2001 EC decision to free up LLDCs access to the European market, especially in the area of agricultural products. Germany also favours a liberalisation of the European Common Agricultural Policy (CAP). While this will have the effect of favouring non-European agricultural imports, this position may be due as much to a desire to reduce Germany's large financial

4. One dissenting German watchdog group, Urgewald, has already suggested that "economic interests won out over developmental ones" in the recent case of the Tehri Dam in India, where the new guidelines were not sufficient to stop German support for the dam despite perceived negative resettlement, economic and environmental impacts.

contribution to the CAP and to reduce costs to German consumers as it is to promote coherence in trade policy toward the developing world.

The special issue of arms

From the point of view of development co-operation, arms exports to developing countries has been viewed critically in Germany in recent years, even though Germany itself is not a large source of arms for the developing world. German public opinion considers that a clear commitment by the recipient country to good governance is a prerequisite to the effective use of its development aid. Excessive military expenditures in the recipient country, beyond the needs of legitimate self-defence, raises obvious questions about the sincerity of their commitment to development. Simultaneously, the German public is seized with the recent multiplication of civil or inter-ethnic wars in developing countries, and is particularly concerned with the extent to which these conflicts sap the utility of development co-operation efforts. Against this background, arms exports by Germany (or other donors) especially to the least developed countries who are strongly aid dependent, give rise to the suspicion of serious policy incoherence, and are therefore followed closely by German NGO watchdog groups. Sensitive to this issue, the BMZ actively draws attention to these issues in the context of its new membership (since 1998) in the Federal Security Council (*Bundessicherheitsrat*), which is the authoritative body on all questions related to security, including decisions on arms exports. BMZ considers that it has a mandate to provide the development perspective on all security questions reviewed by the Council, but, here again, realises that arguing its position within this broader body can be difficult, especially in a case where other German political or economic self-interest is at stake.

Untying of German aid

Based on the official OECD/DAC profile, German bilateral ODA is not heavily tied to procurement of German goods and services. As a matter of policy, German financial co-operation is generally untied. Technical co-operation and consultant services in connection with financial assistance projects are frequently tied, although exceptions are frequent. German contracting with non-German experts is generally limited to EU nationals or recipient country specialists. Financial assistance can be deliberately tied by the government on a case by case basis (e.g. if tying is justifiable in development terms or if it will have a significant impact on German employment). German official procurement regulations for implementation agencies follow OECD *Good Procurement Practices for Official Development Aid*.

With the May 2001 DAC/HLM agreement on untying to LLDCs, the German Government has indicated that it will implement this recommendation "in all its dimensions". Further, it has indicated an inclination to go beyond the binding aspects of the DAC agreement.

It is interesting to note that some 50% of KfW disbursements in 2000 are used to finance contracts which were awarded to German suppliers,⁵ while German financial co-operation is officially intended to be untied. This seeming contradiction is officially explained by a higher level of tying to German goods and services in past years and the competitiveness of German industry in the international competitive bidding process. The German Government has indicated that it will further improve its information on contract awards for projects financed by German financial co-operation in the future.

Recipient countries

In theory, it is expected that German policy coherence in favour of development efforts in the recipient countries will be upheld by the AA through its local Embassy, which by German law is the

5. Source: www.Kfw.de facts and figures of Financial Co-operation/Disbursements 1999 and 2000.

official voice of the German Government abroad. In reality, the extent to which a local Embassy has a capacity to carry out this coherence mandate is undoubtedly weak. The new poverty *Programme of Action 2015* now offers the German Government a more systematic approach to local policy coherence, however. German support for the design and implementation of developing country PRSP documents holds out the promise to become a locally-derived and participatory framework which may then become a reference for more systematic policy coherence action for Germany bilateral co-operation programmes, and for those of other relevant partners, as well.

GREECE

POLICY COHERENCE

The challenge of policy coherence for poverty reduction

Achieving a sustainable reduction in poverty requires OECD Member governments to seek overall coherence between their policies with regard to their impact on global poverty reduction. Policy coherence is a major challenge because the specific issues commonly involve domestic interest groups and government agencies with primary interests and responsibilities other than that of reducing poverty. Accepting the challenges involved, DAC Members agreed, when endorsing the *DAC Guidelines on Poverty Reduction*, to elevate policy coherence for poverty reduction as a general concern in government policies and to develop the means necessary to promote it across government.

For Greece, specific policy coherence issues can be especially challenging. Greece's bilateral relations with its neighbours are almost exclusively with developing or transition countries and some of these relations are particularly complex. This means that some Greek policy communities with objectives of key importance for Greece are implicated on an on-going basis in its relations with developing countries. Some issues of importance for developing and transition countries may also come into conflict with special interests in Greece¹.

Like other DAC Members, Greece faces a number of complex policy coherence issues. The following are some examples:

- **European Union perspectives for south-eastern Europe:** The capacity of developing countries to participate in negotiating and implementing international agreements, and their capacity to reap benefits from them, needs substantial strengthening. Many DAC Members offer programmes for capacity building related to international trade, both for developing civil servants' negotiating skills and for developing the private sector's ability to compete in the global economy. Greece is strengthening its efforts and policies to assist countries in south-eastern Europe to build their capacity and promote European Union association processes.
- **Illegal migration:** Insecurity, limited economic prospects and poor services can encourage poor people to adopt coping strategies based on migration. Some poor families in eastern and south-eastern Europe pool their resources to send family members to work in western Europe, legally or illegally, including to Greece (particularly Albanians), with a range of positive and negative consequences for both the home and host countries. Remittances from migrants help their families at home survive. Albanian workers' remittances from Greece have in fact been a major source of dynamism in the Albanian economy (see also Box 1). At the same time, migrants have been a useful source of labour for the rapidly expanding Greek economy. As in other DAC Member countries, there are some highly problematic consequences of migration and more particularly illegal migration (e.g. associated with criminal activities). Greece has been working

1 . In his statement at the World Trade Organisation's Ministerial Conference in Doha in November 2001, the Greek Deputy Minister for Foreign Affairs stated that Greece is ready to consider favourably the legitimate interests of developing and least-developed countries. At the same time, he noted in his address that agriculture is an issue of top priority for Greece and that textiles is an extremely sensitive sector.

with Albanian authorities to address these issues. For example, Greece recently legalised around 350 000 of the estimated 500 000 Albanian migrants in Greece and the two countries are currently finalising a reciprocal social security agreement. Greece's health care system is generous towards migrants, providing them with free medical care.

- **Gender and poverty:** Gender-related differences in economic opportunity are often exacerbated by incoherent policies. For example, many of the producers and consumers most affected by opening up an economy to globalisation are women. Their situation regarding access to the resources, information and technology required to seize the opportunities offered by globalisation is critical. Gender analysis in Greece's surrounding regions is therefore central to both policy formulation and the assessment of policy impact. It can also contribute to both an understanding of poverty and to the development of effective and coherent policies and initiatives, both for donors and partners.
- **Money laundering:** Drug trafficking is a major concern for Greek authorities and it is estimated that it accounts for a large part of the proceeds of all criminality in Greece. The influx of refugees and so-called "economic migrants" from neighbouring Balkan countries and the former Soviet Union has led to increased crime. Within this context, money laundering has to be confronted, in both the banking and non-bank financial sectors. Greece has attached a high priority to the development of its anti-money laundering framework and policies and has worked since 1995 to build up the legislative framework, organisational structure and mechanisms needed to ensure compliance and enforcement. Greece participates in the Financial Action Task Force (FATF), bringing the Greek system into line with FATF's recommendations.² However, many of Greece's neighbouring countries have less formal and structured anti-money laundering policies and legislation. Greece must remain alert and will need to continue to monitor its anti-money laundering system and implement the necessary changes to make the system more effective.
- **Trafficking in persons:** The rapid influx of refugees to and through Greece during the 1990s was associated with an upsurge of criminal phenomena, including trafficking in persons directed mostly to other European countries. Greece has taken measures to confront these unexpected side-effects of migration, which are unacceptable to Greek society. Most recently, in December 2001, a draft law was introduced into the Greek Parliament that aims to have trafficking in persons and sexual exploitation of women and children recognised as organised criminal activities and included in the list of crimes covered by Greece's existing trafficking and money laundering legislation. This should provide a basis for strengthening the effectiveness of policing and border controls.³ Greece has also established an Interministerial Committee on Trafficking in Human Beings and signed relevant United Nations' conventions and protocols⁴.

2. Further information on the Financial Action Task Force (FATF) and Members' compliance with anti-money laundering measures is available from the Internet at: <http://www.fatf-gafi.org/index.htm>

3. The continuing reinforcement of border control is proceeding at considerable financial cost.

4. Greece has signed but not yet ratified the United Nations Convention against Transnational Organised Crime and that convention's supplementary Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children and its supplementary Protocol against Smuggling of Migrants by Land, Sea and Air.

Mechanisms for promoting policy coherence

Taking policy decisions which stimulate growth and reduce poverty in surrounding regions is in Greece's own interest. However, as for other DAC Members, achieving an appropriate balance between domestic and development concerns is not an easy task for government.

The *DAC Guidelines on Poverty Reduction* outline a number of ways DAC Members can promote policy coherence for poverty reduction. A key step is a commitment by the highest political authorities to ensuring that public policies which impact on economic prospects and poverty reduction in developing countries are coherent. As poverty is a source of dysfunction and disorder in its neighbourhood, and Greece is adversely affected by the resulting political instability and the consequential illegal migration and environmental degradation, such a commitment is highly appropriate in the Greek context, but needs to be supported by corresponding policies and actions in surrounding countries. The DAC guidelines also recommend: establishing a political mechanism for exchange and consultation, within and across government ministries; developing a government-wide policy brief on poverty reduction; systematically vetting legislation for its coherence with reducing poverty; and devoting adequate staff resources to undertaking analyses on policy coherence issues.

Greece has structures in place that could be adapted to support a more systematic approach to addressing policy coherence issues, once a high-level commitment to improving policy coherence has been communicated throughout government. The Parliament's Standing Committee on Defence and Foreign Affairs could vet legislation. The Interministerial Committee and the Monitoring and Administrative Committee provide fora, at the political and official levels, for exchanges, consultations and decision making, if their mandates were extended to cover co-ordination for policy coherence and the membership of the Interministerial Committee were expanded to include all key ministries for development co-operation. The manual on poverty reduction, gender equality and environmental protection prepared by the Ministries of Agriculture, of the Environment, Physical Planning and Public Works and of National Economy could potentially form the basis of a government-wide policy brief on poverty reduction.

As a European Union Member State, some important issues for policy coherence, such as trade and agriculture, are the competency of the European Commission rather than Greece itself. Greece participates in and is bound by European Community policies on trade and agricultural subsidies. Reducing European Union incoherence in such sectors (an example which involves Greece, as well as other Mediterranean Member States of the European Union, is subsidies for olive oil production) is a difficult and complex issue, which is continuously discussed within the international context of trade and agriculture. Increasing Greece's support for greater policy coherence will also require expanding linkages between the bilateral and multilateral components of the Greek aid system and active participation by development staff to ensure the inclusion of development co-operation perspectives when Greece is formulating its national positions for international meetings on issues with both a direct and indirect bearing on development co-operation.

Greece can work more to develop capacities for policy coherence by assigning adequate staff resources to carry out the analyses needed to determine the impact of policies on poverty reduction and sustainable development and identify where adjustments can be made to enhance coherence. The appropriate staff numbers and skills that Greece needs to achieve efficiently and effectively the broad goals of its aid programme is an issue that should be addressed generally as part of the current process of transferring Greece's international economic relations functions from the Ministry of National Economy to the Ministry of Foreign Affairs.

IRELAND

MANAGING IRELAND'S EXPANDING AID PROGRAMME

Role, structure and activities of the various delivery channels for Ireland's Aid

The minister in charge of the Irish aid programme is the Minister of State at the Department of Foreign Affairs with special responsibility for Overseas Development Assistance and Human Rights. Two major and three smaller organisations, all under the responsibility of the Minister for Foreign Affairs, are associated with the delivery of Ireland's ODA. Eight other government departments are also involved in Ireland's aid programme, especially through their contributions to relevant multilateral institutions.

Legislative and civil society input into the programme is provided by the *Oireachtas* (Parliamentary) Joint Committee on Foreign Affairs and its Sub-Committee on Development Co-operation, and the Irish Aid Advisory Committee (IAAC). These institutions are discussed in Chapter 5.

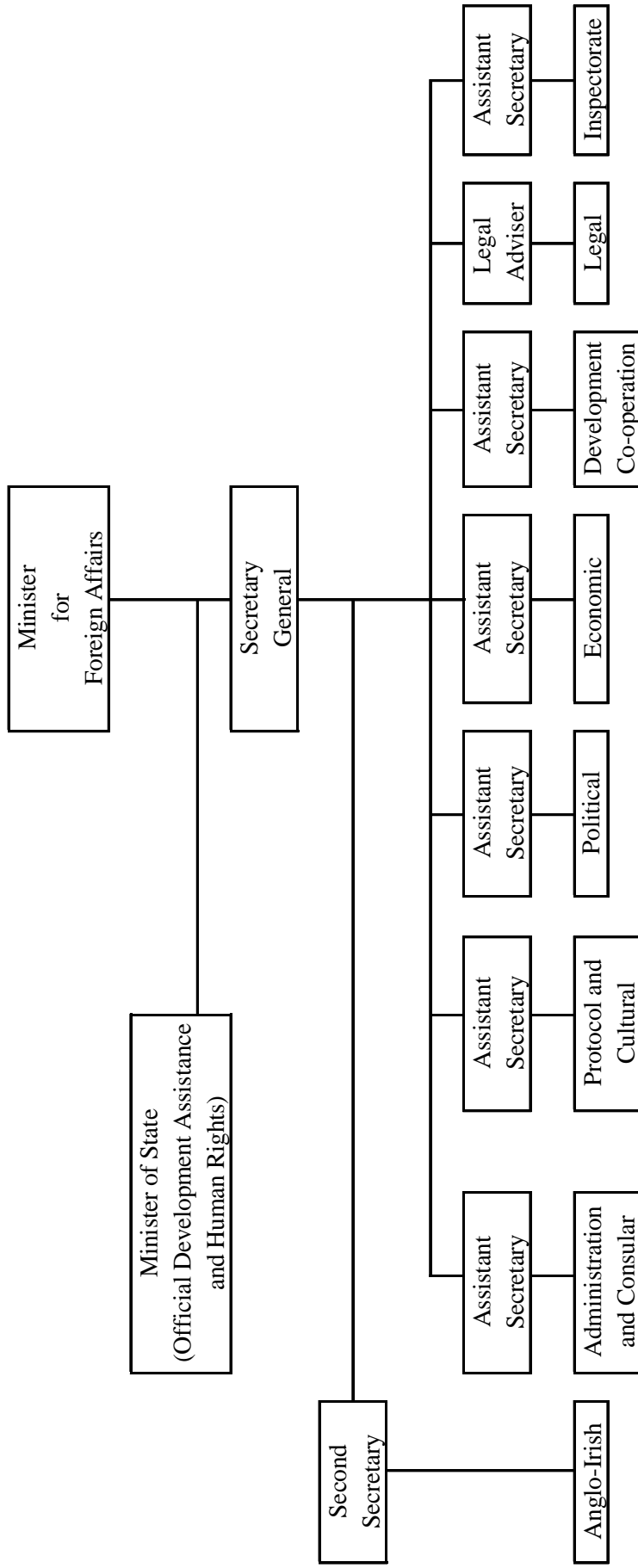
Development Co-operation Division, Department of Foreign Affairs

The Development Co-operation Division of the Department of Foreign Affairs plays the central role in Ireland's development co-operation. It assists the Minister of State in managing the aid programme at the political level and provides support to the Minister for Foreign Affairs in relation to the other aid organisations within the foreign affairs ministerial portfolio. It is responsible for Ireland's overall aid policy and has a co-ordinating role in relation to ODA contributions by other departments. It administers around three-quarters of Ireland's ODA.

The Development Co-operation Division is one of eight divisions within the Department of Foreign Affairs (see Chart 1) and is divided into three sections and a unit for evaluation and audit (see Chart 2). The division manages six priority country programmes, projects in "other bilateral" countries and the NGO schemes and special funds. The division's primary responsibilities in relation to multilateral assistance are the EU development programmes and voluntary contributions to UN development and relief agencies and funds. The division also carries out liaison functions with associated bodies under the responsibility of the Minister for Foreign Affairs -- APSO, the National Committee for Development Education (NCDE), the Refugee Agency and the Irish Council for Overseas Students -- as well as the *Oireachtas* (Parliamentary) Joint Committee on Foreign Affairs and IAAC.

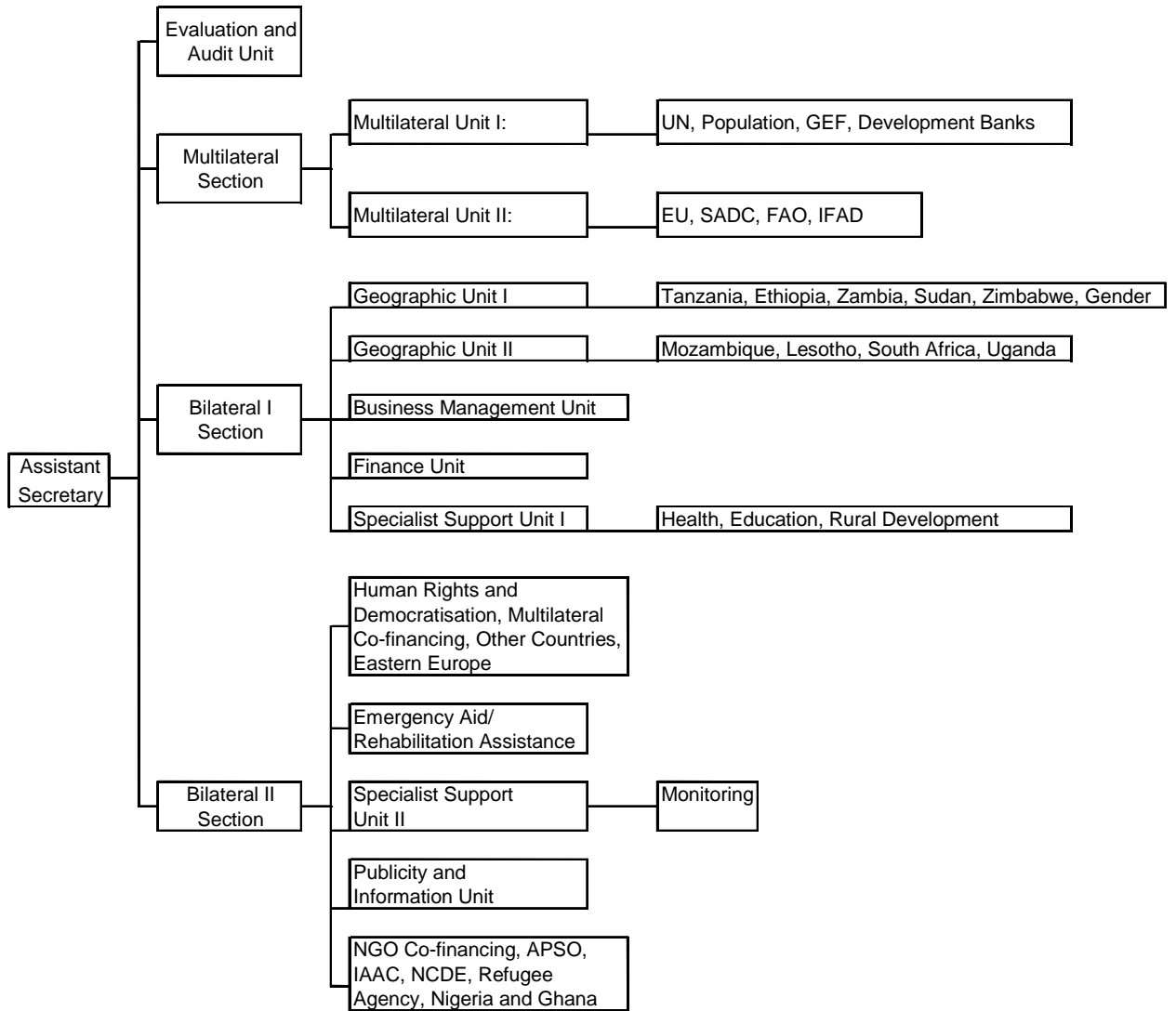
Management and implementation of Irish Aid's priority country programmes are, to a large extent, delegated to the Embassy of Ireland located in each country.

Chart 1. Department of Foreign Affairs



Source: Department of Foreign Affairs.

Chart 2. Development Co-operation Division



Source: Department of Foreign Affairs.

Agency for Personal Service Overseas (APSO)

The mission of the Agency for Personal Service Overseas is to contribute to sustainable improvement in the living conditions of poor communities in developing countries by enhancing human resources, skills and local capacities in the interests of development, peace and justice. APSO pursues its mission by enabling skilled people from Ireland and developing countries to transfer and share their skills and knowledge, on a volunteer basis, and by supporting organisations and communities in developing countries to work towards self-reliance and sustainability.

The Agency was incorporated in 1974 as “a company limited by guarantee and not having a share capital”. Funding comes from an annual grant from the “International Co-operation” budget vote administered by the Department of Foreign Affairs. APSO is governed by an eleven-member Board of Directors appointed by the Minister for Foreign Affairs, including an official from the Development Co-operation Division. Although described as an integral part of Irish Aid, APSO operates autonomously and its activities are administered separately from the rest of the aid programme, both in Dublin and in the field. APSO’s strategic plan for 1999-2003 presents six values to guide the Agency’s programmes and funding support. These values are consistent with, but different from, those of the rest of the Irish Aid programme.

The Agency funds both short- and long-term assignments and co-funds volunteers with other institutions, mainly NGOs. The Agency provides training for development workers, runs a resource centre and maintains a rapid response register from which people can be deployed for service in emergency situations. APSO participates in the European Volunteer Programme (EVP), is the Irish agent for the United Nations Volunteer (UNV) programme and works with a number of other UN agencies.

In 1998, APSO funded 1 261 development workers in 84 countries (see Table 1) from its grant of \$15.2 million. The main sectors of intervention were administration (40 per cent of all assignments), education (26 per cent) and health (17 per cent). APSO’s largest programmes in 1997 were in Kenya (\$1.2 million), Zimbabwe (\$1.0 million) and Uganda (\$1.0 million).

Table 2. **Overview of APSO activities**

	1992	1993	1994	1995	1996	1997	1998
Number of volunteer assignments							
Recruited by APSO	..	..	449	470	597	684	630
Recruited by other agencies	..	..	694	796	799	709	631
TOTAL	440	690	1 143	1 266	1 396	1 393	1 261
Number of countries where assignees placed	..	..	60	76	86	86	84
Funding for APSO							
Ir£ million	2.5	4.5	7.0	8.5	10.5	10.6	10.7
Constant 1997 \$ million	4.2	7.2	11.1	13.4	16.3	16.1	15.6

Source: APSO, OECD.

Half of APSO’s assignees in 1998 were recruited directly by the Agency. APSO’s own programme activities were divided between long-term development assignments (83 per cent of APSO’s direct assignments), the provision of election monitors and supervisors (10 per cent) and a short-term programme for specialists (7 per cent). APSO’s co-funding arrangements mean that the Agency supports a wide

geographical spread. However, in its own programme, APSO maintains a more narrow geographical focus concentrated on 16 priority countries -- mostly least-developed countries -- which received more than half of APSO's assignees in 1997:

- **East Africa:** Kenya (20 APSO assignees in 1997), Tanzania (21) and Uganda (31).
- **Central Africa:** Malawi (11 assignees), Zambia (16) and Zimbabwe (54).
- **Southern Africa:** Lesotho (34 assignees), Namibia (33) and South Africa (21).
- **West Africa:** Burkina Faso (18 assignees), Gambia (45) and Senegal (5).
- **Central America:** Honduras (6 assignees), Nicaragua (11) and El Salvador (27).
- **South-East Asia:** Cambodia (27 assignees).

One of the initiatives in the Irish government's 1993 *Programme for a Partnership Government* was the mandate it gave APSO to widen the scope of its activities and to increase the number of Irish people working in developing countries. A study was undertaken to determine how Ireland could contribute more personnel and expertise to developing countries. The main conclusions of the study were:

- To meet the target of 2 000 people overseas by 1997, APSO should extend its geographic coverage and its type of placements.
- APSO should spread its regional focus, especially in Asia and Latin America, and should consider extending into some Eastern European countries and some middle-income developing countries.
- Health and education will continue to have a prominent place among APSO's main skill areas but should be complemented by new areas such as public administration, business, technical skills and logistics.
- APSO should expand its existing partners -- Irish NGOs, missionary organisations and international agencies -- as well as develop relations with other international institutions and governments.

Since 1993, the APSO programme has expanded rapidly and most of the study's recommendations have been implemented, even if the Agency has not yet attained the quantitative target set for 1997. An expanding economy with improved employment prospects in Ireland has made it more difficult for APSO to recruit suitable development workers to send overseas. As a partial response, APSO has been shifting its emphasis towards greater use of nationals from developing countries, and has changed its regulations to make this possible.

Irish Council for Overseas Students

The Irish Council for Overseas Students assists with the administration of Irish Aid's Fellowship Programme of scholarships for people from developing countries to undertake tertiary studies, usually in Ireland. The Council provides a range of support services for fellowship award holders.

The administrative costs of the Council are met by an annual grant from the "International Co-operation" budget vote administered by the Department of Foreign Affairs. In 1997, this grant

amounted to \$0.3 million. Representatives from the Development Co-operation Division and APSO serve on the Council.

National Committee for Development Education (NCDE)

The NCDE is a consultative body established in 1994. Its aim is to encourage and support groups and structures in promoting development education in all sectors of Irish society. NCDE acts as a conduit for government support to NGOs, schools, community groups, teachers and other institutions with an involvement in education or learning. It provides educational advice, resources and support for programme planning, design and implementation. The NCDE's role also includes policy formulation, research, consultation, evaluation and advocacy to promote good practices.

The NCDE consists of 17 members, appointed by the Minister for Foreign Affairs, who represent governmental and non-governmental organisations in the fields of development, education or development education. An official from the Development Co-operation Division is a member of the Committee. A number of individuals with particular expertise or relevant experience also serve on the Committee. Funding comes from an annual grant from the "International Co-operation" budget vote administered by the Department of Foreign Affairs.

The NCDE's grant from Irish Aid has been about Ir£1 million (approximately \$1.5 million) each year since 1996. The Committee disburses around three-quarters of its grant. The NCDE receives about 130 applications for funding each year. In 1997, it funded over 80 organisations and individuals, with the non-formal education sector receiving 53 per cent of total allocations and the formal education sector 39 per cent of allocations. These grants were used to produce development education resources and materials; conduct campaigns, courses and seminars; produce drama and audio features; work with schools and students; provide training and in-service development for teachers; and engage in a range of other activities designed to get people to think about and act upon development issues. The NCDE also runs a resources centre and uses some of its funding pro-actively to stimulate new initiatives.

Refugee Agency

The role of the Refugee Agency is to co-ordinate the admission, reception and resettlement of programme refugees in Ireland. The Agency also supports refugees who are able to and wish, on a voluntary basis, to be repatriated to their home country. To date, over 600 Vietnamese and 800 Bosnians have been admitted to Ireland as programme refugees.

The Agency was established in 1991 as a non-statutory body under the aegis of the Department of Foreign Affairs. Funding comes from an annual grant from the "International Co-operation" budget vote administered by the Department of Foreign Affairs but is not included in Ireland's ODA. Ireland does, however, record in its ODA the travel costs to Ireland for refugees, as permitted by the DAC's Statistical Reporting Directives. In 1997, Irish Aid's grant amounted to \$0.5 million. The Agency is governed by a Board, appointed by the Minister for Foreign Affairs, comprising representatives from seven government departments involved with refugee issues, including the Development Co-operation Division. In addition, six observers are appointed to represent the United Nations High Commissioner for Refugees (UNHCR), voluntary organisations and individuals active in the field of refugee welfare.

Other departments

Eight other government departments are involved in Ireland's national effort in support of development co-operation:

- The **Department of Finance** has primary responsibility for Ireland's relations with the World Bank group, including the International Development Association (IDA), and the EBRD, and for the payment of contributions to international financial institutions. The department provides Ireland's advisor to the World Bank and its alternative executive director to the International Monetary Fund (IMF).
- The **Department of Agriculture and Food** provides contributions to international organisations working to improve food security: the World Food Programme (WFP), the Food and Agriculture Organization (FAO) and the International Fund for Agricultural Development (IFAD).
- The **Department of Health and Children** provides Ireland's contributions to the World Health Organization (WHO) and UN population and development programmes.
- The **Department of Education and Science** pays Ireland's contribution to the UN Educational, Scientific and Cultural Organization (UNESCO).
- The **Department of Enterprise, Trade and Employment** pursues policy issues related to Ireland's concerns about the integration of developing countries into the global economy in appropriate international fora, such as the EU and the World Trade Organization (WTO). The department also provides Ireland's contribution to the World Intellectual Property Organization (WIPO) and the International Labour Organization (ILO).
- The **Department of Environment and Local Government** provides funding for the Global Environment Fund (GEF) and the UN Environment Programme (UNEP).
- The **Department of Defence** pays a contribution to the International Committee of the Red Cross (ICRC).
- The **Department of Public Enterprise** provides Ireland's contributions to the International Atomic Energy Agency (IAEA), the International Telecommunications Union (ITU), the Universal Postal Union (UPU) and the World Meteorological Organization (WMO).

These departments work in close association with the Department of Foreign Affairs which, on occasion, supplements Ireland's mandatory contributions with voluntary payments from its own budget allocation.

Internal co-ordination and coherence of national policies towards developing countries

Partly due to the relatively small size of Ireland's government and aid programme, informal co-ordination between departments can still work effectively, enabling Ireland to achieve a good degree of coherence in most of its policies towards developing countries. Discussions occur frequently and easily on a broad range of issues and these views are then fed back into deliberations within the Department of Foreign Affairs itself. Such an open and collaborative spirit is not always apparent in many administrations, even smaller ones. The challenge for Ireland, as the programme continues to grow and inevitably becomes more formalised, will be to ensure that internal co-ordination continues to operate as effectively as at present.

An objective announced in *Promoting Ireland's Interests* is to strengthen the management of Irish Aid by increasing the coherence and synergies between the various organisations involved in the delivery of Irish Aid. Mechanisms exist within the Irish Aid system for collaboration on the implementation of bilateral and multilateral programmes, while co-ordination with other agencies and channels remains more informal. An Inter-Departmental Committee (IDC) on Development Co-operation exists which each year

decides on the sub-division of Irish Aid's budget allocation among its various programme activities. This committee comprises representatives from the Departments of Foreign Affairs; Finance; Agriculture and Food; Health and Children; Education and Science; and Enterprise, Trade and Employment, as well as APSO. Approval of individual aid allocations for projects and programmes administered by the Department of Foreign Affairs is considered by the Projects Appraisals and Evaluation Group (PAEG), a sub-committee of the IDC with a more restricted membership. There is also a degree of cross-representation at the level of the various boards or committees that each organisation within the foreign affairs ministerial portfolio has established to set general orientations.

It appears that better coherence and synergy across the 13 departments, agencies, committees and councils involved with Ireland's aid programme is possible. Integration of APSO with the main programme managed by the Development Co-operation Division is one option which could be explored -- as a minimum, closer co-ordination between APSO and the Department of Foreign Affairs is needed, especially in Lesotho, Tanzania, Uganda and Zambia which are priority countries for both programmes. Rationalisation of some of these bodies is also a possibility. Another option would be to expand the mandate of the IDC to co-ordinate the Irish government's various measures relating to developing countries and ensure overall policy coherence. The role of the PAEG could also be expanded to become the project and programme approval body for all of Ireland's aid activities.

As a large exporter of agriculture products and an EU Member State, Ireland almost unavoidably has found its development co-operation objectives diluted at times by trade practices. Subsidised agricultural exports have flooded markets in developing countries which reduces the incomes of local smallholder producers or traditional exporters to these markets and, in turn, impairs the role of agriculture as an engine for economic growth. Examples include Irish beef exports to western Sahel and South Africa and butter exports to South Africa. Ireland is aware that these practices, which represent only a very small share of its export volume, can damage local markets in developing countries. The inconsistencies between Ireland's trade and development co-operation policies have been acknowledged by the Minister of State responsible for development co-operation. Ireland's efforts to avoid such occurrences include an advocacy role for development issues within the Department of Agriculture and Food. Ireland also pursues these matters through its participation in relevant EU fora.

In 1999 as Ireland celebrates the 25th anniversary of its official aid programme, a special statement of national commitment to promoting development and reducing poverty in developing countries as priority goals for all government policy could strengthen awareness of what has been achieved and help consolidate public and political support for further challenges.

How best to manage growth in the aid programme

Managing growth in aid volume

Many DAC Members have seen their aid programmes grow, or decline, rapidly. One lesson that can be drawn from these experiences is that growth which is too rapid or too erratic is destabilising for the long-term efforts of an aid agency and can jeopardise aid quality and effectiveness, and thus the value of the aid programme. Managing a sustained and significant increase in aid well requires setting an orderly growth path, with a clear target, and milestones along the way.

The Minister of Finance's commitment to increase allocations for the Department of Foreign Affairs' part of the aid programme provides Irish Aid with an orderly growth path for 2000 and 2001. However, it is currently not clear how this commitment meshes with the government's target for ODA of 0.45 per cent of GNP by 2002 -- whether additional allocations should be expected in 2000 and 2001 or if the programme will surge from its currently estimated level of 0.37 per cent of GNP in 2001 to 0.45 per cent

of GNP in 2002. Clarifying this point and establishing mid-term milestones for Ireland's ODA on the way to the ultimate goal of 0.7 per cent of GNP would be desirable to ensure the programme continues to expand under favourable conditions.

Human resources

To manage Irish Aid's growing programme, the Development Co-operation Division has had to improvise and patch together temporary ways of reinforcing staff capacities, in Dublin and in the field, within complex government staffing regulations. Hiring specialist staff on two-year renewable contracts -- whose role, somewhat paradoxically, is to provide continuity in the programme -- has become common practice. But even with these additional resources, the number of staff currently available to manage the Irish Aid programme -- 82 people in 1999 (see Table 2) -- is widely seen as inadequate and must be reinforced if Ireland's contribution to development co-operation is to be maintained and further enhanced.

To aggravate this problem of resources, constraints on staff mobility and administrative obstacles limit the division's capacity to manage and deploy its staff optimally and to offer career possibilities for all its staff. The division and embassies in priority countries are managed by career diplomats, on rotations of two-to-four years' duration. In Dublin, these people are supported by general service staff, mainly in administrative and support positions, and specialists on two-year renewable contracts. Neither of these latter groups can serve overseas. In priority countries, the programmes are administered by programme officers, on two-year renewable contracts for up to a maximum of five years in any one country, who cannot be redeployed to Dublin. In Irish Aid's structure, only diplomatic staff at the first secretary level can serve both in Dublin and in the field. The Irish Aid system is thus fragile and vulnerable, as within just a few years many, and potentially all, of Irish Aid's current staff will have moved on or been redeployed to another part of the department. Institutional memory and operational expertise will be lost in this process.

Table 3. **Staff levels for the Development Co-operation Division and Irish Aid field offices in priority countries**

	1992	1993	1994	1995	1996	1997	1998	1999
In Dublin								
Diplomats	10	10	11	11	11	14	14	15
General Service staff	14	19	25	33	39	37	37	36
Contract staff	3	4	4	4	7	8	10	10
<i>Sub-total</i>	27	33	40	48	57	59	61	61
In the field:								
Diplomats	2	2	4	4	4	5	5	5
General Service staff	1	1	1	1	1	1	1	1
Contract staff	1	1	6	6	11	11	15	15
<i>Sub-total</i>	4	4	11	11	16	17	21	21
Total	31	37	51	59	73	76	82	82
<i>For reference:</i>								
ODA administered by the Department of Foreign Affairs								
Ir£ million	22.9	36.4	49.9	66.1	78.2	92.6	103.9	106.0
Constant 1997 \$ million	38.3	58.3	78.9	104.1	121.1	140.2	151.3	..
ODA per staff member								
Constant 1997 \$ million	1.2	1.6	1.5	1.8	1.7	1.8	1.8	..

Source: Department of Foreign Affairs, OECD.

If the current organisational structure is maintained, several changes could be considered to improve performance. One suggestion is to structure a development specialisation within the diplomatic stream which could lead to the highest positions within the Department of Foreign Affairs. This would involve ensuring that most levels of diplomatic staff are represented both in Dublin and in the field. Representation in some of the priority countries could be up-graded to full ambassador status or an ambassador with regional responsibilities for development co-operation could be placed in the field. Where ambassadors are stationed in developing countries, they should be supported by junior diplomats, in programme administration roles.

Creating a core-group of competent, specialised contract staff is crucial for Irish Aid. For contract staff, the present two-year duration appears unnecessarily cautious and Irish Aid would improve staff motivation and commitment through longer contracts, particularly for those with proven capacity. More general selection criteria and job descriptions could be used to recruit contract staff, enabling those who so wished to be subsequently redeployed, thus increasing interchange between Dublin and the field.

The situation of programme officers merits particular attention. This position was created when the aid programme began expanding in 1993. Programme officers have come to play a pivotal role in the management of Irish Aid's programmes in the field. Several are now reaching their five-year limit. Current policy would require their contracts not be renewed, if it is not possible to transfer them to another posting, which would be detrimental. It would consequently seem timely to review the basis of their employment. It would also seem beneficial if some of the experience gained by programme officers could be brought back to Dublin.

The Department of Foreign Affairs has commissioned a review of the adequacy of the Development Co-operation Division's existing management resources, structures and processes in respect of the aid policy and programme. The review is expected to consider options and make detailed recommendations concerning the most appropriate management arrangements for the future, within the constraints inherent in the Irish civil service environment. It is critical that this review results in the provision of the additional staff, in Dublin and in the field, which Irish Aid needs.

As a state-sponsored body and not a government department, APSO has greater flexibility in staffing matters and appears to have more adequate resources to manage its share of the Irish Aid programme. In 1998, the Agency employed a staff of 62, in Dublin and in the field, slightly fewer than the Development Co-operation Division's staff level (see Table 3).

Table 4. Staffing levels in Irish Aid programme

	1992	1993	1994	1995	1996	1997	1998
Development Co-operation Division							
in Dublin	27	33	40	48	57	59	61
in the field	4	4	11	11	16	17	21
Agency for Personal Service Overseas							
in Dublin	19	19	26	31	32	32	32
in the field	..	..	..	..	..	..	30
Outposted to associated bodies							
Irish Council for Overseas Students	..	..	..	..	..	..	6
Refugee Agency	..	..	..	..	..	..	9
Irish Aid Advisory Committee	n.a.	n.a.	1	1	1.5	1.5	2
National Committee for Development Education	n.a.	n.a.	6	6	6	6	6
TOTAL	..	..	..	..	..	..	167

Source: Department of Foreign Affairs.

With a total of 23 people in 1998, staff levels at the four other bodies associated with the Irish Aid programme — the Irish Council for Overseas Students, the Refugee Agency, IAAC and NCDE — appear adequate for the tasks required of them, but generous in comparison to the staffing level at the Development Co-operation Division.

Possible organisational options for Ireland's aid programme

For the short- to medium-term, through a period of consolidation, reinforcing the existing organisation by all means described above would seem to be the preferable option.

In the longer-term, planning and assessment can be carried out on other possible options:

- Maintain the improved *status quo* arrangements outlined above.
- Establish an independent implementing agency for the bilateral programme.
- Create a fully-integrated, geographically-based Department of Foreign Affairs.
- Create an administratively-autonomous aid agency or department, possibly integrating APSO (it is doubtful whether Ireland's aid programme has the critical mass which would make this option a viable alternative).

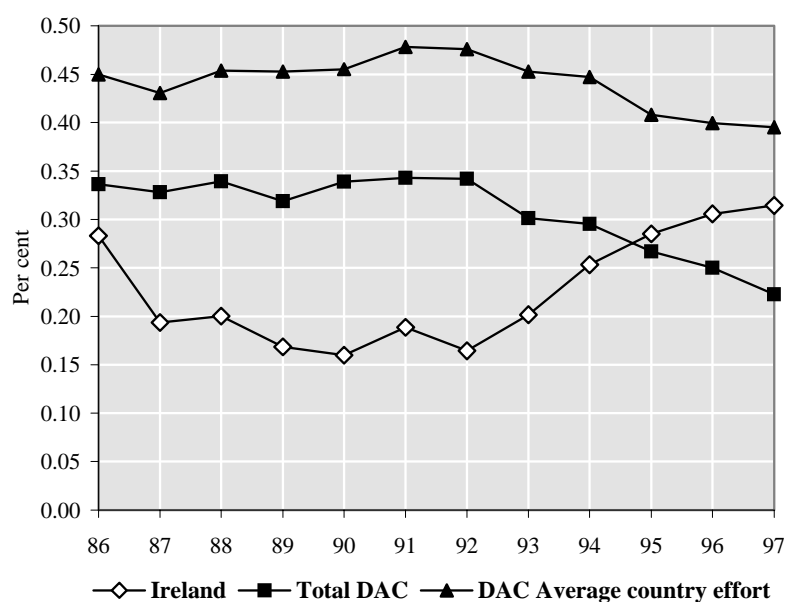
Establishing an independent implementing agency

This option is probably the most appealing from an operational point of view. The Department of Foreign Affairs would maintain overall political responsibility for the programme as a whole, as well as specific responsibility for multilateral assistance, bilateral aid policy and secretariat and liaison functions for associated bodies, such as the Irish Aid Advisory Committee. An implementing agency could be

established as an independent state-sponsored body, which would allow greater flexibility in staffing matters while offering staff greater employment stability and improved career prospects.

Creating an integrated Department of Foreign Affairs

Another option might be to “de-compartmentalise” development co-operation within the Department of Foreign Affairs by creating integrated regional/country desks to take responsibility for all aspects of Ireland’s bilateral relations: foreign policy, trade and, in the case of relations with developing countries, development co-operation. This has been done in some other DAC Member countries. It would not appear, however, to be a preferable option in view of the size of Ireland’s Department of Foreign Affairs and the dilution of aid experience this option would entail.



Source: OECD.

In its 1993 *Programme for Partnership Government*, the Irish government pledged to increase Ireland's ODA to 0.20 per cent of GNP in 1993 and by 0.05 per cent of GNP each year thereafter, so as to put Ireland on a par with many of its European partners and make steady progress towards achieving the UN goal of 0.7 per cent of GNP. Based on GNP estimates available in mid 1993, *Irish Aid: Consolidation and Growth* projected the financial resources that would be needed to meet these targets (see Table 7). The target for ODA volume was exceeded in 1994, 1995 and 1996 but was not met in 1997 (although the 1997 target was reached in 1998). Ireland's ODA/GNP ratio was on target in 1993 and 1994 but rapid growth in Ireland's GNP, which increased by 43 per cent in real terms between 1992 and 1997, meant that the ratio quickly started to fall behind target in subsequent years.

Table 5. Targets set in 1993 for Ireland's ODA

	1993	1994	1995	1996	1997	1998
<i>Projected performance</i>						
ODA volume (Ir£ million)	-	71	90	110	135	n.a.
ODA/GNP ratio (%)	0.2	0.25	0.30	0.35	0.40	n.a.
<i>Actual performance</i>						
ODA volume (Ir£ million)	54.7	75.2	96.1	112.0	124.1	139.6
ODA/GNP ratio (%)	0.22	0.25	0.29	0.31	0.31	0.30

Source: Department of Foreign Affairs.

In 1998, Ireland's net ODA disbursements were \$199 million (Ir£ 140 million), the equivalent of 0.30 per cent of GNP. Budget allocations for aid for 1999 are Ir£178 million (226 million euro), a projected 0.35 per cent of GNP.

Official aid

Data supplied to the DAC indicates that Ireland's net official aid disbursements to countries in transition and the more advanced developing countries fell from \$21 million in 1995 to \$1 million 1996 and 1997. However, Ireland provides official aid through a range of bilateral and multilateral mechanisms and its official aid performance would seem to be more substantial than reported.

Some of Irish Aid's regular development co-operation activities benefit countries in transition. In 1997, the Human Rights and Democratisation Programme funded activities in Russia (Chechnya), the Emergency Humanitarian Assistance Fund was used in Russia (Chechnya) and the Czech Republic while the NGO Co-Financing Scheme funded projects in Bulgaria, Romania and Russia. APSO has placed development workers in Hong Kong, China; Poland; Romania and Russia (Chechnya). Irish Aid has a small budget for direct bilateral activities in Eastern Europe. Ireland funds a Technical Co-operation Fund at the European Bank for Reconstruction and Development, which finances the work of Irish consultants and firms on EBRD projects, and part of Ireland's Consultancy Trust Fund at the World Bank is ear-marked for work in transition countries.

Ireland's multilateral official aid includes its contributions as a member of the EBRD and a share of the official aid disbursed by the EU funded from its own budget resources credited back on a *pro rata* basis. However, no multilateral official aid was notified for either 1996 or 1997.

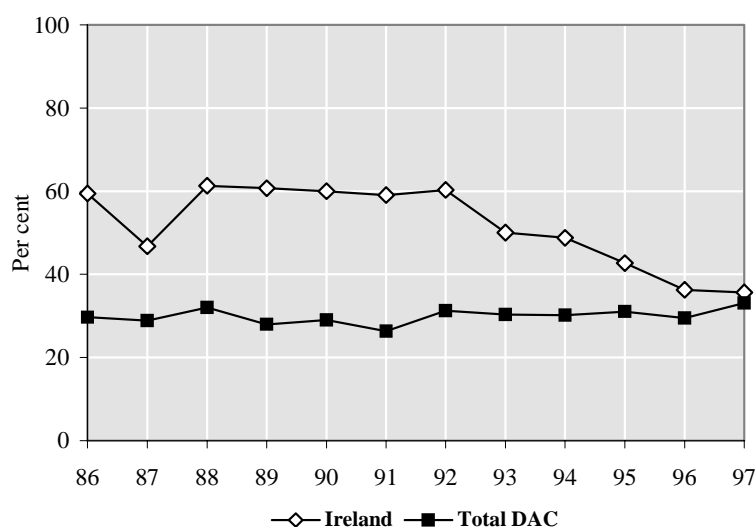
ODA composition

Irish Aid: Consolidation and Growth included the intention for expenditure on both bilateral and multilateral assistance to increase substantially, but with bilateral funding to increase at a faster rate than multilateral so as to achieve a situation where two-thirds of aid is bilateral and one third multilateral. Between 1993 and 1997, Ireland's bilateral ODA nearly trebled, in real terms, while multilateral assistance increased by 50 per cent. The share of multilateral assistance in Ireland's programme fell from approximately 60 per cent at the beginning of the 1990s to 35.6 per cent in 1997, close to the average for EU Member States (35.1 per cent) but slightly above the DAC average (33.1 per cent) (see Table II-6 and Figure 2).

As planned in *Irish Aid: Consolidation and Growth*, the expansion in Ireland's bilateral aid programme has principally occurred through increases in technical co-operation, project and programme aid, and emergency and disaster relief (see Table II-2). Current commitments for bilateral debt relief actions, for Mozambique and Tanzania, began in 1997 and will continue until 2000. By DAC standards, Ireland channels a considerable amount of its ODA through various NGO funding schemes -- an estimated 15 per cent of total ODA in 1997 -- but as Ireland does not notify the amounts involved to the DAC, the corresponding figures do not appear in Table II-2. Ireland has no funds or public financial institutions that directly finance export credits and no programme for associated financing.

The major portion of Ireland's multilateral assistance is through the EC, both Ireland's share of the EU's ODA budget resources and contributions to the European Development Fund. Together these accounted for more than one fifth of Ireland's ODA in 1997. Ireland also makes mandatory and voluntary contributions to UN agencies -- particularly the UNDP, UNHCR and UNICEF -- as well as provides support to the World Bank group. Ireland is not a member of any of the regional development banks whose activities primarily favour developing countries (although Ireland is a member of the EBRD). Ireland supports the promotion of food security in developing countries through its contributions to the Food Aid Convention, FAO, WFP and IFAD, as well as through its support for the EU's Food Security and Food Aid budget.

Figure 1. **Share of multilateral ODA in total ODA**



Source: OECD.

Geographic distribution of bilateral ODA

With its clear concentration on sub-Saharan Africa and least-developed countries, Ireland's bilateral aid programme is among the most strongly focussed in the DAC. In 1997, Ireland's gross ODA disbursements to sub-Saharan Africa accounted for 86 per cent of its allocable bilateral ODA (DAC average: 30 per cent) whilst assistance to least-developed countries accounted for 77 per cent (DAC average: 26 per cent) (see Table II-3). Irish ODA to least-developed countries, both bilateral and through multilateral agencies, reached 0.15 per cent of GNP for the first time in 1997 (DAC average: 0.05 per cent) (see Table II-6).

Although Ireland's bilateral programme has managed, by DAC standards, to remain focussed as the aid budget has increased, some signs are apparent of a tendency to greater geographic dispersion. In 1986-87, 76 per cent of allocable bilateral gross disbursements were channelled to Irish Aid's four priority countries (see Table II-4). By 1991-92, this share had fallen to 58 per cent and by 1996-97, Irish Aid's six priority countries received 56 per cent of bilateral ODA. Another indication of the growing dispersion in Ireland's programme is the number of recipients: 50 countries in 1986-87, 63 in 1991-92, rising to 105 in 1996-97. Some of the reasons for this greater geographic dispersion are the increase in size and number of Irish Aid's "other bilateral" country programmes and increased financing for programmes which can be disbursed in most developing countries: the various NGO schemes (including the Cofinancing Scheme, funding for which increased fourfold between 1992 and 1997), the new funds for human rights and democratisation and for post-emergency rehabilitation, and the APSO programme.

Sectoral distribution of bilateral ODA

The evolution of the sectoral distribution of Ireland's bilateral assistance shows both a greater concentration on social sectors and growing support for other types of activities. In 1996, more than half of Ireland's bilateral ODA disbursements supported the social infrastructure and services sector, in particular education and, increasingly, health and water supply and sanitation (see Table II-5). Ireland's level of support was significantly more than the DAC average of 32 per cent. The share of Ireland's bilateral ODA directed towards productive sectors fell from 24 per cent in 1986-87 to 7 per cent in 1996 (DAC average in 1996: 14 per cent). Over the same period, a small rise occurred in the share of the

programme directed towards the transport and storage sub-sector, reflecting Ireland's growing involvement in road rehabilitation in some of Irish Aid's priority countries. The share of Ireland's bilateral ODA supporting emergency assistance also rose, from 4 per cent in 1986-87 to 16 per cent in 1996 (DAC average in 1996: 5 per cent). As from 1997, Ireland's actions relating to bilateral debt relief will become an additional component in Ireland's programme.

Technical co-operation

Reflecting the strong human resources development character of Ireland's bilateral assistance, technical co-operation has grown to become the largest component in Ireland's aid programme. In 1997, technical co-operation accounted for 39 per cent of total ODA. In that year, Irish Aid's six priority countries received more than two-thirds of Ireland's technical co-operation. Other large beneficiaries were South Africa, Zimbabwe, Rwanda, Kenya and Nigeria.

While not apparent from the increased disbursements for technical co-operation, Ireland has reduced by two-thirds the number of expatriate technical assistants in its priority countries, from 70 in 1992 to 25 in 1998. Over the same period, Ireland has increased its use of local technical experts and trebled, since 1992, the number of APSO development workers in developing countries.

Procurement policies and aid tying

Recognising that the reasons for giving ODA are first and foremost humanitarian, purchases of supplies for Ireland's aid programme are unrestricted and have traditionally not been tied to the purchase of Irish goods. In practice, most supplies are purchased within recipient countries or from international suppliers. Less than 1 per cent of ODA funds purchases from Ireland.

At the same time, several parts of Ireland's aid programme are almost inevitably spent in Ireland. An internal Irish Aid study conducted in 1996 found that expenditures in Ireland could represent close to 30 per cent of the bilateral budget, i.e. nearly \$35 million. Technical assistance frequently involves the use of Irish consultants. Many of the costs associated with the training of nationals from developing countries, including through the Fellowship Programme, are spent in Ireland. APSO development workers, almost all of whom are Irish, receive a resettlement grant on their return home. Ireland's consultancy trust funds with the World Bank and EBRD are reserved for Irish consultants and firms. By their nature, NCDE's development education activities and headquarter administrative costs involve expenditures in Ireland.

As regards Ireland's emergency humanitarian assistance, *Irish Aid: Consolidation and Growth* proposed that, while taking account of the needs of individual situations and the cost effectiveness of emergency assistance operations, every effort will be made to ensure that as much as possible of the material, medicine, food products, blankets and equipment provided are Irish made.

In some isolated cases, Ireland also restricts tendering to Irish firms. This occurred in Uganda for the tender to prepare the road design for the trunk road running through the District of Kibaale. Subsequently, when Irish Aid agreed to fund another project to rehabilitate the trunk road leading into the district, the Ugandan government requested that the same Irish firm be used again.

Other financial flows to developing and transition countries

Grants by non-governmental organisations (NGOs)

Support for the development co-operation activities of NGOs is strong in Ireland, reflecting both Ireland's history of direct contact with developing countries through its missionary tradition and a profound sense of solidarity between the Irish and people in developing countries. In 1997, grants by

NGOs totalled \$56 million, the equivalent of 0.09 per cent of GNP. Ireland's private grants/GNP ratio is the second highest in the DAC, just behind the Netherlands (0.10 per cent) and ahead of Norway (0.08 per cent).

Private flows at market terms

Reporting of Ireland's private flows to developing and transition countries appears incomplete and this hampers a full analysis of Ireland's financial relations. Between 1992 and 1995, Ireland's notifications of private flows consisted of export credits, while for 1996 and 1997 flows were notified for bilateral portfolio investments. It is possible that Ireland's total private flows take a number of different forms each year and are, in total, more substantial than the figures reported to the DAC.

Statistical reporting

Ireland reports to the DAC on two core tables only: DAC 1 on official and private flow aggregates and DAC 2a on the geographical distribution of ODA disbursements. Due to limited resources being available in Dublin for statistical work, no data on ODA commitments or tying status are reported to the DAC and data on sectoral distribution is reported irregularly. Ireland's private sector flows to developing countries are only reported in aggregate on DAC Table 1, no breakdown by recipient country is provided. Ireland does not report on individual commitments to the Creditor Reporting System (CRS).

Some notable improvements are to be expected from Ireland's statistical reporting in the future, as a new computer system is being set up to collect and compile data. This should enable Ireland to report to the CRS and to submit more complete data to the DAC, especially on commitments and the sectoral distribution of ODA.

ITALY

BROADER POLICIES AFFECTING DEVELOPING COUNTRIES

Policy coherence mechanisms

There is no specific inter-ministerial mechanism for dealing with coherence in development co-operation *per se* in the Italian government. Within the MFA, the Council for International Affairs, chaired by the Foreign Minister, was recently set up to analyse the main lines of foreign affairs policy and to advise on overall foreign policy, including how to improve co-ordination and coherence. To date, it has met once, in January 2000. If it functions well, it could provide suggestions for improving coherence within the ministry. The CIPE, which approved the guidelines for a new development co-operation in 1995, is an inter-ministerial mechanism for reviewing budgets and plans of ministries. In theory, it is a mechanism that could be used for improved coherence, but in fact, does not do so. Of course, on the broadest level, the Council of Ministers exists to assure coherence within the government itself. As a practical matter, coherence and co-ordination between ministries is maintained on specific issues, such as the co-ordination that exists on a permanent basis between the Ministry of Foreign Trade (MOFT), the Treasury and the MFA on multilateral policies.

Since the last Peer Review in 1996, co-operation between the MFA and the Treasury has significantly improved. The Treasury is a permanent member of the Steering Committee and bears full responsibility for IFIs. It regularly consults with the DGCS through its Directorate for Economic and Financial Multilateral Affairs on policy issues as well as operational aspects, such as harmonising criteria for the management of trust funds with the World Bank and multilateral replenishment negotiations. An increased attention to poverty reduction strategies has emerged in recent years in the dialogue between the MFA and the Treasury. This was also reflected in the preparatory process for G-7 summits.

Within the current framework, the Parliament discusses ODA allocations, at different stages, that are managed by the MFA and the Treasury. The new law would address this.

When Italy has become involved in specific programmes of wide import, involving two or more ministries, co-ordination is instituted on a regular basis between them, such as was seen in Albania (with defence, foreign affairs, treasury and other relevant ministries).

Italy and debt relief

At the end of 1998, the stock of ODA debt owed to Italy amounted to USD 5.3 billion. This is only 3% of total ODA debt outstanding. Compared with the overall geographical distribution of ODA debt, Italy has loaned nearly equal amounts to each of the major regions, whereas the other major creditors have preferred to concentrate on Asia (which owed 60% of total ODA debt in 1998).

Since 1995, Italy has cancelled USD 650 million to 11 countries. The main beneficiaries of this forgiveness were: Tanzania (USD 258 million of ODA debt was cancelled in 1993) and Mozambique (USD 166 million in 1996). Angola, Cyprus, Gabon, Mali, Nicaragua, Senegal, Sierra Leone, Somalia and Zambia were the other beneficiaries.

The most recent development in debt relief was the announcement in April 2000 of a debt swap of ITL 200 billion (about USD 100 million) with Morocco, with the local counterpart fund to be used for

social development purposes. This was Italy's first announced debt swap, but others are expected to follow with Heavily-Indebted Poor Countries (HIPC). The agreement between Italy and Morocco for the conversion of USD 100 million of debt into public investment states that eligible expenses will be accounted for in the state budget, or in the budget of other Moroccan public institutions. The conversion will take place through instalments (one every six months), beginning on 31 December 2000. Every six months, Italy will cancel an amount correspondent to the certified eligible expenses incurred by Morocco. The financial resources made available by the conversion will be used to support programmes and projects in the social and environmental sectors, in accordance with the priorities of the Italian Co-operation. The parties have set up a technical management committee in charge of the approval of the programmes and projects formulated by the Moroccan side, of monitoring the implementation and certifying the completion of the programmes.

A draft new law on debt relief is being discussed in Parliament, which would allow debt relief for countries other than HIPC below USD 300 per capita, with a ceiling of USD 150 million. Under this new law, debt cancellation is dependent on progress being made on key issues such as poverty reduction, governance and human rights. Following the *Jubilee 2000* campaign for increased debt relief, supported by the Catholic Church, NGOs and institutions of civil society, the government proposed the extension of debt relief to all HIPC eligible countries, with an increased ceiling. According to the DGCS, implementation of these measures would lead to debt relief of at least USD 2.5 billion, of essentially commercial non-ODA debt.

The Italian Export Credit Agency (SACE) guarantees export credit loans of about USD 17 billion to Part 1 countries, but of these outstanding loans, nearly half have been rescheduled through the Paris Club, either at concessional or market conditions, depending on the type of arrangement. In the case of debt reduction (Naples, Houston, Lyons terms), Italy has preferred to apply the Debt Service Reduction option rather than Debt Stock reduction. This leaves amounts covered by the agreement to be repaid over a long maturity period at lower interest rates, leading to a net present value equivalent to the agreed level of debt reduction. In the past, Italy has followed the DAC Guidelines in reporting these amounts as ODA flows in the DAC, when the concessionality level was equal or over 25%. Following the new directives, the equivalent to the debt reduction amount will be reported as an ODA grant and the rest of the loan reported as other official flows (OOF). It should be noted that the ODA debt mentioned above does not include rescheduled export credits.

HIPC Initiative

Italy, like all major creditors, is participating in the HIPC Initiative through the Paris Club. It may be noted that Italy is second only to France and Belgium in the importance of the 41 HIPC countries in its total loans to all Part 1 countries. This is in part due to the choice of the debt service reduction option, but also reflects past policy of loans to poorer countries (Source: *External Debt Statistics* 1997-98, Table E).

Italy has also pledged USD 70 million to the HIPC Trust Fund, one-third of which is to be provided by June 2000 and the remainder in 2001. Since Italy is also contributing USD 92 million as a Member of the EU, based on its contribution to European Development Fund, Italy's total contributions to the HIPC Trust Fund amounts to USD 162 million.

JAPAN

POLICY COHERENCE

Introduction

This chapter addresses the coherence between Japan's development assistance objective to integrate developing countries into the global economy and its trade and investment regime. In particular, it will discuss some important sectors to potential exporters of developing countries where Japan, along with other OECD Members, could consider more generous market access, which may also benefit domestic consumers.

Institutional framework

In Japan, formulation of trade policies involves ministries such as MOFA, Ministry of International Trade and Industries, MOF and the Ministry of Agriculture, Forestry and Fisheries, as well as the Economic Planning Agency and the Japan Fair Trade Commission. Jurisdiction for issues related to trade in services is also shared with sectoral ministries, including Ministry of Posts and Telecommunications, Ministry of Transport, Ministry of Construction and Ministry of Justice. Ministry of International Trade and Industries, MOF and Ministry of Education are in charge of trade-related intellectual property rights. Foreign direct investment (FDI) is governed by the 1949 Foreign Exchange and Foreign Trade Law (amended in 1998) supplemented with Cabinet and ministerial orders.

Policy coherence is sought both at the Cabinet level and through a number of fora under the direct responsibility of the Prime Minister. These include the Cabinet Secretariat Council's Offices on Internal and External Affairs, the Ministerial Conference for Economic Measures, the Trade Conference, the Office of Trade and Investment Ombudsman and the Japan Investment Council. In addition, a number of government-affiliated advisory councils are also involved in achieving consensus for government policies. The most important permanent councils dealing with trade-related issues are the Economic Council, the Customs Tariff Council, and the Industrial Structure Council.

Trade patterns

In the 1990's, Japan's investment and trade flows became increasingly focused on Asia, and more specifically towards East Asia. To a large extent, this focus reflects the relocation of numerous Japanese manufacturing firms to neighbouring East Asian countries in order to take advantage of low production costs. As overseas production by Japanese-owned firms increased, Japanese trade with these East Asian countries intensified based on a new "division of labour".

During this period, the pattern of Japan's imports from developing countries have become more geographically pronounced. Asian developing countries are now the main source of Japan's imports of "low-tech", intermediate, and intra-firm manufacturing goods; Latin American and African countries account for the bulk of Japan's agricultural and mining imports; and imports from the Middle East are predominantly fuels (Table 4). Not only has the geographic pattern of Japan's trade changed during the 1990, the composition of imports has also altered. In line with developments in other OECD economies, the relative importance of agriculture, mining and fuels in total imports has declined, while imports of

manufactures and services have increased. This shift in demand has reinforced Japan's trade focus on Asia. A further breakdown of Japan's trade with developing countries by income group reveals that, in general, Japan's trading relations with LLDCs are extremely minor and have become of much less importance than for OECD countries as a whole, excluding Japan (Tables 5 and 6).

Table 6. **Commodity breakdown of Japan's merchandise trade by geographic region: 1997**

Product categories as a per cent of world total

		Agriculture	Mining	Manufactures	Machinery/ transport	Textiles	Clothing
Asia	<i>Exp</i>	73	79	44	39	74	56
	<i>Imp</i>	38	37	46	41	72	82
Latin America	<i>Exp</i>	1	1	3	1	4	1
	<i>Imp</i>	8	6	1	1	1	<1
Africa	<i>Exp</i>	1	<1	1	1	1	<1
	<i>Imp</i>	2	3	<1	0	<1	<1
North America	<i>Exp</i>	14	13	30	33	9	19
	<i>Imp</i>	39	6	29	37	7	5
EU	<i>Exp</i>	9	5	16	21	17	9
	<i>Imp</i>	8	1	21	20	17	12
World	<i>Exp</i>	100	100	100	100	100	100
	<i>Imp</i>						

Source: WTO.

Table 7. **Share in Japan's total trade imports**

Imports	1990	1995	1997	Exports	1990	1995	1997
LLDCs	0.7	0.6	0.5	LLDCs	1.0	0.8	0.5
OLICs	6.5	12.6	14.3	OLICs	3.6	6.4	6.5
OLICs*	0.8	1.0	1.2	OLICs*	0.9	0.8	0.8
LMICs	11.1	10.3	10.9	LMICs	8.6	11.3	11.1
UMICs	11.1	10.2	11.1	UMICs	5.4	7.0	7.1
HICs	0.1	0.1	0.1	HICs	0.1	0.0	0.0

* Excluding China and India.

Source: OECD.

Table 8. OECD trade (excluding Japan) with LDCs by income group: 1990, 1995

Imports	1990	1995	Exports	1990	1995
LLDC	9.4	10.9	LLDCs	17.5	15.8
OLIC	21.7	18.0	OLICs	24.3	18.2
<i>OLICs*</i>	6.7	9.1	<i>OLICs*</i>	16.1	12.0
LMIC	21.2	21.1	LMICs	21.9	29.2
UMIC	19.3	14.2	UMICs	16.5	15.0
HIC	23.2	16.1	HICs	5.6	4.1

* Excluding China and India.

Source: OECD.

Market access for developing countries

Japanese market access policies are characterised by, though sometimes uneven, gradual progress towards reducing border barriers and reforming the regulatory framework. Tariff reductions agreed under the Uruguay Round, as well as other non-Uruguay Round related tariff changes have resulted in an overall simple applied tariff average of 9.4 per cent for all imports in 1997. The average applied tariff for agricultural products is 26 per cent and for manufactured products 4.9 per cent. However, progress has tended to lag in sectors of special interest to lower income developing countries -- agriculture, textiles, clothing, footwear, and certain commercial service sectors such as construction. For these sectors, market access is constrained both by border and non-border measures¹.

Agriculture

Agricultural products continue to be an important part of Japan's total imports, reaching 19 per cent in 1997². At the same time, the agricultural sector in Japan is protected by high tariffs, regulatory barriers and various forms of support, well above the OECD average³. Although the share of the domestic agricultural sector has been shrinking from 2.5 per cent of GDP in 1990 to 1.4 per cent in 1995, transfers to the sector have consistently been larger than the value of agricultural output. In the Uruguay Round, Japan agreed to convert all import bans and quotas (except for rice) to tariffs, at an average level of 26 per cent. Japan's tariff schedule also includes a significant number of specific duties, sliding duties, and alternative duties (and some seasonal duties) primarily for the purpose of offering a consistent level of protection to domestic agricultural products in the face of international price fluctuations or sudden surges in low-price imports. Tariffs on above-quota imports, agreed on in the Uruguay Round Agreement, remain prohibitively high, as in other OECD Members, resulting in minimal above quota imports for these product categories. For example, quotas are almost completely filled and tariffs reach 923 per cent for konnyaku tubers and 782 per cent for groundnuts, which are potential export products for some developing countries⁴.

In the context of the WTO Agricultural Agreement, Japan agreed to bind tariffs on all agricultural products and to reduce bound rates by an average of 36 per cent during the period 1995-2000. Even after full implementation of these tariff cuts, however, imports of many food and beverage products of interest

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1. <http://www.wto.org/wto/reviews/tprb6q.htm>
 2. <http://www.wto.org/wto/reviews/tprbg.htm>
 3. OECD (1998), *Agricultural Policies in OECD Countries*, Paris.
 4. *Ibid.*

to developing countries will still face high tariffs in relation to industrial tariff levels. As is the case for other OECD Members, tariff escalation is notable between semi-processed and fully-processed items in food manufacturing⁵.

Imports of rice, wheat, barley, skimmed milk powder, butter and raw silk are handled by state trading entities. Since April 1999, Japan has opened up its rice market to limited quantities of imports. Total rice imports increased to some 4 per cent of domestic consumption in 1995. The target is to raise this to 8 per cent by the year 2000. However, the above quota tariff will raise the price of major types of imported rice, bringing it to the price level for domestic brands. Imports of some varieties of fresh fruits, vegetables, and other primary products are banned due to concerns about entry of pests or plant diseases. Other imports of primary products are required to undergo lengthy scientific research and testing or on-site inspections before they are allowed entry under a phytosanitary protocol⁶.

Fisheries

Japan is the world's fourth largest fishing nation, after China, Peru and Chile, and accounts for 6.7 per cent of world catches. Fish and fish products account for a relatively important share of Japan's total imports, reaching 5 per cent in 1997. However, Japan applies non-tariff measures and domestic support measures in the fisheries sector. For example, Japan maintains nine global and two bilateral import quotas on fish products. Exporting countries have argued that the administration of these quotas lacks transparency. Japan has therefore initiated a deregulation action programme that includes measures to improve the clarity of the quota system.

In order to maintain its domestic fishing industry, the Japanese government provides various forms of domestic support, amounting to JPY 375 billion (approximately USD 3 billion). As for foreign fisheries assistance, USD 100 million was spent in FY1997⁷. Japan has bilateral Fisheries Agreements with China, Kiribati, the Solomon Islands, Marshall Islands, Tuvalu, South Africa, Morocco and Senegal, as well as with several developed countries. The Japanese Fishing Agency encourages the formation of joint ventures between Japanese fishing companies and governments of Pacific Island and other countries. These joint ventures allow the Japanese fishing industry to maintain its presence in key fishing areas.

Manufactured products — Footwear and Textiles

In 1997, manufactured products accounted for 60 per cent of total imports. In general, manufactured goods of particular interest to lower income developing countries, such as textiles, clothing and footwear, continue to be constrained by both non-border and border measures. For example, applied tariff rates in 1997 were highest for footwear (43 per cent), silk (30 per cent) and various leather products and apparel (13 per cent). The bound rates, to be applied in 2000, will still be highest for footwear (32 per cent), silk (8 per cent), and various leather products and apparel (around 10 per cent).

Besides tariffs, Japan also maintains a quota system that limits the import of footwear to around 12 million pairs per year. Additional imports above the quota are effectively discouraged through tariffs of 48.8 per cent or JPY 4 613, whichever is higher. Although the above-quota tariff rate is to be lowered, the yen minimum alternative rate is applied in a manner that negates the effect of the tariff rate reduction. Besides these trade restrictions, Japan assists domestic producers in these sectors through various support measures, consisting of direct and indirect subsidies, as well as tax exemptions.

5. *Ibid.*

6. WTO (1998), *Trade Policy Review Japan*, Geneva.

7. World Bank (1998), *Subsidies in World Fisheries: A Re-examination*, Washington DC.

Asia provides a dominant and growing share of Japanese imports of textiles and clothing, reaching 72 per cent and 82 per cent, respectively in 1997. China alone provided 33 per cent of textile imports and 63 per cent of clothing imports. Imports of textiles and clothing from Latin America and Africa are extremely small, amounting to less than 1 per cent of Japan's imports of these products in 1997.

Japan was the only net importer of textile products that did not impose any quantitative restrictions under the previous textile import regime, i.e. the Multi-Fibre Agreement. As for the current situation, market access to Japan will be limited for both exporters within and outside the quota regime until 2005 when the subsequent WTO Agreement on Textiles and Clothing abolishes all quantitative trade restrictions on textiles and clothing. Although applied tariffs have been eliminated on in-quota imports of silkworm cocoons, raw silk, silk yarn and jute yarn since 1995, Japan still employs an import quota system for silk products. Furthermore, volume-based special safeguards have continued to be invoked for raw silk⁸. In particular, the Japanese Government establishes annual trade levels for silk product imports with the Governments of China and Korea. In the case of Korea, a 10-year phase-out programme has been notified to the WTO. A similar procedure will be followed with China, once it has acceded to the WTO.

The Generalised System of Preferences

Japan's Generalised System of Preferences (GSP) scheme was extended in 1991 for another 10 years. The extension did not change the scheme's overall framework but expanded the objectives and the beneficiary countries. GSP tariffs are currently applied to on average 10 per cent of Japan's imports from developing countries. Five Asian countries account for three-quarters of GSP benefits: China, Korea, Chinese Taipei, Thailand and Malaysia. For products covered by the GSP, however, the benefits to exporting countries (tariff preference margins) have declined because of the reductions in applied tariffs for Most Favoured Nations. Furthermore, in April 1998, Japan announced the decision to remove GSP benefits from imports of 122 items from Korea, Chinese Taipei, Singapore, Hong Kong and New Caledonia.

With regard to the market access for imports from the LDCs, Japan applies zero tariff for more than 80 per cent of items in which the countries take interest. Furthermore, Japan offers duty free entry and preferential import exemption from ceiling restrictions for all imports from the LDCs covered by the GSP scheme. On the other hand, the benefits for LDCs are limited as a number of their products continue to be excluded from GSP benefits or are subject to binding ceiling quotas. The products excluded from the system tend to be those for which applied tariffs are highest and tariff escalation most severe. Product exclusions include, for example, meat, dairy products, most vegetables, cereals and some silk and cotton yarns and fabrics. Binding ceiling quotas are applied on wood, wood articles, leather articles, footwear, electrical machinery, and equipment⁹.

Investment

Flows

Japanese affiliates in East Asia play a crucial role in the trade and investment flows between Japan and other East Asian countries. To mitigate the effects of the high value of the Yen in the early 90s, many large trading companies shifted segments of their operations to neighbouring low cost developing countries. These affiliates brought with them skills and green field investments that promoted significant trade capacity in the region. However, due to the Asian crisis and the recession in Japan, outward

8. WTO (1998), *Trade Policy Review Japan*, Geneva.

9. *Ibid.*

investment for 1998 declined compared with 1997 -- first time in five years. According to a survey, about 80 per cent of Japanese firms that have affiliates in the ASEAN region responded that their affiliates have been adversely affected by the crisis, especially those with sales oriented towards local domestic markets. Particularly due to the substantial currency depreciation in these economies, resident Japanese affiliates have become seriously indebted. Between 30 per cent and 50 per cent of the loans from Japan's 18 major banks to Asian countries are in fact extended to Japanese-owned local entities. These loans are classified as being at high risk of becoming large-scale "write-offs". Many parent companies have consequently adopted a strategy to provide overseas affiliates with financial assistance and other support measures. Furthermore, special ODA loans tied to Japanese procurement and other measures to respond to the Asian crisis have helped convince Japanese firms to maintain the ASEAN region as a priority investment destination.

In other regions, Japanese FDI flows to Latin America remained stable during the last decade, amounting to on average, USD 4.3 billion per annum. Investment has targeted steel for automobile production (Brazil) and mining (Chile and Argentina). Japan's FDI flows to the Middle East and Africa, though considerably below the amount to Latin America, have gradually increased between 1992-96, reaching USD 238 million and USD 431 million, respectively in FY1996. Leading investment destinations in the Middle East include Turkey (manufacturing) and in Africa, Nigeria (petroleum and mining) and South Africa (automotive).

Policies

Investment policies are formulated on three different levels: for all countries across the board, on a regional basis, and for individual countries. Japan considers investment as essential for economic growth of developing countries, particularly through the creation of trade capacity. To promote productive FDI in developing countries, some support is provided for "soft infrastructure" (reforming legal and administrative systems for investment, competition policy, and intellectual property regimes) and for "hardware" (provision of private-sector technology and environmental conservation equipment). According to Ministry of International Trade and Industries, the transfer of design and product development functions to developing countries, particularly in Asia, is well in progress. Japanese firms have bolstered local production capacity, increased exports of parts and machinery from Japan to the region, and boosted exports from Japanese affiliates to Japan. According to MOFA, Japan is also pursuing a policy of actively promoting stability and development, for example, in Latin America. Plans have been announced to set up investment centres to assist private companies in formulating investment strategies for the Mercosur region. Ministry of International Trade and Industries is also considering providing technical assistance to private companies in Argentina, including the dispatch of management advisors.

Conclusion

With the prolonged economic recession in Japan and the sharp and deep economic set-back in some developing countries, notably in East Asia, the coherence between Japan's aid, investment and market access policies becomes even more important. When Japan, or other OECD countries, restrict access to their markets in areas where low-income countries have a comparative advantage, the possibilities for developing countries to attain an export-led growth and be integrated into the global economy would become constrained. Accelerating the removal of protection around sectors of primary interest to lower income developing countries would not only help the developing world, but would simultaneously help create a more competitive market in the Japanese economy.

LUXEMBOURG

POLICY COHERENCE

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

Approaches and mechanisms for promoting policy coherence at national level

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

Luxembourg's commitment to policy coherence is undeniable and its efforts to raise public awareness deserve mention. Development co-operation receives unanimous support in the Luxembourg government. When it came to power in 1999, the present government put development co-operation on its political agenda. The Luxembourg Prime Minister himself takes an active interest in development policy. In the context of the International Conference on Financing for Development held at Monterrey in 2002, the Prime Minister subscribed to a joint initiative by donor countries having attained or exceeded the UN target of 0.7%¹ to promote a commitment by rich countries to poverty reduction and policy coherence.² More recently, the Prime Minister personally participated in the launching of an extensive campaign to alert public opinion to development co-operation issues. Concerned by the widening inequalities between industrialised countries and developing countries and the latter's increasing marginalisation, the Luxembourg authorities have voiced their resolve to help poor countries to meet the challenges of development in the context of globalisation. The commitment to policy coherence is thus closely linked with a concern to promote a caring form of globalisation with social and ethical dimensions, to seek new rules of world governance, to make poverty reduction central to policy action and to preserve the environment.

Recent ministerial statements show that Luxembourg recognises that the impact of aid on developing countries depends largely on the degree of coherence of trade, agricultural, environmental and financial policies, and that these policies must reinforce the efforts made through development co-operation. Luxembourg has thus undertaken to promote consideration of developing-country interests in the new round of multilateral negotiations launched at the Doha ministerial conference of the World Trade

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1. The other countries, in addition to Luxembourg, are Denmark, the Netherlands, Norway and Sweden.
 2. Declaration appearing in the International Herald Tribune of 21 March 2002.

Organization (WTO) and in other international meetings of major importance. Luxembourg has also pronounced itself in favour of a review of WTO provisions to enable developing countries to purchase medicines at affordable prices.

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

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

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

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

The flight of capital from developing countries and its laundering constitute policy coherence problems of which Luxembourg is mindful. Promotion of good governance and action to combat bribery are two objectives of development co-operation. At the same time, Luxembourg is a major financial centre,³ where banking secrecy and favourable tax treatment are major factors of competitiveness likely to attract capital of suspect origin from developing countries. This means that Luxembourg must be constantly on its guard against misuse of its financial services. Luxembourg passed a law on money laundering back in 1989, which has been amended several times since. In respect of international judicial co-operation on criminal cases, the legislation was revised in 2000 so as to accelerate and simplify procedures. Banking secrecy does not apply to criminal cases. The Luxembourg regulations provide for measures of prudential surveillance and criminal sanctions in line with the recommendations of the Financial Action Task Force (FATF). In 2002, under the IMF/World Bank Financial Sector Assessment Program, Luxembourg lent itself to an experimental methodology for assessment of observance of the

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

standards applicable to action to combat money laundering and the financing of terrorism. The IMF found that Luxembourg's financial sector complies fully with the standards and that it is sound, efficient and well overseen. Effective surveillance of financial transactions poses a permanent challenge to the Luxembourg authorities because of changing methods of money laundering.

Pursuit of coherence in the context of the EU

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

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

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

Luxembourg does not hesitate to take positions favourable to the interests of developing countries, as shown by its refusal to approve the directive on chocolate which the EU adopted in 2000 by qualified majority. This directive authorises the use of non-cocoa vegetable fats in the making of chocolate. But the measure could be very prejudicial to cocoa bean producers in developing countries, whose incomes could be severely reduced as a result of diminished European demand and lower world cocoa prices.⁴ On this occasion the Ministry of Foreign Affairs organised a round table for representatives of the NGO Transfair Minka, active in the promotion of fair trading in Luxembourg, and representatives of the chocolate-making industry and the confectionery trade. The participants unanimously agreed on the need to try to lighten the impact of the EU directive's implementation on the developing countries concerned. Subsequently they took active part in the Ministry's organisation of an awareness-raising campaign designed to encourage consumption of pure chocolate.

The case of the Common Agricultural Policy (CAP) shows the importance of improving policy coherence for development. Agriculture in the majority of developing countries, on which a very large share of their population depends, is extremely vulnerable because of the farm support measures adopted in the industrialised countries. The trade distortions created by the CAP's import barriers and export subsidies are arousing criticism because of their negative impact on developing-country agriculture, means of

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

subsistence and food security. The present system of EU farm subsidies tends to stimulate domestic production and drive world prices down, thus creating unfair conditions of competition for farmers in the developing countries. Moreover, the tariff and non-tariff barriers that protect the EU market are limiting the export and diversification opportunities of developing countries, a problem that DAC Members aim to tackle through development co-operation. The European Commission has recently obtained the support of Member States for its proposal concerning agricultural negotiations within the WTO. This initiative reflects the EU's commitment to reform the agricultural trading system with allowance for the need to accord special treatment to the developing countries and to take account of environment and rural development considerations. The proposed reforms aim to make European agriculture more competitive and more market-oriented, to encourage sustainable farming practices, to ensure a fairer and more transparent apportionment of direct income support for farmers, and to provide a better response to the expectations of consumers and taxpayers. On the other hand, the Commission's proposals for CAP reform have met with strong resistance from many Member States, which shows the difficulties that the EU is up against in this area.

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

Future considerations

- Luxembourg's declared resolve to ensure policy coherence for development needs to be backed by a more systematic approach. The aim should be to mobilise the efforts of the government at different levels and to influence the decision-making process – particularly as regards EU policies for trade and agriculture – so as to make more allowance for developing-country interests.

THE NETHERLANDS

KEY POLICIES AND APPROACHES

Policy Coherence

Background: Policy coherence has always been a key concern of Dutch development policy. As early as the 1970s, the need for an “integral” policy was mentioned, in the sense of a single co-ordinated approach towards the transfer of financial flows, debt, raw materials, trade, industrialisation and agriculture. The concept of coherence, as such, appeared in the policy documents *Development Co-operation in a World Economic Perspective* (1980) and *The Quality of Aid* (1989), which stressed the necessity of integrating policies on aid, trade and international finance. A later paper *A World in Dispute* (1993) brought coherence to the forefront while introducing the concept of “de-compartmentalisation” of approaches and policies, both within development co-operation itself and between development co-operation and other dimensions of foreign policy.

Institutional setting: From an institutional standpoint, policy coherence is dealt with at several different levels. Broadly speaking, the integration of development co-operation within MFA facilitates policy coherence between the foreign affairs and the development co-operation sides of the Dutch government. This is similarly true at the field level, where the ambassador oversees both sides in the context of overall embassy operations. Internally, the unified geographic desks maintain a theoretical responsibility to ensure operational coherence in internal processes, although, as is noted later, these desks are still struggling to find their proper role in the new organisational environment of the ministry. At the level of the MFA Secretary-General, a joint planning unit is responsible for co-ordinating the annual budget planning among ministry operational units, as well as among the other ministries involved in development co-operation. The Co-ordinating Council for International Affairs (CORIA) also has theoretical responsibilities for inter-ministerial co-ordination of policy, although it has not played an active role in development co-operation policy to date. Another body, the Co-ordination Committee for European Affairs (COCO) co-ordinates European policies which can indirectly affect Dutch national policies of development co-operation, as well. Finally, at the highest level, the weekly Council of Ministers is ultimately responsible for decision-making and arbitration of differences of opinion among ministries. The Minister for Development Co-operation is a full member of this Council and, as such, has frequently used this forum to make the development world agenda heard and respected.

A more systematic approach: While there is a high political commitment to maintain policy coherence, there is no mechanism to help the Minister for Development Co-operation to comprehensively and systematically identify and address policy coherence issues. Potential issue areas at the domestic level which merit greater attention include associated financing (tied aid; development relevance) and export credits (respect of environment; social transfers; debt creation). The minister expressed her concern over the lack of an analytical capacity to maintain a more systematic identification of possible issues. It would seem appropriate to develop such a mechanism. More organised engagement of civil society, especially the NGOs, in a more systematic policy dialogue on coherence issues could help, as well.

Trade: It is on the trade front, and especially within the European Union framework, that coherence has been most actively and systematically sought. Dutch support has been critical in promoting the interests of developing countries on the trade agenda of the EU and World Trade Organisation (WTO). The Netherlands has been a strong supporter of the EU focus on “everything but arms”, and favours the extension of market access for products from the developing world, in particular those benefiting from the

Heavily-Indebted Poor Countries (HIPC) initiative as well as binding the “everything but arms” trade preferences under the General Agreement on Tariffs and Trade (GATT). The Netherlands is pushing the EU to reform its agricultural policies, so as to avoid the dumping of agricultural surpluses that contribute to the distortion of markets in the developing world. In the context of WTO, the Dutch side has made a special effort to mainstream development issues into trade policies¹. Key future directions recently suggested by the Minister for Development Co-operation include: i) developing new trade agreements on area of specific interest to the developing world, ii) screening existing agreements on their consequences for development (e.g. the relationship between provisions in WTO/TRIPS and access to essential medicines), iii) reforming the system of Special and Differential Treatment in favour of the countries that really need it, and iv) working toward more coherent global economic policy.

Arms export: The Netherlands used to be among the world’s larger exporters of arms. In 1997, European NGOs launched a campaign against arms trade. They questioned the lack of transparency and co-ordination of arms export policies among the EU Member States. A European code of conduct for arms transfers was adopted in 1998. The Netherlands supported the NGO perspective and adopted national criteria more strict than those in the European code. As a result of this campaign, the Netherlands actually destroyed its surplus small weapons when no acceptable buyer was found, based on the new export criteria.

Approaches to private enterprise

Background: Development assistance policies in the Netherlands have experimented with a variety of ways of involving private enterprise in its field operations. Currently, the budget funding provisions until 2005 for this sector show an increase, however, actual disbursements have not changed over the past three years. Resources appear to be more oriented toward support of the Dutch private sector, than to the promotion of the local private sector in the target developing countries themselves. A 2001 paper *In Business Against Poverty: The Private Sector and Pro-poor Growth* has now established a framework for better addressing this issue, although much of this policy still needs to be operationalised. Many of the instruments for direct support to the private sector have undergone evaluation in recent years. While each instrument has been found to perform its assigned task, the need to have instruments clustered around a reduced number of implementing bodies and to improve co-ordination between the implementing bodies has been mentioned. Discussions are still under way regarding the possibility to have a one-stop shop for private enterprises. There are several reports by NGOs indicating a lack of information disclosure by the Government on private sector-related activities, despite Dutch legislation on public administration transparency. Suspicion still exists among some Dutch developmentalists concerning the motives of the private sector and its appropriate role in the development process².

ORET/MILIEV programme: A significant package (more than USD 150 million of which 25% is for environmental projects) is available to support development-related export transactions by Dutch companies. The MFA and the Ministry of Economic Affairs jointly run the ORET/MILIEV programme. Funding for this programme has more than doubled between 1995 and 2000³ despite growing NGO questions on the use of ODA for this type of activity. The Minister for Development Co-operation also proposed to abolish this programme because it constituted a form of tied aid, but this suggestion was rejected by Parliament. At the same time, there has been an ongoing general debate on the development relevance of these types of programmes, including the topics of export promotion and investment

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1. For further reading see March 2001 speech by the minister on “Mainstreaming development issues into trade”.
 2. These suspicions go beyond the scope of the Peer Review process, but merit the attention of the MFA.
 3. The ministry notes that, while budget funding provisions show an increase, actual disbursements have not changed over the past three years.

promotion. A recent Policy and Operations Department (IOB) evaluation attempted to assess the development effectiveness of the ORET/MILIEV activities from 1994-99 in terms of employment creation, mitigation of negative effects on the poor and the environment, as well as scope for technical and financial viability. Their conclusions in the three focus sectors (environment, public services/energy and health and transport) demonstrated favourable development contributions (infrastructure improvement; employment creation; wider benefits). On the other hand, evidence from at least one specific case study suggests that the development relevance of ORET/MILIEV activities may not be so simple⁴. WEMOS, a Dutch non-profit organisation that addresses health issues, raised questions about the pertinence of the delivery of Dutch medical diagnostic equipment to Tanzania⁵. This involved a grant from the Dutch government of USD 15.5 million and a contribution from the Tanzanian government of USD 12 million. Because the activity did not include analysis of local health sector needs, it was felt that this investment became counterproductive with respect to other, more urgent health priorities. They also flagged concerns regarding the recurrent cost impacts of the project on the national health budget.

Export Credit: Export credit and guarantees are administered by the Netherlands Credit Insurance Company (NCM), on behalf of the Ministry of Finance and the Ministry of Economic Affairs. Two additional export credit insurance facilities have been set up for emerging countries and developing countries, where standard credit insurance might not be available. NGOs have criticised the Dutch Government for its lack of transparency in the use of export credits and the difficulties in accessing information on these activities. More recently, a campaign has been launched in the framework of Jubilee 2000 to highlight concern about the risk of debt creation through export credit and to call for the application of strict social and environmental standards in the case of export credit policies. Recent controversy over the activities of other DAC Member countries in the area of export credit (e.g. the Three Gorges Dam in China and the Ilisu Dam in Turkey) suggests the need for closer scrutiny of, and adequate screening mechanisms for, export credit policies.

Untying

The Dutch position: The Netherlands has made renewed efforts to untie aid in recent years. The Dutch authorities have always been, in principle, ready to untie, but did not want to do it unilaterally. They have been very supportive of the DAC initiative to untie aid to LLDCs. The Netherlands has also made attempts to clarify the European rules on state aid and questioned the Commission on the compatibility of EU tied aid with the EU support framework as set out in the EC Treaty. At this time, the Dutch ORET/MILIEV programme is tied to the procurement of Dutch goods and services. Given the April 2001 DAC/HLM agreement on untying aid to LLDCs, the Minister for Development Co-operation has decided to reallocate the funds previously used for tied aid projects in the LLDCs to a special facility for infrastructure development in those countries.

Debt relief

Progress in debt relief: The Netherlands is one of the major bilateral contributors to the HIPC Trust Fund (USD 165 million as of 31 December 2000) and is planning to put additional amounts into this fund when other donors secure their initial pledges. Debt relief is also provided in the form of country-specific bilateral and multilateral debt relief (USD 119 million in 2000, of which USD 83 million went to Dutch partnership countries). Since 1995, the average Netherlands debt relief programme has averaged USD 165 million annually. A major independent evaluation of the Dutch debt relief programme is under way and results will be available in 2002.

4. See footnote 13.

5. Since the early 1990s, a major Dutch private company carried out four more, similar projects in India, Jordan, Zambia and Zimbabwe.

Remaining debt: Despite the generous Dutch contribution to debt relief (both bilateral and multilateral) over the past decade, the Netherlands remains a creditor for developing countries. Dutch bilateral ODA has been extended exclusively in the form of grants for the last several years. However, there are still annual flows in the range of USD 200 million for the estimated USD 2 billion (1999) of previous development loans outstanding. The biggest debts at that time were Indonesia (USD 664 million) and India. The list also comprises nine HIPC countries, two of which having reached their completion point. Those HIPC countries can all expect 100% relief of their ODA debt after reaching their decision point. The Netherlands also remains an important creditor of developing countries through its export credit activities. At the end of 1999, the total amount owed by Part I borrowers was above USD 5 billion, of which USD 585 million was owed by LLDCs and USD 865 million by HIPC countries. The consolidated part of these commercial debts will be cancelled after these countries have reached their completion point, while their debt service payments will be cancelled after they have reached the decision point. As part of its macroeconomic programme, a budget line for relief of debt created by export credits was introduced in 1997 (cumulated disbursement of USD 150 million).

Donor co-ordination

Official policy: As already noted, the Dutch operational concept of co-ordination is aimed at all partners who contribute to Dutch objectives, including the recipient government and civil society. While the Dutch are keen on promoting this co-ordination, because of their extensive experience in this area they also recognise that it has proved difficult. The Dutch are particularly interested in the operational dimensions of donor co-ordination, and are one of the few donors to focus special attention to the reform and harmonisation of donor procedures in this context. Their preference is to look to host country-led fora, such as special sector programmes or the PRSP process, to be consistent with their own operational principles, including host country ownership. The Dutch are frequently recognised by their partners in the field for their helpful and practical approach to co-ordination.

Promotion of country-owned strategies. The Netherlands builds its approach to development co-operation on three principles: ownership, utilisation of domestic resources and poverty reduction. The Peer Review team was impressed by the extent to which Dutch development co-operation expects to use country-owned strategies, and in particular the PRSP process, as a model for aid delivery. Based on over 30 years of lessons learned of development co-operation, such a model is seen as the mechanism around which strategy, implementation, monitoring and evaluation, and co-ordination, will find their form and substance. The PRSP process for most countries is still in a preliminary “interim” basis, with rushed timetables aimed to HIPC debt relief qualification, precluding the participation of many segments of local civil society. In the next few years it will be important for the quality of Dutch development co-operation that appropriate PRSP frameworks become operational, and function well. Because of the major Dutch commitment to using this new framework, it would seem important to address risk management in relation to the PRSP, as its implementation could prove difficult. Two possible suggestions are made in this respect: i) Accentuate current efforts to assemble sector approaches (e.g. raise to a higher level of visibility internally; specialised support mechanisms to field missions; special operational analysis). Sector approaches have the advantage of fitting easily into a PRSP approach, once operational. ii) Priority attention by donor and recipient countries, to the identification of internationally acceptable solutions for the political, technical and process obstacles to the PRSP. The Utstein forum, the International Monetary Fund (IMF), World Bank (IBRD), the EU, and the DAC could all be partners in this process. The Netherlands is well positioned to play a role in influencing the IMF and the IBRD to develop and implement vital, pro-poor macroeconomic policies in the context of this larger PRSP process and, in fact, already does so.

European Union issue: The EU is a special case in terms of donor co-ordination. The Netherlands position on EU co-ordination has consistently suggested that it should be based at the field level and that

EU co-ordination should not be at the expense of recipient leadership and/or at the expense of other non EU Members. The MFA has not yet focused extensively on future relationships between Dutch bilateral assistance and that of the European Commission. Because the Netherlands is a strong supporter of the EU and because of its historical interest in engaging in the development of future European policies, it is appropriate for Dutch leadership to continue its active involvement in European policy dialogue and co-ordination.

Sector approaches⁶

Official policy: The idea of implementing Dutch development assistance in sectors of emphasis, through host country-led sector approaches, has long been felt desirable in Dutch development circles. However, it did not become a matter of official policy until the 1995 policy document *Aid in Progress*. It was further operationalised following the 1998 Parliamentary decision to focus development assistance on 17+4 partnership countries, for which sectors eligible for support were identified. The sector approach is a first, pragmatic step toward preparing the PRSP that will eventually form the framework for the implementation of longer-term assistance in the priority poor countries. To ensure that priority attention is accorded to sector approaches the MFA formed, in 1998, an *ad hoc* “Sector Approach Support Group”. This *ad hoc* group appears to have been efficient in stimulating clearer thinking and pragmatic implementation of sector approaches.

Miss-impressions: The Peer Review process noted, from a variety of sources, miss-impressions concerning the Dutch policy on sector approaches. These miss-impressions included: a) sector approaches would immediately replace projects, and b) sector approaches would disburse funds through recipient country budget support mechanisms. Neither has proven true to date. Most Dutch development co-operation still takes place in the form of projects, albeit, importantly, in the context of sector policy frameworks, and most Dutch funding still is disbursed through project budgets, albeit, importantly, through control mechanisms which are more often managed by the recipient country. Although many seem to believe that sector approaches are only relevant for government-to-government development operations, experience is showing that NGOs and other private groups need to be involved in this form of national development. Box 3 contains one example of this approach from Burkina Faso.

Box 10. NGO involvement in a sector approach to education

In Burkina Faso, Dutch concern that a sustainable sector programme for education required the implication of qualified civil society actors, led them to provide a grant to the Burkina Faso affiliate of a Swiss NGO, *Oeuvre Suisse d'Entraide Ouvrière (OSEO)*. When OSEO pilot work demonstrated that use of their bilingual (local language+French) curriculum could double the performance and halve the time for graduation of average local public school students, the Burkina Faso Ministry of Basic Education requested that the programme be expanded. With a USD 3.2 million Dutch grant, the programme was developed in Moré language (six provinces) and in Dioula, Peuhl, Lyélé, Gourmanché and Dagana (five provinces), and ultimately integrated into the national experience. One-time only Dutch support permitted a major practical innovation in local education that was managed by competent Burkina talent and adapted to local conditions and perceptions. Perhaps as importantly, OSEO was invited to participate in the development of the national 10-year plan for basic education, and subsequently became a close partner to the ministry in implementing and following-through on the programme.

6. A more comprehensive statement on this can be found in the document *The Sector Approach*, published by the Sector Approach Support Group of the MFA in June 2000.

New pragmatism: As thinking on the topic of sector approaches evolves in light of field realities, Dutch practices are more pragmatic and are implemented progressively, without neglecting the longer-term vision noted above. **Sector approaches** are still identified as the immediate norm, but project mechanisms will continue to be popular until true sector planning, implementation and evaluation capacities and mechanisms can be put in place. Similarly, **budget support** will continue to be identified as the longer-term ideal, but will not be used as a primary disbursement mechanism until the local capacity to appropriately manage the funds can be concluded. In many of the “poverty” category of countries, this could easily be several years off.

Targeting of sectors: Dutch funding is theoretically available to be used in any sector chosen by the recipient country. In reality, however, most partnership country missions have simplified their operations by concentrating on three-four sectors, usually in the most commonly accepted poverty areas (e.g. basic education, basic health care, local rural development). Efforts have also been made to “mainstream” crosscutting themes, including the “GAVIM” list (good governance, poverty reduction, women in development, institution building, environment). With the exception of the already mentioned target in environment and the special funding for gender, however, no budgets are formally assigned to these cross-cutting themes.

- efforts to analyse the effects of its different policies on developing countries, which would necessitate a strengthening of the capacity of the Ministry of Foreign Affairs to undertake the necessary analytical work.
- The mandate of the Interministerial Committee for Development Co-operation could be expanded to allow that body to play a more active role in promoting debate on policy coherence.

NORWAY

NORWAY'S OVERALL POLICY FRAMEWORK AND NEW DEVELOPMENTS

Norway has a strong development strategy, based on a permanent and evolving interaction between the government and the Norwegian Parliament, the Storting. In 1993, following the changed international conditions affecting North-South and aid issues, the government appointed a Commission on North-South and Aid Policies “to evaluate various strategies and instruments for the effective achievement of the goals laid down by the Government and the Storting for a coherent North-South aid policy, including emergency relief and aid for refugees”, over the following five to ten years.

The Commission submitted its report to the Ministry of Foreign Affairs early in 1995. It was widely distributed to non-governmental organisations (NGOs) and other institutions. It provided, together with their comments, the basis of Report No. 19 to the Storting (1995-96). The subsequent *Recommendations of the Standing Committee on Foreign Affairs* of the Storting made on the occasion of the debate on the White Paper (known as the “Parliament Guidelines”), make some adjustments regarding priorities set out in the White Paper. The Parliament stressed poverty reduction as the overarching objective to which all the others must contribute, and the need for partnership and dialogue with recipient countries on national policies for poverty reduction. The report, together with the recommendations provided by Parliament following an extensive debate, have since been the frame of reference of Norway’s development strategy, which is very much in line with the 21st Century Strategy (*Shaping the 21st Century: the Contribution of Development Co-operation*) subsequently agreed among DAC Members.

Overview of the Strategy

The Strategy

Since the change in government following the September 1997 elections, poverty reduction has been clearly reaffirmed as the overarching goal of Norwegian aid policy. The Norwegian Minister of International Development and Human Rights recently affirmed “that the urgent need for a solution to global poverty constitutes a moral challenge, and that it is a moral duty to find solutions to make sure that fewer of our fellow human beings live under degrading conditions. This is a question of fundamental values, and of human rights”.

Along with this basic orientations towards poverty reduction and partnership, Norwegian development policies also lay stress on social services with an explicit reference to the 20/20 proposal launched in 1995 at the UN Social Summit in Copenhagen. This implies increased assistance to basic education, to develop human resources, and to promote health and population, where Norway wants to support primary health services and strengthen administrative systems.

Three other areas, noted under the objective of poverty alleviation, are:

- Private sector development, with particular emphasis on improving the authorities' ability to encourage commercial development and growth in the agricultural sector.
- Trade, especially assistance to increase exports from developing countries (trade and private sector development are merged into "Economic development").
- Debt relief.

Four additional objectives are singled out:

- Peace, human rights and democracy.
- Environment, where the report calls for a coherent strategy and strengthened efforts in environmental co-operation with poor countries.
- Women and gender equality, including promoting women's rights and developing primary health services and basic education for girls and women.
- Prevention and alleviation of distress in conflict situations and natural disasters.

Assessment of the implementation of the Strategy's main points and new orientations

Assessment of the implementation of the strategy's main points

There is a lack of up-to-date documentation on the effectiveness of Norway's aid programme and the implementation of the Strategy. The latest general assessment of whether Norwegian assistance reached the development objectives set in the government and Parliament policy papers was a 1994 review of evaluation studies covering 1986-92. This was carried out for the MFA by the Christian Michelsen Institute (CMI). Its main finding was the existence of a gap between the strategy and its implementation. A number of actions have been taken since then to reduce this gap.

Several studies and a workshop in April 1999 on Poverty Reduction in Norwegian Aid showed that there has not been sufficient differentiation between "development" and the more narrowly defined "poverty reduction". There was a need to strengthen the strategy's poverty focus and to adopt practical tools and guidelines for operations (see Chapter 3).

A 1997 evaluation of "*Aid as a tool for promotion of human rights and democracy: What can Norway do?*" found a striking discrepancy between the priority given to these activities at political level, and the reality at the field level. The area had "a general lack of guidelines and strategies, shortage of competence and capacity within the MFA and NORAD alike". A strategy on Norwegian humanitarian assistance was presented to the Storting in January 1999 (see below).

New orientations

The Norwegian political system is based on intense dialogue between the government and Parliament, particularly on the occasion of the annual Statement to the Storting by the Minister of International Development and Human Rights on Development Co-operation Policy.

The Minister's 1998 statement insisted upon the need to improve the international framework and the way in which trade and debt issues are dealt with, and launched an important Debt Relief Plan. It

reaffirmed that protection of human rights and the fostering of sustainable development are closely linked. Corruption was pointed out as a serious obstacle to economic development and to social justice, to be tackled through good governance, in conjunction with other donors. It called for improved co-ordination on the basis of the development plans of the recipient countries, within for instance the education and health sectors, including an endorsement of the sector-wide approach (SWAp). Emphasis was put on the development of a dynamic private sector, enabling it to create a major source of income for poor developing countries, which implied a review of the private sector schemes, taking a particularly critical look at export subsidy schemes. The Minister also re-affirmed that the poverty criterion would be made a major consideration in the choice of countries, sectors, target groups and channels for assistance, and that highest priority would be given to education and health.

In 1999 no new objectives were developed, but the Minister stressed the importance of the fight against corruption. She pointed out that corruption, by stealing from the poorest and squandering public funds, was one of the reasons why development assistance does not always achieve the desired results. By causing losses of tax revenues, it impedes investments and leads to capital flight and unemployment. She announced new measures against corruption.

In the same statement, to make Norway's efforts more purposeful, strategic and ambitious, the Minister stressed the need to revitalise Norway's support to democracy, proposing to:

- Provide support for economic and social development so that people realise that democracy will give them a better life.
- Support the building of viable public institutions and good governance, which implies an efficient public administration, in particular in areas such as the judicial system and the national assembly, the police and the prison system, and the strengthening of local administration.
- Strengthen civil society so that people can be put in a position to influence developments that affect them at the national and local level.
- Strengthen political structures, parties and independent media to promote viable, effective control mechanisms in relation to the power elite.

Policy focus and key goals

Bilateral assistance

The last peer review stated that “two somewhat contradictory trends can be observed in Norway's bilateral co-operation over recent years: a concentration on a small number of partner countries, to increase the impact of assistance, and the spread of aid-financed interventions, essentially to non-programme countries as the result of political and humanitarian activism”. Four years later, this statement still holds true.

Concentration of bilateral assistance

The commission on North-South and Aid Policies had advocated that, from an administrative and resource point of view, it would be most effective to concentrate long-term development co-operation on a smaller number of what it called *low welfare countries* (defined as such on the basis of the human development index, or HDI). This proposal corresponded broadly to the continuation of an existing situation, since NORAD had in 1995 eleven “programme countries”, where it also had resident representatives. The Commission emphasized that recipient countries should have “a development-oriented

policy which respects basic human rights and international agreements, thereby laying the foundation for genuine co-operation on development and poverty reduction”.

For the budget, the Commission proposed to terminate the system of funding specific country programmes, for lack of flexibility, and to substitute an aid programme for “low welfare countries” divided into two programme categories: i) a long-term programme for human resource, capacity and institutional development targeting a limited number of countries, and ii) one or more regional funds to finance more short-term measures and investment needs in the same “low welfare countries” (and possibly other “low welfare countries” in the same region) as a supplement to the long-term programmes. The Commission also proposed that the other main part of the bilateral development budget be used to fund a programme for extended co-operation with all countries in the South, both “low welfare countries” and “medium welfare countries”, and programme countries as well as non programme countries. This programme would concentrate on four main areas:

- Environment-focused development co-operation.
- Democracy, human rights and the peaceful resolution of conflicts.
- Private sector and economic development.
- Support for countries in political “transition phases”, and for countries which had formerly had a long-term co-operation agreement with Norway.

The Government’s Report No. 19 to the Storting (the White paper) mainly endorsed the Commission’s recommendations, with the exception of the methodological distinction between countries based on the HDI, saying it was more appropriate to stick to the World Bank definition of low-income countries and the United Nations (UN) definition of least developed countries. As a result of the parliamentary debate, the Storting decided to limit long-term government-to-government co-operation to twelve “priority countries” and the list of these countries was revised. Apart from the criteria concerning the low-income status and good development and human rights policies, the selection process involved the geographical orientation of aid towards Africa, Asia and Latin America, with the objective that 50% of overall bilateral aid be directed to African countries. Concerning the regional allocation, the three priority regions are more narrowly defined as Southern and Eastern Africa, South and South East Asia and Central America.

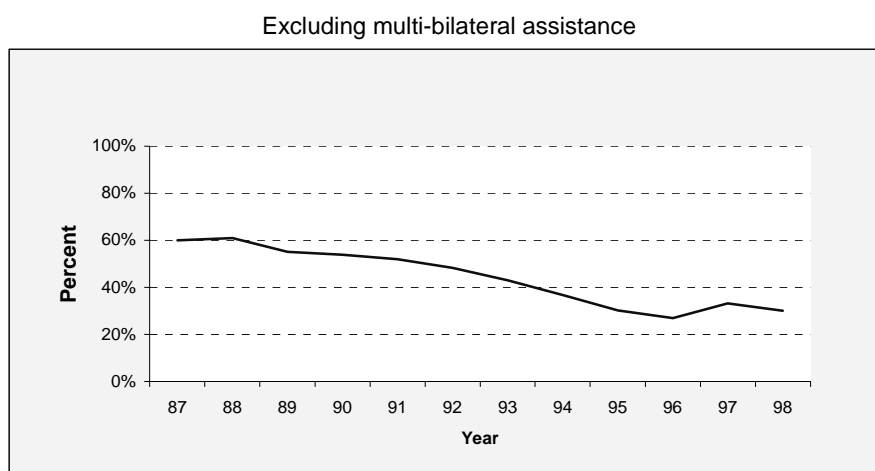
Ultimately country selection is mainly a political choice, as is apparent for instance from the list of African countries. Initially they were all front line countries, in accordance with Norway’s commitment against apartheid, justifying the intervention of Parliament in the process. As an outcome of the debate on Report No. 19, the decision was made to remove India and Pakistan from the list of priority countries, as of 1996, and Botswana and Namibia as of 1997, as it was felt that the special situation of the latter in relation to South Africa had changed with the end of the apartheid. Five countries were added to the list in 1997, which therefore increased from nine to twelve. The new countries were Eritrea, with enormous needs after independence in 1993, and Ethiopia, where Norway already provided long-term development support. The other three new priority countries were Uganda, to strengthen democratic central institutions, Malawi, and Nepal, one of the world’s poorest countries, with which Norway already co-operated. The countries that stayed on the list were Mozambique, Tanzania, Zambia and Zimbabwe in Africa, Bangladesh and Sri-Lanka in Asia, and Nicaragua in Central America.

It is noteworthy that all of these twelve priority countries are low-income countries (LICs) (with a per capita GNP lower than USD 785 in 1995) and that they also belong to the group of least developed countries (LLDCs), apart from Nicaragua, Sri Lanka and Zimbabwe. Taking into account all countries,

LLDCs received 53% of total bilateral allocable ODA in 1997, which is quite commendable, especially when compared to a DAC average of 26%, and shows the strong orientation of Norwegian aid towards the poorest countries. According to DAC figures (see Table II-3) Africa received 52% of all Norwegian bilateral aid in 1998 thus attaining the stated objective despite the difficult situation in some of the African countries. In 1999 a more ambitious objective has been set, according to which Africa should account for 55% of NORAD's transfers.

The new budgetary system has made it easier to establish a relationship between country performance and the allocation of Norwegian assistance. Allocations earmarked for specific countries indeed represent only 25-30% of bilateral aid (see Figure 1), with large amounts being appropriated through regional allocations, NGOs, or special budget lines, for instance for environment or women and gender equality. New changes, however, are planned to be introduced in the budget for 2001, giving more importance to country and regional allocations (see below in Chapter 2). Decisions in this area of aid and country performance are a matter of judgement, made on a case-by-case basis. For instance the war between Eritrea and Ethiopia has not led to a stop in aid activities to these countries, but the situation is closely monitored and implementation of the programme has been slowed, since no new agreement is signed. Norway is also following the situation resulting from the involvement of Uganda, Zimbabwe and Angola in a war outside of their own territories. Zambia has also been put under surveillance, because Norway is concerned with the latest developments in the area of human rights and democracy. These various factors may explain why the share of total bilateral allocable net ODA aid was 42.3% in 1998, down from 43.5% in 1996.

Figure 2. **Share of bilateral ODA to priority countries**



Source: OECD.

Bilateral assistance to non-priority countries

Recent years have been marked by a growing dispersion of aid from 90% going to the top 20 recipients in 1987-88 to 68% in 1997-98 (see Table II-4). The share of overall bilateral aid going to non-priority countries reached 58% of total ODA in 1998. The share of humanitarian assistance in the aid programme doubled from 7-8% in the early 1990s to reach 15-16% of total gross ODA in the last five years. In part this is because Norway could hardly not provide emergency and humanitarian assistance in response to unpredictable catastrophes such as the Mitch cyclone in Central America. The rise also comes from Norway's will to participate actively in conflict prevention and in peace-building and peace-keeping activities, sometimes to accompany major contributions of Norwegian foreign policy, as in the case of the Oslo Agreements between Israel and the Palestinian Liberation Organisation (PLO).

In 1997-98 the list of countries benefiting from Norwegian aid was a long one. In Africa, Norway provided bilateral assistance to 46 countries. Apart from the priority countries and the former priority countries Botswana and Namibia, the main ones included countries like Angola, Mali and Namibia. South Africa has also been an important recipient of Norwegian aid after Norway entered into a five-year programme with it (1995-99). In Asia bilateral assistance was provided to 32 countries in 1997, and represented 22% of total bilateral assistance. Apart from the priority countries the main partners were Cambodia, China, India, Indonesia, Laos, Pakistan and Viet Nam. But countries like Afghanistan, Iraq, Lebanon and North Korea were also significant recipients of emergency relief and humanitarian aid. However, the most important recipient even before Bangladesh, was the Palestinian Administered Areas, which received USD 41 million in gross disbursements in 1997. In Latin America, assistance was provided to 21 countries in 1997, but apart from Nicaragua, it was only significant in Guatemala. Finally there were six European countries to receive Norwegian aid in 1997, four of them belonging to former Yugoslavia, which as an entity was the single most important recipient of Norwegian aid worldwide, with Bosnia-Herzegovina ranking as the fourth largest after Mozambique, Tanzania and Palestinian Administered Areas. This involvement is also related to the role played by Norway to participate after the civil war in strengthening the peace agreement and supporting democratic development as part of the reconstruction.

Although the objectives pursued by developing Norway's interventions in more than 100 countries are hardly questionable, the fact is that Norway is a small country with a relatively small aid system, and the question arises as to whether this system can function smoothly in having to deal with so many activities in so many countries. It is true that outside the priority countries most of the assistance, especially emergency relief and humanitarian assistance, is implemented by NGOs or as multi-bilateral assistance, by multilateral institutions. However, this still requires some preparatory work and a minimum of follow-up and monitoring, and it is not sure that the system has enough administrative means and human resources to carry out all of these tasks. These problems could even become more acute, starting in the second half of 1999, with Norway's involvement into the reconstruction of Kosovo.

Multilateral co-operation

As a small country, Norway has great interest in multilateral co-operation, and its objective is to support multilateral organisations and increase the part of its aid channelled through the multilateral system so as to reach the target of 50%. However, this percentage includes multi-bilateral assistance, earmarked for specific purposes and countries, which is considered as bilateral aid by the DAC, and appears as such in DAC statistics. The 50% target was not met in recent years since the share of aid channelled through the multilateral system was 44% in 1997 and 43.4% in 1998, this last year dividing into 28% of multilateral aid *stricto sensu* and 15.4% of multi-bilateral assistance. The corresponding DAC figures for multilateral

ODA were 29.9% and 28.1% in 1997 and 1998, respectively. The fact that Norway is not a member of the European Union may also explain partly the difficulty to meet the 50% target.

Norway's contribution to the UN system is nevertheless significant, since it allocates much more than its normal share and is one of the main contributors to the economic, social and humanitarian programmes of the UN. Norway was for instance the sixth largest contributor to the UN, and the fifth largest contributor to the United Nations Development Programme (UNDP) in 1997, with USD 74 million, the second largest contributor to the United Nations Children's Fund (UNICEF), with USD 38 million, the fourth largest to the United Nations Fund for Population Activities (UNFPA), with USD 28 million. This position gives Norway some leverage to meet its objectives, which are: i) to promote reforms in the UN system, with a view to improving the efficiency of the system, both at the level of individual institutions and by promoting greater co-ordination and co-operation between these institutions; ii) to follow up Norwegian priorities in multilateral aid by using these institutions as a channel for Norwegian aid for selected countries and purposes; iii) to contribute towards international initiatives, negotiations and conferences on issues which Norway considers important for development.

As regards the reform of the UN system, Norway was an active player in the Nordic UN Reform Project, whose 1996 report was submitted to the UN Secretary General in January 1997. Several of its proposals were reflected in the reform programme that he presented in July 1997. In autumn 1997 the General Assembly supported most of its wide-ranging reform proposals, in particular the greater integration and co-ordination of the UN's activities at country level, and the establishment of a UN Development Group (UNDG), consisting of the UNDP, UNICEF and UNFPA, whose activities take place within the framework of a country programme, the United Nations Development Assistance Framework (UNDAF). Moreover, human rights efforts are being strengthened in all parts of UN activities, which also corresponds to Norway's preoccupations.

Norway's earmarked assistance to multilateral institutions, known as multi-bilateral aid, represented 15.4% of total ODA in 1998 (USD 212 million). This moreover, allows to utilise the expertise and capacity of these specialised institutions, sometimes in countries or in types of activities where Norway does not have a comparative advantage. This form of aid pursues the policies that Norway seeks to promote in the governing bodies of these institutions, *i.e.* to follow up the conclusions and recommendations of international conferences and summit meetings. It influences the strategies and guidelines for the activities of UN agencies in areas where Norway wants to make a special effort. For instance, earmarked contributions to UNICEF focus on children's rights and education, with special emphasis on girls. In 1997, funding to UNDP was provided among others for its fund for poverty and good governance. Norway co-operates closely with the World Bank and is providing co-financing on a wide range of programmes, for instance in 1997 on the World Bank basic education project in Sub-Saharan Africa, or on children's rights projects. In the environment area, funding was provided to the World Commission on dams.

Norway played a particularly dynamic role in recent international initiatives. The Oslo conference on land mines in September 1997 was an important step towards the signature three months later in Ottawa of the international Convention which prohibits the production, export, import, stockpiling and use of these weapons. Norway has agreed to provide USD 120 million over five years to follow up to this Convention, in co-operation with multilateral agencies, in particular the International Committee of the Red Cross (ICRC). In October 1997, the MFA organised in Oslo, with UNICEF and the International Labour Organisation (ILO), an international conference on child labour, which set the agenda for action against child labour.

Humanitarian and post-conflict assistance and NOREPS

Norway is a prominent actor in the humanitarian field, quick to react to emergencies, natural catastrophes, as well as war and conflicts. Consequently the share of emergency and humanitarian assistance in the Norwegian aid programme has stayed at an exceptionally high level since 1994 (see Figure 2). It amounted to USD 228 million, or 16% of total gross ODA in 1998, which is four times higher than the DAC average of 4%. In 1997 emergency or humanitarian assistance was extended to more than 70 countries, among which around 20 may be considered as significant recipients of this kind of aid. The latter included all the war-torn countries in Africa: Angola, Burundi, Congo (Dem. Rep.), Ethiopia, Liberia, Rwanda, Sierra Leone, Somalia, Sudan. The main recipients in Asia were Afghanistan, Iraq, Lebanon, North Korea and the Palestinian Administered Areas, and in Latin America, Colombia and Guatemala. But the number one recipient is Bosnia Herzegovina. Although this type of aid has an obvious political dimension, one can wonder if there is a strong rationale for Norway to act, in many cases with limited resources, in so many countries. To concentrate on fewer countries would not go against the government's will to continue the extensive Norwegian humanitarian efforts but would better focus these efforts.

At the end of 1998, the MFA issued a strategy on Norwegian Humanitarian Assistance, which the Minister presented to the Storting in January 1999. The Minister's statement pointed out that humanitarian aid is increasingly taking place in complex crises, with links between humanitarian assistance, protection of human rights, and the need for a long-term development perspective.

Emergency relief, which focuses on natural disasters, and humanitarian assistance, including human rights and refugee aid, are dealt with by the "Humanitarian Assistance" section in the MFA's new Department for Human Rights, Democracy and Humanitarian Assistance. The Commission on North-South and Aid policies had proposed that responsibility for Norwegian emergency relief be transferred from the MFA to NORAD to better co-ordinate short-term and long-term measures. However, the government did not find it appropriate to make changes to an organisation that had just integrated in one department efforts related to humanitarian aid, emergency relief, refugees issues and human rights. It was thought that the political considerations often related to this type of aid were a clear argument against this government proposal to increasingly integrate peace efforts, conflict resolution, and democracy and human rights measures in development aid. In practice, this does not prevent the Ministry from closely co-ordinating with NORAD, especially when humanitarian assistance takes place in priority countries.

The two main channels for the delivery of emergency or humanitarian assistance are Norwegian or occasionally international, non-governmental organisations (NGOs) and the UN system. In 1997, NGOs distributed the main part of total emergency and humanitarian assistance, *i.e.* USD 138 million (68% of the total). The four largest Norwegian NGOs had the lion's share: the Norwegian Refugee Council, Norwegian Church's Aid, Norwegian People's Aid and the Norwegian Red Cross. The government budget funds 100% of the related expenditures, except for the Norwegian Red Cross, which has to provide 10% of self-funding. Aid channelled through the UN system was USD 65.6 million in 1997 (32% of the total). It was allocated mostly to the UN High Commission for Refugees (UNHCR), (USD 37.7 million) and to the UN Relief and Work Agency for Palestine refugees in the Near East (UNRWA) (USD 14.9 million). General contributions to both institutions amounted to USD 34.6 million, and all the rest, *i.e.* USD 31 million, corresponded to multi-bilateral aid, for which the most important channel after the UNHCR was the UN Department of Humanitarian Affairs (DHA).

In 1991 the MFA established an Emergency Preparedness System, called NOREPS, to speed up the response to emergencies by establishing stand-by capacities, and also to increase the sales of emergency relief products to UN agencies. Since then it has stayed unchanged as a co-operative arrangement between the MFA, the five largest Norwegian NGOs, a few Norwegian companies storing and supplying relevant

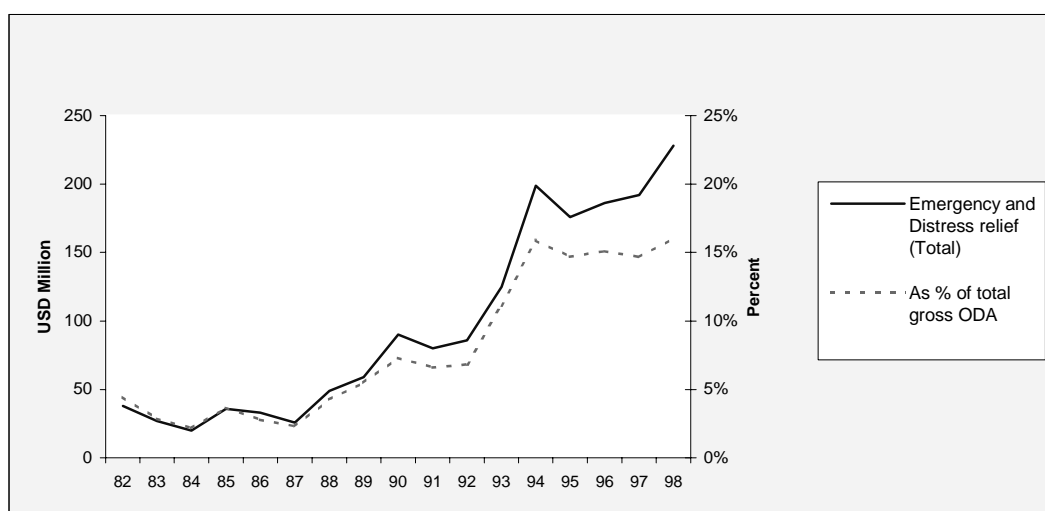
goods and the Norwegian Trade Council (NTC) acting as a secretariat. It was linked to an emergency personnel roster, NORSTAFF, which has substantially expanded.

Since NOREPS attracted some criticism, in particular on coherence grounds (see below), the MFA commissioned an independent review which reported in May 1999. It concludes that NOREPS has been effective in improving Norwegian emergency response, by helping to diversify products and services, facilitating co-ordination and co-operation, and by serving as a focal point for the international agencies. However, the report stresses that questions may be raised as regards cost efficiency of the mechanism, and that, as an export promotion facility it did not prevent the volume of procurement of NOREPS products from the UN agencies own resources from remaining low and their share from continuing to decline. The report recommends separate approaches to the different objectives:

- To define a much more targeted “Stand-by Preparedness Capacity”, managed and co-ordinated by the MFA.
- To establish a separate export promotion facility, in the form of trust funds with the main UN agencies.

The government is studying these recommendations.

Figure 3. Aid for emergency and distress relief



Note: _____ left-hand scale.
 ----- right-hand scale.

Source: OECD.

Norway's debt relief strategy

While acknowledging that some developing countries would be unable to repay all their debt, the White Paper advised against supporting unilateral debt relief. However, in spring 1998, the Norwegian government approved a debt relief plan: "*Towards the Year 2000 and Beyond: the Norwegian Debt Relief Strategy*", which opened the door to unilateral Norwegian debt relief. This plan was considered indispensable for two reasons. First the need to alleviate the poorest developing countries' substantial and growing stocks of external debt, and second, the moral responsibility to clear up the debt problem arising from debts to Norway. Such debts had been incurred exclusively from commercial export credits, guaranteed by the GIEK, since Norway cancelled all of its development assistance loans more than ten years ago. The Strategy was presented in spring 1998 and submitted to the Storting in connection with the debate on the 1999 government budget.

This initiative envisaged to reduce debts originating from commercial export credits by around USD 200 million over four to five years. Debt reduction will be additional to the current development budget, *i.e.* not at the expense of new development co-operation projects. In order to avoid benefiting other creditors of the developing countries concerned, Norway will only forgive debt after the individual developing country has negotiated an international debt relief agreement with all the creditors involved. The plan is therefore twofold: i) it aims to strengthen international debt relief mechanisms, and ii) it provides for Norwegian debt relief measures for individual countries in addition to and on top of the total debt relief provided by such multilateral mechanisms.

Norway intends to improve the existing international schemes in favour of the poorest countries. This involves four main mechanisms:

- The Heavily-Indebted Poor Countries (HIPC) Initiative. Norway's objectives are: to achieve greater flexibility by making the mechanism available to a greater number of countries and ensuring an equitable burden sharing among the creditors, to build alliances with other countries to ensure that the Initiative will provide a definitive solution to the debt problem of the poorest countries.
- In the Paris Club, where Norway is committed to achieve an increase in the maximum debt relief granted to up to 90% for HIPC countries, hence introducing the principle that Paris Club creditors take their proportional share of the necessary debt relief for the country being treated, no matter how large the reduction would be in percentage.
- The Fifth Dimension Facility, which alleviates poor countries' servicing of World Bank loans, and for which Norway's objectives are to contribute funds to help reduce the principal, to support continuous transfers from IDA to the facility and the establishment of a similar facility at the African Development Bank (AfDB).
- The Sixth Dimension Facility, the World Bank mechanism for buyback of commercial debt, to which Norway will provide financing for those countries where the use of the mechanism is considered effective and appropriate.

Norwegian debt relief measures will be granted only on a case-by-case basis. Selection criteria focus on the political situation, including human rights, democracy and corruption. A tentative list of 22 beneficiary countries has been established. Most of them are African countries, except for Bangladesh

and Viet Nam, Honduras and Nicaragua. Norway will assist the countries included in the Strategy in a variety of ways. To ensure that HIPC programmes result in a debt burden that is sustainable, extended debt relief in addition to the HIPC Initiative will be provided only after the HIPC agreement. Norway will support national debt funds when they exist to ease countries' debt burdens, or will provide support to developing countries repayment of debts to other developing countries. It will earmark budget support for debt relief or for strategically important sectors for which funding from the state budget is constrained due to a heavy debt burden. Finally support will be provided for the use of debt management tools.

Support to the private sector

Overview

Significant change has occurred in support to the private sector since the last review, based on a clearer recognition by the new government that private sector development is a necessary if not sufficient condition for economic growth and lasting poverty reduction. The private sector is seen as an indispensable engine for reducing poverty, by creating jobs and incomes, with the ensuing tax revenues allowing for increased expenditures in areas like health and education. On this basis, and considering that what had been done so far lacked a strategic and integrated perspective, the government decided to present a new approach in the form of a Private Sector Strategy, and to review and complement the range of existing instruments for private sector promotion.

The Strategy

The comprehensive *Strategy for Norwegian Support of Private Sector Development in Developing Countries*, published in February 1999, proposes an integrated and global approach, starting from the needs of developing countries. It advocates close co-operation with other donors and more efficient donor co-ordination. It stresses the need to improve the legal, institutional, political and financial environment for private enterprises, as well as the physical infrastructure. The Norwegian business community was consulted during the preparation of the strategy, but emphasis is put on enabling developing countries own enterprises to win contracts on the world market, including contracts in the aid markets. It is proposed to untie Norwegian schemes for private sector development in parallel with other donor countries.

In order to make the strategy operational, a coherent set of actions is proposed. They include:

- The reduction of export subsidy schemes, in parallel with other donor countries, while promoting investments in the South and encouraging Norwegian business and industry to invest and become involved on a long-term basis.
- The improvement of framework conditions: the macro-economic setting, the financial system, and more generally the legal, institutional and judicial environment, which is linked to good governance, as well as physical infrastructure.
- The de-marginalisation of the poorest countries and the reinforcement of their capacity to exploit the potential of globalisation, while limiting the problems that it may create.
- The promotion of trade with developing countries by strengthening the existing schemes for imports from these countries and by giving higher priority to general measures for increasing trade with them, and also the promotion of South-South trade and regional economic co-operation.

- The reinforcement of support to small and medium-sized enterprises, particularly technical assistance and micro-finance schemes.
- The use of the Norwegian resource base, in particular the expertise of Norwegian business and industry, where this corresponds to identified and expressed needs of developing countries.

The instruments for private sector promotion are analysed below in Chapter 2 under aid implementation.

Information, development education and public opinion

This area is a strong feature of the Norwegian aid system, and is one of the best among DAC Members. Yearly surveys have been conducted since 1992 and the latest available showed that support for the Norwegian aid programme stayed high, with 84% of people being in favour of it. However, as far as the amount of aid is concerned, 30% of people surveyed in 1996 would have liked it to decline. The MFA and NORAD are therefore working hard to avoid any further such erosion in public support and to maintain the high degree of support still enjoyed by the Norwegian aid programme.

The Press, Cultural Relations and Information Department in the MFA has two sections, one of them being in charge of information to the Norwegian public and relations with Norwegian and foreign press. There is a division of labour with NORAD. MFA concentrates on general policy issues and multilateral assistance, including:

- Large scale information plans on special events or special themes, for instance on the occasion of the conference on child labour in Oslo in autumn 1997, and the same year on the theme of environment and development. In 1998 information activities focused on human rights, to mark the fiftieth anniversary of the Universal Declaration of Human Rights. Information campaigns were prepared, focusing on child labour and human rights. Campaigns include the production of teaching material for use in primary and secondary schools, publication of reports, supplements to newspapers, organisation of trips for journalists, exhibitions, and the production of films and TV programmes. In 1998, co-operation was also entered into with the UNICEF on a three-year programme of information on girls and education.
- Ongoing information activities, which involve a number of publications, the organisation of courses and study tours for journalists, training courses for teachers and union representatives, the funding of various institutions and production companies for films and multimedia projects dealing with development. Priority is given to programmes targeting children and youth. A number of documents on development activities are published each year, including all the strategy papers and the evaluation reports. Increasingly, the Internet is used to disseminate information on the aid programme through the government web site: <http://odin.dep.no>.

NORAD's own information activities are dealt with by the Information Division in the Department of Information and Cultural Co-operation. They are largely concentrated on NORAD operational activities and on the situation in the countries where it operates. It co-ordinates with the MFA, and targets similar groups. Its information centre arranges exhibitions, information sessions and debates.

The bulk of information activities are carried out through NGOs. In 1997 government funding of their information and education activities was expanded to include a larger number of NGOs than before. They received about USD 7 million out of a MFA total budget a little over USD 8 million. Since 1997, the MFA has a framework agreement with the five largest NGOs: the Norwegian Refugee Council, Norwegian Church Aid, Norwegian People's Aid, Save the Children, and the Norwegian Red Cross, which jointly organised a number of major information projects. In addition in 1997 NORAD allocated USD 3 million in

funding for information activities of 28 NGOs which have a framework agreement with the Agency, including USD 1.4 million to the five main ones. But small amounts are also available, from the MFA or NORAD, for one-time funding of information projects on North-South issues organised by NGOs.

Policy coherence

Introduction

Overall, Norway displays a comparatively strong awareness of the necessity of coherent policies towards the South to maximise the effectiveness of development co-operation efforts: comprehensive preferential market access is granted to developing countries; partner countries interests in international discussions on trade, development and global public goods are actively supported; aid funded procurement is largely untied (only 8.9% of aid was tied in 1997). Further strengthening of policy coherence particularly in the agricultural sector, might be advanced through increased transparency on potentially inconsistent policies, to be able to better evaluate trade-offs and mitigate possible adjustment costs.

Objectives and organisation

Policy statements on the relations with developing countries emphasise policy coherence as a key concern. For instance, in the 1998 statement on development co-operation policy to the Storting, the Minister of International Development and Human Rights declared that: “the government will work actively to improve the international framework, to tailor it more to the needs of developing countries”. This repeatedly professed need for a coherent North-South policy including, *inter-alia*, macroeconomic relations, *e.g.* debts, trade, investment and global goods issues, is broadly shared by domestic stakeholders.

The Ministry of Foreign Affairs, the Ministry of Industry and Trade, and the Ministry of Finance, as well as other ministries and public institutions, are all closely involved in setting objectives and implementing the various components of policies towards the South. Administrative restructuring has been a recurrent instrument to ensure intra-ministerial coherence. In 1997, the Ministry of Foreign Affairs was re-organised to strengthen the coherence of foreign policy: one department managed bilateral relations with developing countries; global issues were the responsibility of another department, with sections for the UN, the international financial institutions, human rights and humanitarian aid; while trade policies were administered by a third department. Further changes occurred in 1998 and are covered in Chapter 2.

Inter-ministerial policy coherence is mainly established through a system of consultative fora. As a matter of routine, major government policy papers are distributed for comments before decisions are taken. *Ad-hoc* groups are created to co-ordinate Norway’s position at important global meetings, standing inter-ministerial committees with the purpose of facilitating co-ordination and coherence are less common. Broad public participation in the formulation of policies is ensured through a consultative process, in which stakeholders, such as public institutions, NGOs and private sector interests are invited to express their opinions. In early 1998 the consultative body for human rights and Norwegian economic involvement abroad - known as KOMpakt - was established (see Box 1). Its purpose is to enhance understanding among the relevant Norwegian constituencies for the interface between business and human rights in the context of globalisation. KOMpakt is considered to be the appropriate forum for raising topics for discussion between authorities, the business sector and other stakeholders.

The complexity of policy-making renders it virtually impossible to be consistent in all matters at all times. However, if contradictory decisions must be made, the key concern is that they be made lucidly, deliberately, and on the basis of information and analysis that enable the decision takers to mitigate the costs of incoherence, as well as to explain their course of action in the context of the difficult choices with which they are confronted. A high premium is therefore put on developing information systems and

analytical capacities. In that sense, there appears to be room to expand intra- and inter-ministerial consultations on policy coherence issues beyond direct ODA allocation, and the various inter-ministerial consultative groups related to the work in the World Trade Organisation (WTO).

Box 11. KOMpakt

The purpose of KOMpakt is to enhance understanding among business organisations, labour unions, human rights and solidarity organisations, academic institutions and government, for the interface between business and human rights in the context of globalisation. KOMpakt deliberations should give companies a more robust basis for internationalisation strategies and investment decisions. The aim is not to force agreements, but to gain more insight into each other's agenda. Human rights organisations will learn more about the problems and trade-offs that face companies in this field, and will have more opportunity to influence developments.

KOMPakt meets in plenary 5-6 times a year and holds seminars on topical issues. It has established three permanent working groups:

- ◆ Working group 1 addresses normative and norm-creating challenges related to the promotion of human rights in general, and implications for the business community in particular. Child labour and labour standards are among the key issues under debate.
- ◆ Working group 2 addresses human rights challenges and options for companies and industrial organisations, in particular experience gained of the voluntary guidelines and codes of conduct established by many companies.
- ◆ Working group 3 addresses challenges relating to policy development and the pros and cons of specific policy measures, e.g. positive versus negative ones (sanctions). It focuses in particular on the government's scope of action in the formulation of international development policy.

Trade flows and market access

Trade between Norway and developing countries is growing. Contrary to the declining share of developing countries in total world trade, the share of developing countries in total Norwegian imports (excluding ships and oil platforms) has grown from 10% in 1994 to almost 12.5% in 1997. The growth of the share of developing countries on the Norwegian market is the strongest for the least developed and other low-income countries (see Table II-7). The increase may to some extent be attributed to the significant modification of the Norwegian Generalized System of Preferences (GSP) in 1995. In addition the customs preferences under the GSP system became more effective after the tariffication of the Norwegian import regime for agricultural products which took place in 1995 as a result of the Uruguay Round.

Most industrial imports enter the Norwegian market duty-free under preferential trading arrangements. Moreover, average most favoured nation tariffs on industrial products are generally modest, exceeding 10% only for certain plastic products, leather goods, textiles and clothing, and some iron and steel products. More than 70% of industrial tariff lines are fully zero-rated. There still exists some tariff escalation in textiles and clothing, footwear and plastic products.

The level of agricultural support in Norway is one of the highest in the world¹. Despite a number of changes introduced to the agricultural trade regime because of the Uruguay Round Agreements, access to the market for temperate products remains restrictive, with an average estimated bound *ad valorem* tariff rate of 98.4%. Average bound tariffs are above 200% for live animals, dairy products, cereals and milled products, meat and meat products. In addition, when target prices in the meat sector are not reached due to overproduction, quantitative import restrictions are introduced. For instance, imports from Botswana previously amounting to 3% of the market were limited to 1 000 tonnes or 2% of the market. Most temperate fruit and vegetables are subject to seasonal tariffs, which are normally reduced during the off-season. Tariff quotas, applied to products subject to minimum access commitments, are generally allocated on the basis of auctions. Forestry and wood products is one of the few sectors with distinct tariff escalation, with imports of timber duty free, while wood and wood products attract rates up to 5% and pulp, paper and paperboard range up to 15%². By contrast, for tropical products tariff rates are zero or close to zero. In addition when target prices in the meat sector are not met due to overproduction, preferential tariffs for the least developed countries are suspended. Imports of duty free beef from Botswana and other countries granted access on LDC-terms were for instance limited to 2700 tonnes in 1998. The actual import volume in 1998 was below this pre-set level.

The GSP is an important instrument to integrate the poorest developing countries into the world economy. Tariff reductions or exemptions granted by the GSP scheme are used to stimulate imports, particularly from the least developed countries. Norway has one of the most comprehensive and generous GSP schemes among DAC Members. Developing countries generally enjoy duty-free/reduced tariffs and unlimited access for export of manufactures, except for products specifically excluded from the scheme, typically textiles, clothing and footwear. The reverse principle is applied to agricultural products, *i.e.* duty-free and unlimited access only for those products specifically included in the scheme. Least developed countries are granted duty-free/reduced tariffs and unrestricted access for all agricultural products, except flour, grains and feeding stuffs³.

Overall, developing countries have improved their use of the GSP scheme, achieving an utilisation rate of 74% in 1996, compared to 70% in 1995. Similarly, the least developed countries' GSP utilisation rate increased from 67% to 75%⁴. Agricultural imports from developing countries consist mainly of traditional tropical products. Recognising a potential for trade in non-tropical products, the authorities encouraged developing countries to capture larger shares of the agricultural market through the allocation of minimum access quotas. Moreover, the Norwegian Import Promotion Office for Products from African Countries organised inspections of product facilities in some African countries to avoid preferential access being nullified by sanitary and phyto-sanitary regulations.

Procurement

The scope and purpose of Norway's tied financing scheme has changed considerably since the introduction of the DAC Tied Aid Discipline in 1992. The proportion of this type of aid financing has been greatly reduced and the scheme has been adjusted to comply closer with the overall development co-operation priorities. The issue of tied aid is considered of particular importance with respect to overall objectives of partnership, local ownership and donor co-ordination. Tied aid is deemed to undermine all three strategic objectives. Norway considers an agreement among donors to globally untie all ODA as an important issue of aid efficiency, donor coherence and credibility.

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1. OECD (1998), *Economic Review Norway*, Paris.
 2. WTO (1996), *Trade Policy Review Norway*, Geneva.
 3. Ibid.
 4. Ministry of Foreign Affairs (1997) Statement to the Storting on Development Co-operation Policy.

To stimulate effectively private sector development in recipient countries they are encouraged to employ local and regional tendering procedures. This transfer of procurement responsibility has already reduced direct procurement from NORAD for a large part of the bilateral assistance. In addition, the use of guarantees is considered a more cost-effective instrument to promote trade with and investments in developing countries. Under certain conditions, guarantees reduce risk and are an important addition to loan schemes. Moreover, guarantees enhance access to private financing for projects much larger than can be funded through direct ODA financing. Therefore, a review is foreseen on how to redesign the guarantee scheme of the Norwegian Guarantee Institute for Export Credits (GIEK) in order to function as an effective instrument to promote Norwegian exports to and investments in developing countries and to safeguard appropriate environmental and social criteria.

In the area of distress relief and humanitarian assistance, the MFA and several Norwegian NGOs created in 1991 the Norwegian Emergency Preparedness System (NOREPS), which gave 16 selected Norwegian firms exclusive rights to use the Norwegian insignia on products such as emergency rations, tents and drinking water systems. Its concerns have been seen by many as more commercial than humanitarian. NOREPS delivered goods and services for USD 34 million in its peak year 1994, but its annual deliveries had sunk to about USD 28 million by 1998. This constituted about 15% of the State budget's allocations for emergency aid. NOREPS was criticised for selling expensive emergency provisions and a recent report commissioned by the authorities recommended that the scheme should be modified, but not terminated (see above).

PORTUGAL

OTHER POLICIES AND INSTRUMENTS

Cross-cutting issues

ICP has yet to develop useful guidelines and tools to mainstream the various cross-cutting issues among the numerous implementing ministries. These include poverty reduction, gender issues, environment, democracy and human rights, good governance, conflict management, partnerships, ownership, donor co-ordination and so on. At this stage, it remains at distributing the DAC Guidelines - often translated into Portuguese - to the ministries, embassies, and pertinent recipient country partners.

For example, as was raised in the last review, efforts undertaken to integrate gender perspectives into policies and implementation remain limited, and a specific timetable on taking action is yet to be drawn up. ICP still does not have a separate desk to deal with gender issues and no guidelines have been established. Gender issues are treated on an *ad hoc* basis, and regular training to promote gender awareness is also not put in place. It is therefore clear that greater and more systematic attention to gender aspects is necessary in the Portuguese programme. Only if ICP actively addresses poverty and gender issues, the Portuguese ministries and universities would be more likely to carry out programming adapted to the wider developmental needs of the populations in the partner countries.

It would thus be practical for ICP to a) establish clear policies to mainstream and operationalise cross-cutting issues; b) hire experienced and technical staff to be in charge of overseeing the areas; c) if useful, develop appropriate guiding principles based on the DAC Guidelines that would be more practical and applicable in the Portuguese programme; d) organise and implement training sessions for aid personnel of different entities in order to disseminate the cross-cutting issues; e) develop a monitoring system with other ministries to effectively mainstream the issues; and f) establish a comprehensive evaluation plan and system to ensure that the guidelines are adhered to with results measured and assessed against agreed targets and benchmarks.

Policy coherence

As stated in Chapter 1, one of the new principles governing Portugal's development co-operation policy includes coherence with other policies affecting recipient countries. What this exactly entails and how organisationally this will be embarked upon is yet to be elaborated. What might be helpful for Portugal, as well as other DAC Members, is to first ask itself the question of "coherence with what policy"? In OECD and the DAC, policy coherence refers to the mutual reinforcement and compatibility of policy areas such as trade, foreign relations, national security, environment, agriculture and so on, with the policy of development co-operation, particularly in reference to the objective of poverty reduction. Therefore, unless the objective of poverty reduction is placed as one of the main considerations to which other policies could be compromised, the discussion on policy coherence may lack focus.

Reducing policy incoherence for the purpose of poverty reduction may be challenging for Portugal as ministries and other groups - public or private - generally have strong vested interests for the developing countries other than poverty reduction. It will be beneficial for Portugal to carry out some analysis on the

negative impact that certain policies can make on poverty reduction and where the policy can be adjusted for enhanced coherence. This would require increased financial and human resources for policy analysis.

Specifically, policy coherence has to be looked at in the overall perspective of globalisation. Rapid growth in the movement of people, goods, services, capital, technology and information across national borders is creating an increasingly integrated global economy. In the context of poverty reduction, the key is to ensure that developing countries and especially poor people would benefit from globalisation or at a minimum be able to adapt to this new environment. The challenge for many DAC Member countries including Portugal is how to balance or compromise the sometimes conflicting interests of preserving its language, culture, and historical ties in the recipient countries on the one hand and enable them to benefit from globalisation on the other.

As Portugal is a member of the EU, it is bound by the EC policies on trade and agricultural subsidies. ICP, which deals with the EC, is not ostensibly vocal regarding the difficult and complex issue of reducing the EC incoherence in such policy areas. ICP states that it does consult with NGOs regarding various positions in the EC and that the latter could be quite critical on various decisions made by the Community. The NGOs admit, however, that coherence issues is not a major area that they work in, although some are trying to educate people on the issues of free trade and the reduction of agricultural subsidies.

Portugal has potentially a clear advantage in advancing policy coherence as it already has the ideal set-ups such as the Council of Ministers for Co-operation Affairs and the Inter-ministerial Committee for Co-operation. If matters of policy coherence among the different ministries could be discussed over and above development co-operation issues through these forums, as well as produce results, Portugal could set a model for the other DAC Members to refer to.

Trade with developing countries

The share of developing countries in Portuguese foreign trade continued to decrease in the last two decades. In more recent years between 1993 and 1999, the share in exports declined from 10% to 8% and in imports from 15% to 14%. The regional distribution among developing countries in 1998/99 were: for exports, Africa (41%), Western Hemisphere¹ (19%), Eastern Europe (17%), Middle East (10%), and Asia (13%); and for imports, Asia (27%), Africa (22%) Western Hemisphere (20%) Middle East (17%) and Eastern Europe (14%). Specifically concerning the PALOPs, exports to the five countries in total amounted to USD 599 million, which took up 68% of exports to Africa or 23% of exports to developing countries. As for imports from the PALOPs, it amounted only to USD 68 million, which was 6% of imports from Africa or 1% of imports from developing countries. This seems to suggest that Portugal's exports to the PALOPs may somewhat correspond with their status as priority countries in its development co-operation, while imports from the PALOPs do not seem to gain much benefit from their priority status. On the other hand, Portugal was the largest export destination for Cape Verde (USD 9 million) and Guinea-Bissau (USD 49 million) in 1998/99.

Export credit guarantee

DAC data shows that over USD 300 million in private export credits were disbursed at market terms each year between 1997 and 1999 (see Table I.1). There is no official agency in Portugal that provides official finance facilities for export credits. Export financing is carried out by commercial banks or other credit institutions. However, since APAD's role and instruments are still being finalised, some of its tied credits to the private sector may in some cases qualify as state subsidised export credits.

¹1. Argentina, Brazil and Chile.

COSEC, which became 100% privately owned in 1992, provides guarantees for commercial risks on export of Portuguese goods and services. It is owned by the largest Portuguese financial companies and foreign credit insurance companies. COSEC also provides Portuguese foreign direct investments with state guarantees to cover political and extraordinary risks under a separate account. In 1999, its guarantees on behalf of the state amounted to USD 60 million, which was a major drop compared to the level of USD 162 million in 1997. Reasons are attributed to problems associated with cover for the Angolan market which were not sufficiently offset by operations in other countries such as Algeria, Argentina, Brazil, Iran, Morocco and Romania. COSEC states that it is still focused on the PALOPs but the breakdowns by countries and types of projects guaranteed are not elaborated in its annual report.

The Council of Financial Guarantees (CGF) is a specialised state body that formulates policies and guidelines for the state guarantees for exports. CGF is consulted on general matters related to risks such as country classification, percentage of cover, premiums, and so on. It also examines and decides on the applications submitted by exporters or banks to COSEC above USD 500 000-800 000, depending on the terms. Portugal could clarify the guidelines and principles on environment, human rights, good governance, ethical conduct, sustainable development, risk assessment, military products, transparency, and others if they are specified by CGF and presumably monitored by COSEC on guaranteed activities.

From 1997 to 2000, the MF disbursed on average USD 40 million a year to cover losses by COSEC on export credits. This seems to be substantially less than an average of USD 109 million per year from 1990 to 1996. Nevertheless, it is still about the same as the budget allocation for ICP, MTS, MED and MS put together. These guarantee payments would be reported as Other Official Flows, but in most cases, they are used for refinancing on concessional terms, in which case they would be recorded under ODA as Action Related to Debt based on current DAC Guidelines. The DAC could revisit the legitimacy of counting as ODA the support towards potentially unprofitable commercial endeavours which may even be counter-effective towards the socio-economic development of a poor country.

Untying and procurement

According to DAC data, Portugal's tied aid amounted to USD 1 million, USD 9 million, and USD 5 million in 1997, 1998, and 1999 respectively, representing less than 5% of Portuguese bilateral ODA. However, Portugal has also not reported the tying status of USD 46 million for 1999. Furthermore, tied aid figures in the DAC do not include administrative costs nor technical assistance - which takes up a high share of Portuguese aid - and is almost completely tied. In particular, the large share of scholarships are included in technical assistance which is disbursed within Portugal. Portuguese procurement of goods and services is not open to international competitive bidding, although in certain cases, consideration may be given to enterprises of the beneficiary country. Furthermore, although a high proportion of its bilateral ODA concerns Action Related to Debt, which is untied by definition, including in the case of debt for equity swaps, they often directly benefit Portuguese enterprises.

Public opinion and information

A comprehensive opinion poll concerning public attitudes towards development co-operation has yet to be carried out in Portugal. However, work is currently underway to carry out such polls. In general, there is good media coverage on the PALOPs, and more recently on East Timor, which sustains the interest of the Portuguese people towards these countries. In fact on East Timor, there is an extraordinarily high level of public support, most likely based on a strong sense of responsibility as its former colonial power.

Although government initiatives in development education has been relatively limited, ICP has financed some seminars and films, sponsored the printing of relevant documentation, and awarded prizes to scholars for publications on development co-operation. ICP has also recently opened a documentation centre and has been issuing a financial report on Portuguese aid from 1997, which is translated into English. However, the annual report is only distributed among ministries and embassies and is not issued freely to the public. More recently, ICP has started an internet site which publishes news and activities on development co-operation, as well as information on the recipient countries. The site could be publicised more and needs regular updating, as the English version still states that “Promotion and defence of the Portuguese language”, “business co-operation”, and others, are priority areas. On the other hand, it provides an e-mail address which receives opinions, suggestions and questions. ICP states that any request posted is answered within 48 hours.

With recent priorities elaborated in Portugal’s new development strategy (see Chapter 1), the government could consider the need for providing more public information. For the latter, it needs to a) allocate sufficient budget for public education; b) devote adequate human resources with responsibility for these activities; and c) develop an information strategy to increase support for the new vision and the various cross-cutting issues. Providing sufficient information on debt relief activities and state guarantee schemes should also be an integral part of this strategy. It should be noted that the central theme that needs to be conveyed to the public is poverty reduction and sustainable development, in accordance with the commitment that Portugal has made at the DAC.

Non-governmental organisations

There are currently 79 NGOs accredited with ICP and 45 as members of the NGO Platform. Considering the public’s high interest in the PALOPs and East Timor, it is somewhat surprising that NGOs play a marginal role in Portuguese development co-operation. There are still only a few NGOs that are professionally capable of undertaking significant roles in aid delivery, and most do not have a large membership. As a result, NGOs are not able to function effectively as a political force nor as a strong presence in the field. Furthermore, although there is active public interest in the PALOPS, Portuguese NGOs have limited resources since fund-raising is not a tradition in Portugal. There are, however, several large foundations such as the Gulbenkian Foundation that provide funding to various small projects in developing countries.

Although Portuguese NGOs depend largely on EC funding, national public financing of NGOs has been slowly increasing in recent years. In 1998, about USD 1.8 million (1.0% of bilateral ODA) was disbursed to 70 projects, which increased to USD 3.2 million (1.1%) for 94 projects in 1999.⁴ It is expected to grow further for 2000 and 2001. These are disbursed through ICP, Ministry of Justice, MTS, Ministry of Culture, and others. Fundings were mainly for humanitarian crises in Albania, Benin, Brazil, Colombia, Democratic Republic of Congo, Macedonia, Honduras, Kosovo, Rwanda, and so on, as well as for health, education, and vocational training projects in some PALOPs. At a higher political level and at ICP, there is recognition that NGOs are cost effective in terms of aid delivery and could assume a complementary role to official aid. Recently, there has been acknowledgement of the need for more dialogue between ICP and the NGOs, especially through regular meetings.

NGOs are legally recognised in Portugal, which is a positive indication. However, the NGOs sense that they are considered only as a minor addition to official aid and that more could be provided for their support. Firstly, the 1998 legislation that established the criteria for ICP to accredit NGOs did not enable an effective tax exemption system for private contributions to NGOs. The NGO platform has met with the

4. ICP figures.

Parliament and submitted a redraft of the legislation, which is currently being discussed in the cabinet. The NGO platform is hoping that an advisory council on co-operation would be established and that there would be a broader representation of NGOs and civil society in the council. NGOs also consider that the ICP's cofinancing system is *ad hoc* and that its evaluations should be improved. However, the platform does acknowledge that, as the history of NGOs is relatively young in Portugal, Portuguese NGOs still need institutional improvements, particularly in terms of programming and accountability.

Several NGO-sponsored initiatives for public education have taken place throughout the country, in most cases with municipal authorities and local schools as their partners. While some of these endeavours have shown real impact, their sustainability and growth have been hampered by lack of funding. NGOs maintain that the public still lacks information and involvement in activities that could build knowledge on development issues, such as debt relief, migration, racism, and so on. The Portuguese government's increased support to its national NGOs as well as those of recipient countries in aid delivery and public education is strongly encouraged.

Future considerations

- ICP could enhance its effort in mainstreaming cross-cutting issues by establishing clear policies, designating specialists, establishing guidelines, training all aid personnel, and developing a comprehensive monitoring and evaluation system throughout the co-operation programme.
- Portugal could continue its increasing involvement of Portuguese and recipient country NGOs and civil society in public education and project implementation, including giving a seat in the pending advisory council on development co-operation.

SPAIN

POLICY COHERENCE AND OTHER KEY AREAS

Policy coherence

Mechanisms for promoting policy coherence

Promoting overall coherence of national policies with regard to their impact on global poverty reduction is increasingly becoming important. DAC Members pledged in 2001, when endorsing the *DAC Guidelines on Poverty Reduction*, to elevate policy coherence for development as a general concern in policies and to develop the means necessary to promote it across their governments. Steps necessary to promote policy coherence include: political commitment to poverty reduction at the highest level; a mechanism for exchange and consultation within and across ministries; a systematic vetting of legislation for its coherence with poverty reduction; and adequate staff resources to undertake the necessary analysis.

Spain is one of the few DAC Members to have explicitly integrated policy coherence in its legal framework. The Law states that the principles and objectives of Spanish development co-operation should be reflected in all other policies affecting developing countries. The Law also states that while the promotion of political, economic and cultural relations with developing countries remains an important aspect of Spanish development co-operation, it must be consistent with the objectives of sustainable development and poverty reduction.

Spain has made significant progress in strengthening internal co-ordination but has yet to address policy coherence in a systematic way. The institutional co-ordination structures in place (see Chapter 5) have recently played a useful role in promoting greater synergies among the different instruments and diverse actors within Spanish development co-operation. Some of them could possibly be used to support a more systematic approach to addressing policy coherence issues beyond development co-operation. For example, the Inter-Ministerial Committee for International Co-operation could serve as a forum to review poverty reduction considerations of various policies and their impact on developing countries. The Development Co-operation Council could also be used to engage in the debate on policy coherence with civil society, as it has already proven to be useful in promoting poverty reduction during the consultation for the adoption of the Law. However, the fact that the Secretary of State for International Co-operation and Latin America is not a member of the Council of Ministers may impose some limitation on successfully influencing other policy communities in promoting the development agenda at the highest political level.

The debate on policy coherence appears still to be at an early stage. In order to pursue the debate both within and outside the public administration, Spain first needs to strengthen its analytical capacities to determine the impact of various policies on poverty reduction. This would require allocating adequate staff resources to the MFA to carry out the policy analysis and propose the necessary options to other policy communities.

Challenges in achieving greater policy coherence

EC policies

In trade and agricultural policies, which fall under the EU competency, it is important for Spain to ensure that poverty reduction considerations are incorporated in its positions in the policy debates of the EU. This would require greater linkages between Spain's development co-operation policy and its EU policy, including policy coherence as part of Spain's priority agenda towards the EC (see Chapter 2). Furthermore a more systematic assessment of global poverty reduction in Spain's positions on EC policies and more active involvement of the AECI and other development co-operation actors in the decision-making process would be necessary. It may also be beneficial to open the debate more widely on selected issues, in order to promote the interests of developing countries in policy areas with high domestic sensitivity such as trade, technology transfer, agricultural subsidies, fisheries and immigration. A key issue in enhancing policy coherence is to have effective mechanisms to solve possible conflicts of interests.

For instance, the Common Fisheries Policy, which involves Spain as one of the major actors in this area, provides an interesting example illustrating the importance of policy coherence. The EC has signed fisheries agreements with developing countries aiming to secure access to their stocks and waters for fleets of EU Member States. Spain, which has one of the largest fleets within the EU, is highly dependent on EC international fisheries agreements, since it obtains nearly half its catch in the waters of non-EU Member States. However, these agreements have long been under scrutiny by NGOs and even within the EC. Concerns include the management and exploitation of fisheries resources in developing countries and their impact on the livelihoods of local communities. Developing countries themselves have become more assertive in expressing their concerns over preserving their fish stocks and developing their national fisheries sectors. Recognising the failure of the current Common Fisheries Policy to promote sustainable management of fisheries resources, the EC has launched a reform process.¹ Spain should contribute to enhancing policy coherence in this process, in line with its capacity-building activities in fisheries of partner countries and, more generally, its stated objective of sustainable development. Spain, as an influential Member State in this area, is encouraged to consider how to prevent domestic interests from taking precedence over development co-operation objectives when debating the Common Fisheries Policy as well as fisheries agreements in the European Council.

Export credit and guarantees

Like other DAC members, Spain is facing difficulties in ensuring that official export credits and guarantees are consistent with the objective of sustainable development. In the past, Spain's export credit agency (CESCE) supported projects which have been under the scrutiny by international advocacy NGOs because of social and environmental concerns². Spain has agreed to implement the OECD Proposal on Common Approaches to Officially Supported Export Credits and the Environment adopted in December 2001. However, it is too early to judge the effectiveness of its new environmental review mechanisms. In addition, as its official export credits account for a significant part of developing countries' debt owed to Spain, it should also consider how to limit their contribution to unsustainable debt burden in poor countries. In this context, Spain has also adopted the OECD Statement of Principles of June 2001 designed to discourage the provision of officially supported export credits for unproductive expenditures in HIPC countries. Moreover, the MFA is represented at CESCE's board of directors and has an opportunity to play a useful role in enhancing aspects of sustainable development by directly participating in the screening process of projects in countries eligible for ODA.

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1. See the Green Paper on the Future of the Common Fisheries Policy, The European Commission, COM 52001 135 Final.
 2. Examples include the Three Gorges Dam in China and the Indah Kiat Pulp Mill in Indonesia.

The Development Aid Fund

The FAD was for a long time the main instrument of Spanish co-operation and remains a significant instrument today (see Box 3). The proportion of FAD loans, which used to account for half of total gross ODA disbursements in the early 1990s, decreased to 22% of total gross ODA in 2000. The future trend in FAD loans cannot be determined, since FAD allocations in the Master Plan are expressed as net disbursements (see Chapter 2). However, the intention of Spanish authorities is to further decrease them.

Box 12. The Development Aid Fund: objectives and conditions

Created in 1976 for the purpose of export promotion, the FAD provides developing countries with soft loans tied to the purchase of Spanish goods and services. The FAD also aims to promote the economic development of recipient countries. The dual nature of this instrument remains strong since FAD loans are generally combined with export credits except for HIPC countries and other low-income countries and emergency assistance. The MOE is responsible for the management of FAD loans, but there is no distinct organisational separation between the management of FAD loans and other activities related to trade and export financing (see Chapter 5).

The grant element of FAD loans increased from an average of 66% in 1992 to 70% in 2000³. The breakdown indicates that LLDCs were the main beneficiaries of this higher degree of concessionality as the grant element of their loans increased to 77%. In Honduras and for reconstruction projects in countries affected by natural disasters, the grant element of FAD loans is usually above 80%.

Over time, the conditions of FAD loans have been adjusted according to multilateral regulations, notably the OECD rules on tied aid credits referred to as the Helsinki Agreement. This resulted in restrictions on sector and country eligibility, affecting in particular the richer Latin American countries which used to be among the major FAD recipients. In 2000, 55 loans were approved in 19 different countries, for a total of EUR 255 million. The geographical distribution showed that Asia became the main beneficiary area (30% of total), followed by Latin America (22%), Europe (11%), Sub-Saharan Africa (10%), and North Africa and the Middle-East (6%).⁴ The largest commitments were directed to Indonesia, Turkey, Nicaragua, China, Mozambique and Honduras, accounting altogether for more than 60% of total commitments. In terms of annual gross disbursements, China has topped the list over the past decade. Concerning sector distribution, health and education accounted respectively for 24% and 14% of total resources disbursed through FAD in 2000. These proportions have been rather constant over the past five years, but are twice as high as in the early 1990s. In contrast, investment in economic infrastructure and services used to be more important, although it still accounts for 38% of total loan disbursements.

There has been increasing pressure from the Spanish development community to enhance the poverty reduction orientation of the FAD instrument. Sector distribution has changed significantly, reflecting Spain's intentions to have a greater focus on social sectors. However, the focus on basic social services remains weak (see Chapter 2) and focusing on health and education in general does not necessarily lead to poverty reduction. In fact, such investments, if not properly targeted and carefully designed according to overall sector needs and national priorities, may be counter-productive and can even create an unnecessary strain on the national health and education budgets.

Since 1998, the MOE has given more attention to the quality of loan management at different stages of the project cycle. The identification of projects is no longer done on an *ad hoc* basis. It is now based on

3. This increase is mainly due to a decrease in annual average interest rates (from 1.8% to 1.1% between 1992-2000) while grace periods have been rather constant (around 10 years).
4. Latin America used to account for a larger share (within a range of 50 to 68%) of loan commitments from 1991 to 1995.

a financial co-operation programme, which is prepared by the MOE and the embassy in consultation with partner countries. These programmes are meant as a reference framework to assess funding requests from partner countries against national priorities and taking account of existing loans of IFIs. A fund for feasibility studies was established in 1995 with an annual budget of EUR 5 million. In addition, a new annual budget line of EUR 3 million was made available in 1999 for project identification, monitoring and evaluation. This is a positive development in strengthening loan management, particularly regarding the independent evaluation previously non-existent. Previously, the projects, once completed, were only reviewed internally by commercial counsellors responsible for loan management in embassies. Finally, the MOE has started to release a report on FAD activities on a semi-annual basis.

Closer links between loans and grants were mandated by the Law. At the strategic level, the Master Plan does not contribute to greater synergies, as it is unspecific in many respects concerning loans, particularly regarding country and sector priorities. Spain states that co-ordination between the MOE and the MFA has been strengthened, for example, through the establishment of a joint committee to review loans for basic social development. The joint committee focuses on aspects of sustainability, transfer of know-how and lessons learned. In 2000, this committee reviewed health and education projects in China, Nicaragua, Mozambique, Honduras and Bolivia for an amount of EUR 20 million; but this represents only a small part of the annual portfolio of loans approved by the Council of Ministers. In addition, it is not clear whether and how the committee encourages joint programming of loans and grants. At the operational level, the preparation of country strategies covering both loans and grants is expected to contribute to a better integration of the two instruments.

While Spain has made significant improvements since the last Peer Review, a number of issues remain to be addressed. Firstly, Spain continues to provide ODA loans to poor countries, including HIPC, taking account of IMF requirements on the financial conditions to be granted to these countries and the criteria of not providing loans for non-productive expenditures. However, the role of loans as opposed to grants to poor countries could be further reviewed. Secondly, despite an increased focus on social sectors and a closer integration between loans and grants, the poverty reduction impact of FAD loans needs to be better demonstrated. This requires a more explicit overall policy and, at the level of individual projects, the setting of clearer objectives, improved targeting of beneficiaries and enhanced monitoring and evaluation. Thirdly, it is of concern that a significant share of ODA remains unaccounted for in qualitative terms. Loans are disbursed without any supporting sector strategies and documentation remains limited to basic data. The MOE should consider enhancing its reporting on FAD to include information on projects underway in addition to those recently approved. Further information on the type of projects funded and details on their objectives would also be beneficial. Finally, as proposed in the last Peer Review, Spain should carry out a comprehensive review of its FAD instrument from the perspective of contributing to poverty reduction.

Aid untying

According to DAC statistics, Spain has one of the highest rates of aid tying, although its rate has dropped from 74% in 1998 to 53% in 2000. Bilateral grants are in principle untied, although the MFA intends to review whether and how procurement of non-Spanish goods and services could be increased. In the past, funding requests from NGOs were also assessed in terms of their expected benefit for the Spanish economy, but this requirement has not been kept in the new co-financing arrangements.

FAD loans are tied by nature⁵ given the export promotion nature of this instrument. However, the legal basis for FAD loans provides for exceptions, which allow Spain to comply with the 2001 DAC Agreement on Untying Aid to Least-Developed Countries without requiring a change in legislation.

5. Flexibility is allowed to finance local costs and foreign goods up to 30% of the contracts' total value.

Furthermore, little adjustment is required for compliance with the DAC Agreement, since disbursements to LLDCs are rather small (12% of bilateral ODA). At the same time, Spain may find it useful to review its policy based on an overall assessment of the costs and benefits of tying aid, including the risk of undermining the principles of ownership and partnership. During the field visit to Honduras, the DAC review team expressed its concerns about the potentially higher costs of tied aid. Other issues included increased difficulties in maintenance and repairs and limitation in technological transfers and local private sector development. Since Spanish exports financed by the FAD represented less than 2% of total exports to non-OECD countries in 2000, the impact of this instrument on the Spanish economy is marginal and may not justify the need to keep it tied.

Debt relief

Spain's action relating to debt used to constitute a large share of ODA and reached a peak of 16% of total gross bilateral ODA in 1998. In 2000, it declined to about 7% of bilateral ODA, close to the DAC average. Spain is strongly supporting multilateral debt relief efforts; its contribution to the HIPC Trust Fund amounts to USD 124 million, including an imputed amount of USD 39 million through the EC. This represents a share of more than 4% of the HIPC Trust Fund, which is, according to Spain, higher than its "fair" burden sharing estimated to be around 2%. At the same time, Spain is an important creditor to some HIPCs through FAD loans and export credits.

Beyond the HIPC framework, Spain does not intend to provide as much bilateral debt relief as other members of the Paris Club who are committed to forgive 100% of bilateral official debt to the HIPCs. Spain gives 100 % debt relief to HIPCs for ODA debt before the cut-off date⁶ while the rest is on a case-by-case basis only. Nevertheless, Spain has provided significant additional support to Central America, for example, in taking up Nicaragua's debt to Guatemala through debt conversion. Such a contribution was useful to enable a creditor developing country (Guatemala) to reduce the debt of a HIPC (Nicaragua). Spain also made a contribution of USD 30 million to the IDB's Central American Emergency Trust Fund, which was set up in the aftermath of Hurricane Mitch to provide debt relief to Honduras and Nicaragua. Finally, it must be noted that when natural disasters hit the region, Spain's response in providing bilateral debt relief in addition to emergency assistance was quick and flexible.

Since 1998, Spain has supported operations involving conversions of debt into public investment in development programmes and projects, through the creation of counterpart funds. These were used for environmental projects in Costa Rica (USD 5 million), anti-drugs programme in Peru (USD 6 million), infrastructure programme in Bolivia (USD 8 million), infrastructure programme in the Dominican Republic (USD 3 million) and post-Mitch reconstruction in Honduras and Nicaragua (USD 17.5 million and USD 15 million respectively). Conversions of debt into Spanish private investments have also been implemented in Morocco, Bulgaria and Jordan. Debt conversions, particularly when private investors acquire assets in exchange for public debt, do not necessarily lead to investment in projects focusing on poverty reduction. Spain is encouraged to provide more detailed information on the content of these activities and assess their impact on poverty reduction by including appropriate monitoring and evaluation mechanisms.

Future considerations

- The MFA could strengthen its analytical capacity in promoting policy coherence beyond development co-operation in order to contribute to an informed debate with other policy communities, particularly on issues such as EC policies in trade, technology transfer, agriculture and fisheries. The Inter-

6. The cut-off date is defined when a debtor country first meets with Paris Club creditors and credits granted after this date are not subject to future rescheduling.

Ministerial Committee for International Co-operation and the Development Co-operation Council could be used to open up the debate on policy coherence.

- Spain should continue its review of FAC loans in a comprehensive manner. A more explicit policy is required to reinforce their poverty reduction orientation. At the level of projects, there is a need for clearer objectives, improved targeting of beneficiaries and enhanced monitoring and evaluation. Transparency could be further increased with improved reporting on country selection, sector strategies and projects.
- Spanish aid could be further untied in order to increase ownership and capacity building in partner countries. Spain needs to open up the debate on the trade-off of tied aid in terms of effectiveness in poverty reduction. The degree of benefit for Spain's economy could also be assessed.
- Spain is encouraged to assess how its debt conversion operations can be better linked with poverty reduction strategies of recipient countries.

SWITZERLAND

POLICY COHERENCE

North-South Guidelines

An important and original aspect of Swiss development assistance policy, as set out in the *North-South Guidelines*, is the importance placed on ensuring consistency between development policy and other policies. The *Guidelines* state that “Switzerland must rethink its relations with the developing countries in a complex and changing environment, in which development co-operation is no longer the sole consideration but rather all the policy, economic and social relations with those countries. What is required is a coherent policy towards the South.” The *Guidelines* recognise that there are contradictions and conflicts of interest between the objectives of aid policy and those of other foreign policies dictated by Switzerland’s short-term national interest. They stress that such contradictions should not be ignored; on the contrary, they should be highlighted so that, if they cannot be removed, they can at least be tabled into the political decision-making process. The first step is thus to set out the objectives of development policy. This is done in the *Guidelines*, which state that the aim of development policy is to:

- Safeguard and promote peace and security, human rights, democracy and the rule of law, by promoting good governance, combating the illegal flight of capital and corruption, encouraging a reduction in excessive military spending by developing countries, and contributing to conflict prevention and crisis management.
- Promote prosperity by creating the conditions for sustainable growth in the developing countries by increasing Swiss ODA to 0.40% of GNP, by accompanying the adjustment process and implementing debt reduction measures, while supporting the productive sector and the private sector, and by opening the markets of the North to products from developing countries.
- Increase social justice by fighting poverty, reducing demographic growth and promoting internationally co-ordinated humanitarian aid.
- Protect the environment both in Switzerland and abroad, harmonise environment, trade and development policies and co-ordinate them at the international level.

Conflicts are inevitable between these aims and those of other policies, be they foreign or domestic, which have an impact on developing countries. For example, the aims of domestic policies to promote employment and growth via export promotion measures may clash with those of development policy which seek to promote democracy and human rights. The *Guidelines* therefore recommend that development assistance policy be harmonised, in so far as possible and via appropriate co-ordination mechanisms, with trade, environmental and agricultural policies, as well as with labour market and immigration policies, the aim being to eliminate at least those contradictions that are involuntary. Similarly, the aim of efforts to improve the internal consistency of development policy is to make aid more effective by improving its implementation. Any remaining inconsistencies are then supposed to stem from a political decision-making process in which the diverging interests of the various federal departments have been weighed against each other, so that the inconsistencies are “accepted” or at least explicit.

The SDC's 1995-98 action plan

The SDC has put a lot of effort into improving coherence, notably by drawing up an action plan to implement the *Guidelines* during the period 1995-98. This has undeniably increased the visibility of coherence issues, which is not frequent among DAC Members, and is worth mentioning. The action plan sets out 109 detailed measures for implementing the 37 actions identified from the *Guidelines*, specifies a timetable for completing them, and relevant responsibilities within the SDC, and designates the partners in the federal administration with which the SDC will be co-operating. To facilitate the implementation of the plan, special working parties were set up to ensure consistency between conceptual and operational approaches, and between multilateral and bilateral activities.

A recent study by the IUED found that, all told, 62% of the planned measures had been implemented in full, and 20% partially. According to an article in the *Annuaire Suisse-Tiers Monde 2000*, a methodical effort has been made to improve policy coherence but for want of political backing it has not always been crowned with success. The process has been widely perceived by other departments as an attempt by the SDC to encroach on areas which are outside its sphere of competence. Nonetheless, progress has been made, for example with regard to arms exports, on which the SDC is consulted, or to political conditionality.

With regard to arms exports, Switzerland seeks to ensure that they are compatible with development policy. Such exports now represent only a tiny part of Switzerland's total exports - 0.19% in 1999, equivalent to CHF 230 million, compared with 1% 20 years earlier. Most of them are to industrialised countries, with developing countries accounting for only 20 to 30% (CHF 51.4 million in 1998). These exports are controlled by the Military Material Act, ensuring that Switzerland meets its international obligations. There is absolute ban on exports of nuclear, bacteriological and chemical weapons, as well as of mines.

Other arms exports have to be authorised by the seco, and the SDC may be consulted when the exports pose a risk to peace, if the importing country's human rights' record does not meet certain criteria, or when there is an international consensus not to allow such exports. If opinions differ as to whether the exports should go ahead, the Secretary of State for Economic Affairs takes the final decision. If there are still differences of opinion regarding the human rights aspects, the matter is discussed by the two Secretaries of State who are concerned and can then be referred to the two ministries and finally to the Federal Council. This happened in the case of Pakistan: arms exports to that country were banned after it carried out nuclear tests in 1998.

The action plan apart, political conditionality, the aim of which is to ensure that aid recipients respect human rights, has acquired a new dimension and the content of some programmes may be revised, since all the Confederation's relations with a country are taken into consideration. Since 1999, it has been the Federal Council that decides whether to continue co-operation with certain States, breaking off co-operation being considered only as a last recourse. Lastly, civil society in the form of the NGOs makes its opinion known of course.

Areas in which inconsistencies persist

Export risk guarantees

Export risk guarantees (ERG) are the most documented example of the difficulties involved in ensuring that policies are consistent with one another. Admittedly, a provision of the 1980 Act on export risk guarantees stipulated that the fundamental principles of Swiss development co-operation policy must be taken into account when deciding to grant export guarantees for the poorest countries. Likewise, the

Guidelines state that “when the risks attending the provision of export guarantees to LLDCs are being evaluated, it is necessary to focus on the political dimensions and human rights compliance in the recipient countries.” These principles are good but difficult to apply: recent experience shows that the economic situation of the LLDCs is such that it does not allow export guarantees to be provided.

The difficulty involved in ensuring consistency between external economic policy and other policies is illustrated by the case of two countries that are not LLDCs. In December 1996, the Federal Council decided to give its agreement in principle to the granting of an export guarantee to Asea Brown Boveri (ABB) for the supply of equipment for the Three Gorges Dam in China despite the environmental impact of the project and the fact that it would involve the displacement of 2 million people. Jobs in Switzerland and international competition thus outweighed social and environmental considerations. ABB was thus awarded a guarantee of CHF 240 million in August 1997. At least the Swiss NGOs that were against the project were able to express their opposition publicly and vocally. The representatives of the SDC and the trade unions in the export guarantee commission had been opposed to the guarantee. In the case of another contested guarantee worth CHF 130 million, which was given to the Sulzer company for the Ilisu dam in Turkey in November 1998, NGOs were - for the first time - even consulted officially by the Export Guarantee Commission. But they were not consulted when a second decision was taken in June 1999 to grant ABB a guarantee amounting to CHF 160 million for the Three Gorges project, since it merely implemented the first decision.

These decisions show that external economic policy is not governed solely by foreign policy considerations, or at least that the conflicts of interest that arise in policy-making are resolved in accordance with the relative strengths of the various actors. As the *Report on Switzerland's foreign policy in the 1990s* (November 1993) states, policy coherence is necessary in order to maintain the attractiveness of Switzerland as a financial and business centre, to ensure that its limited resources are used as efficiently as possible, and to promote its interests to the full. The *Guidelines* represent a praiseworthy effort to ensure that policies take account of other priorities, notably those of development. However, they have no binding value per se, and do not guarantee that development priorities will take precedence over the government's other policy objectives. It is thus not surprising that short- or medium- term objectives, especially the preservation of jobs in Switzerland, have sometimes prevailed, and continue to do so, over development assistance objectives.

Capital flight

The *Guidelines* state that it is necessary to combat illegally acquired capital, and corruption. Switzerland has ratified the OECD Convention on combating bribery of foreign public officials which came into force on 1 March 2000. This convention makes it a criminal offence to bribe foreign public officials in business transactions “in order to obtain or retain business or other improper advantage in the conduct of international business.” It makes it possible to abolish the tax deductibility of bribes, and the Swiss criminal code was revised at the end of 1999 in order to bring it into line with the convention. But Switzerland plans to recognise the criminal liability of legal persons; the fact that it did not do so up to now was recently criticised during the recent OECD review of its anti-corruption criminal law. An internal working party of the SDC drew up guidelines for combating corruption, which the SDC management adopted on 25 September 1998. These guidelines are not legally binding. However, since 1996 and further to the recommendation of the DAC High-Level Meeting, an anti-corruption clause has been systematically inserted in all development assistance contracts and agreements.

The most sensitive issue is the flight of capital from developing countries and its subsequent laundering. Progress has been made on this front too. Switzerland participates in the Financial Action Task Force on Money Laundering (FATF) and in October 1997 passed an anti-monetary laundering law which came into force on 1 April 1998, which brings the Swiss system broadly into line with the FATF's

recommendations. The law requires intermediaries to report any suspicious transactions but it is incomplete since they are obliged to do so only once the business relation has been established. However, the Federal Banking Commission has stipulated that financial intermediaries must inform the appropriate authorities of suspicious transactions even if no business relationship has been entered into.

The example of the former president of Nigeria, Sani Abacha, who died in 1998, illustrates the difficulty involved in ensuring that policies are consistent with one another. In October 1999, before a request for assistance had been filed by the new Nigerian government, the Swiss authorities froze all the assets of the former president and his family. The amount of USD 660 million were discovered on 140 bank accounts which had been opened in Swiss banks by members of the former president's family. The funds, which had been transferred from other major financial centres, were placed in Switzerland by shell companies or with the complicity of Nigerian or western businessmen. On 4 September 2000, the Federal Banking Commission published the findings of an inquiry. Breaches, some of them serious, of the obligation to take due diligence, had been found in six banks, with consequences both at the personal level and on the organisation of the banks involved. Furthermore, the absence of real federal powers to institute legal proceedings in such cases (the Confederation's competence is essentially subsidiary) was an impediment to effective prosecution since most of the cantons were not equipped to combat this type of crime effectively. For this reason, in December 1999 the Swiss Parliament adopted an amendment to the criminal code, which transferred to the federal prosecution department responsibility for conducting a considerable part of the proceedings in international and supra-cantonal cases of money laundering and organised crime.

Also, the law on mutual legal assistance in criminal matters, which makes it possible to co-ordinate the fight against money laundering, was revised in 1996, and the amendments thereto came into force in February 1997. Although this law has speeded up and simplified proceedings, they are still too slow. Thus proceedings are still under way against the former Pakistani Prime Minister Benazir Bhutto, the former president of Zaire, Mobutu Sese Seko, and the former president of Haiti, Jean-Claude Duvalier. They have been held up by the fact that the letters rogatory of the States concerned are either incomplete or lacking. However, Switzerland has already frozen funds before letters rogatory have been completed (for example, in the case of Mobutu). Swiss bank secrecy does not protect funds of criminal origin. It is lifted for corruption, money laundering, or when funds have siphoned off by a head of state, etc., and is thus not an obstacle to international legal co-operation in this area. However, Switzerland is a major financial centre in which bank secrecy is a significant factor of competitiveness. It is likely to attract capital of questionable origin from developing countries. It therefore has to exercise constant vigilance to make sure that its financial services are not misused.

The recent report by the OECD on access to bank information has been accepted by Switzerland. But it does not concern tax avoidance, which in Switzerland is only an administrative offence and for which, by virtue of the principle of dual criminality, mutual legal assistance is not possible. In fact, current provisions regarding bank secrecy are not at all called into question

Policy towards refugees

Switzerland does not see itself as a country of immigration. However, in keeping with its humanitarian tradition and the principle of affording provisional protection to refugees (recently introduced in the asylum law), in the 1990s it took in numerous refugees from the conflict in the former Yugoslavia, first from Bosnia and then from Kosovo. Between 1 January 1998 and 30 August 1999, 53 000 people were taken in provisionally. After provisional protection was lifted, programmes to help the refugees return home were put in place jointly by the Federal Office for Refugees (ODR) and the SDC, with the former providing individual financial assistance to those refugees wishing to return to Kosovo, and the latter carrying out, with funds from the ODR, structural assistance and reconstruction programmes in the country

of origin. In Bosnia, this policy ran into difficulties. On the one hand, the aim of encouraging refugees whose provisional protection had been lifted, to leave Switzerland was, by and large, achieved. On the other, the aim of resettling them in their country of origin in acceptable conditions was only achieved partially, especially in the case of all those people who were unable to move back into their homes for ethnic reasons, and many of whom became refugees in their own country. To resolve this problem, assistance to help refugees return home should be co-ordinated more closely with the timetable for restoring peace and normal conditions in the country of origin.

Trade with developing countries

Swiss imports from developing countries accounted in 1998 for 8.5% of total Swiss imports. During the last decade this share has remained relatively stable. Swiss exports to developing countries accounted for 15% of total exports. As with other DAC Members, Swiss trade is more intensive with the more advanced developing countries than with the LLDCs. Bilateral trade with the LLDCs has declined during the last decade to only 0.1% of total trade in 1998. Total imports from the LLDCs were valued at USD 116 million in 1998. Four countries supply 66% of all imports from the least developed countries; Bangladesh 29% (mainly cotton and cotton products); Liberia 21% (mainly oil); Uganda 9% (mainly coffee) and Nepal with 7% of total imports (see Tables II-1, 2, 3).

General System of Preferences

The Swiss General System of Preferences (GSP) was established in 1972 in compliance with Resolution 21 (ii) of the Second Ministerial United Nations Conference on Trade and Development in 1968. The system is characterised by the granting of preferential treatment in the form of exemption from duty in most cases and by a wide range of products covered (all industrial and many of the agricultural goods).

Pursuant to the decision on measures in favour of the LLDCs adopted at Marrakesh in 1994 at the signature of the GATT/WTO Agreements, Switzerland completely revised its GSP at the beginning of 1997. The scheme was renewed for a ten-year period to 2007. In particular, improvements were made with regard to the coverage of agricultural products. LLDCs were granted duty-free and quota-free access for their main agricultural products (coffee, tea, cocoa, bananas, oranges, all tropical fruit, fish, shrimps, honey, nuts, spices, tobacco) and for all industrial products, including all types of textiles, clothing and footwear. The product coverage of the scheme has also been improved for other beneficiary developing countries, which have been granted duty-free and quota-free access for industrial products with the exception of textiles and clothing, for which 50% tariff reductions were established.

Graduation of the most advanced developing countries was applied, the main criterion being the removal of a country from the list of development aid recipients of the DAC. The following countries and territories had been graduated as of 1 March 1998 : the Bahamas, Bermuda, Brunei Darussalam, the Caiman Islands, Cyprus, the Falkland Islands, Hong Kong, Kuwait, Mexico, Qatar, the Republic of Korea, Singapore, and the United Arab Emirates. The rules of origin are harmonised with those of the GSP rules of origin of the European Union, under which regional economic groupings of developing countries enjoy cumulation facilities.

Currently, almost 90% of the imports from LLDCs enter the Swiss market duty-free. Most of the remaining import barriers concern agricultural products, of which only 48% of the tariff lines carry a zero tariff. The tariff barriers are mainly focused on animal forage and related products; inputs for the food processing industry are subject to quotas; a price compensation mechanism is maintained for some raw materials.

Swiss Agricultural Policy

Border tariffs, supply-control measures (dairy production quotas), production-related payments - of ever-growing importance - and other direct payments are the most important agricultural policy instruments used in Switzerland. Import protection and overall producer support still remain among the highest within the OECD, in spite of the agricultural reform initiated in 1993. This is mirrored in producer support estimates¹ (PSE) as a percentage of the value of farm production, which were the highest in the OECD area in recent years; at 73% in 1999, the Swiss PSE was about double the OECD average. Accordingly, domestic prices of agricultural products are still almost two and a half times as high as world prices and about double the price level in the European Union. In view of the broadly unchanged high level of farm support, a second phase of agricultural reform came into force in 1999. The reform seeks to improve the competitiveness of the farm sector and to promote the objective of environmental "sustainability".

The Uruguay Round Agreement on Agriculture, with its disciplines on market access, export subsidies and domestic support, provide a framework for the potential opening-up of the Swiss market for agricultural products imports. Although the conversion of non-tariff import restrictions into tariffs has increased transparency, it did not translate into a brisk expansion of trade. The average ad valorem-equivalent of Switzerland's farm tariffs, capturing both in-quota and out-of-quota supplies, was estimated at over 80% in 1995. A large degree of border protection thus still exists. The level of market support declined from CHF 6.5 billion in 1986-88 to CHF 4.7 billion and CHF 4.5 billion in 1998 and 1999 respectively; direct support rose from CHF 1.4 billion in 1986-88 to CHF 2.6 billion in 1998 and CHF 2.9 billion in 1999, production-related payments having risen steeply in recent years. The use of direct export subsidies has remained stable over the past two years - CHF 423 million in 1998 and CHF 437 million in 1999. From a coherence perspective, it is questionable that Switzerland continues to protect and subsidise the production of cereals, oilseeds, potatoes and sugar, and the disposal of domestic supplies, especially dairy products, on foreign markets.

1. The PSE is an indicator of the value of the monetary transfers from consumers to support agricultural producers. The PSE includes transfers from consumers of agricultural products and transfers from taxpayers.

Conclusions concerning the coherence of Swiss development assistance policy

Thus, there are still inconsistencies between the various policies that have an impact on developing countries. This should not, however, disguise the fact that Switzerland is certainly one of the DAC countries with the most coherent approach to development assistance, the aim being not to eliminate all the inconsistencies but to highlight them, possibly with a view to resolving them and to promoting as far as possible the objectives of development policy. The fact that the *Guidelines* have had little impact on the outcome of the political decision-making process in sensitive areas like bank secrecy shows that public support is a prerequisite for implementing them. From this standpoint, the NGOs provide an essential interface between the government and the public, but they are somewhat isolated since business considers that development is also an area where the country's economic interests are at stake.

UNITED KINGDOM

POLICY COHERENCE

The United Kingdom's approach to policy coherence

Achieving coherence in policies affecting developing countries is a priority for the United Kingdom government. To promote greater coherence, the United Kingdom has adopted a three-pronged approach: i) strong political leadership, ii) a better use of existing co-ordination mechanisms within government; and iii) the mobilisation of DFID's experience and analytical capacities to bring new perspectives to debates on topical issues.

The 1997 White Paper established the principle underpinning policy coherence that the full range of government policies affecting developing countries should take account of the objective of sustainable development. The subsequent globalisation White Paper brought coherence to the forefront, stressing the importance of systematically integrating a development perspective into Britain's overall international policy. The stated objective is to focus on the challenges of globalisation and define a policy agenda for managing the process in a way that reduces poverty. The White Papers also announced specific initiatives to enhance policy coherence, some of which are discussed later in this chapter. The White Papers were produced through an extensive process of inter-departmental consultations and provide a strong basis for government departments to work together.

The "upgrading" of the former Overseas Development Administration into DFID as a separate department with its Secretary of State a member of cabinet was significant for promoting coherence. It enabled the Secretary of State and DFID to take a full part in existing co-ordination mechanisms on an equal footing with others. This raised the level at which difficult issues could be debated and eventually resolved. The Secretary of State for International Development became a member of the Ministerial Committee on Foreign Affairs and Defence as well as two Cabinet sub-committees on conflict and EU trade policy. She also participates in ministerial committees chaired by some other ministers. In addition, to strengthen co-ordination mechanisms for development and review overall progress in promoting coherence, an Inter-departmental Working Group on Development was created, chaired by the Secretary of State for International Development and including a dozen departments whose policies impact upon development, normally represented by a junior minister. DFID itself now takes full part in inter-departmental co-ordination mechanisms at an official level, rather than, as in the past, having its views integrated into the position the FCO would bring to these fora.

DFID benefits from knowledge and experience of development issues and developing countries unknown to many other British government departments. This puts DFID in a privileged position as it can consistently promote the development agenda within government while being proactive on a selective basis. This is true even in areas where DFID is not the lead department, such as a trade policy, as it has produced extensive analyses on the subject.

The extent of analytical capacity available within DFID is demonstrated by the range of views it has expressed on issues as diverse as intellectual property rights and the mobility of people. This has been

possible because of the creation within DFID of a department to focus on international economic policy. This department was subsequently split into two departments dealing respectively with international trade and the private sector. DFID has launched a number of initiatives aimed at promoting responsible business behaviour (covering areas such as labour standards, corruption, human rights, conflict, environment, local economic impact and investment) (see Chapter 3). As a result, new business principles were adopted by CDC Capital Partners and ECGD. The National Health Service, which has had to recruit qualified medical personnel from abroad, has developed a set of ethical guidelines which rule out recruitment if this will effect a country's healthcare services in terms of skill drain (although the net effect should also take account of the impact of remittances).

DFID's efforts to mainstream policy coherence include strengthening links with multilateral organisations and capacity development programmes that enable developing countries better prepare for and participate in international negotiations on trade, investment and other key issues. The United Kingdom continues to play a key role internationally in pushing forward debt relief and a pro-poor trade agenda. The Prime Minister has been raising development issues in such fora as G7 summits while the Chancellor of the Exchequer has been promoting development concerns within international financial institutions. Such actions have been important for building support domestically and encouraging a wide range of government departments to focus on the development implications of their work.

Nonetheless, achieving policy coherence remains difficult and requires constant scrutiny and an active engagement by DFID. Comparative DAC experience would suggest that making progress on internalising the key messages of the globalisation White Paper across government and having other departments develop a real sense of ownership of the poverty reduction agenda is a challenge which needs to be pursued patiently but relentlessly. As in the past, the key challenge for DFID continues to be to ensure that the necessary change occurs in attitude in other government departments and avoid a situation where DFID is too far ahead of the others. DFID has been able to link with other departments through established mechanisms and bring its knowledge and experience to promote development. However, the value added of the Inter-departmental Working Group on Development is still to be clearly established as few other departments participate at ministerial level and meetings may be too infrequent. Increasing staff interchanges between departments could help promote a deeper understanding of the issues faced by individual departments as well as broaden the base of people knowledgeable about development challenges.

The process of achieving policy coherence also suggests that outcomes will ultimately be influenced by the relative weight of vested interests and may not always be in favour of development. Delays have occurred in the introduction of adequate legislation into Parliament in several areas such as corruption¹, arms exports (see below) and money laundering². Other examples are presented in the following sections which show that domestic interests are strong and the results achieved have not always been fully consistent with the objective of sustainable development.

1. The United Kingdom intends to introduce legislation to meet its commitments under the OECD Convention on the Bribery of Foreign Public Officials in International Business Transactions during the legislative session 2001/02.

2. The Abacha case in 2000 revealed weaknesses in the controls against money-laundering in a number of banks operating in the United Kingdom and legislative loopholes for relevant British authorities to help Nigerian authorities trace public funds looted by the country's former leader. The United Kingdom published draft legislation (the Proceeds of Crime Bill) in March 2001, which will strengthen money laundering controls and simplify arrangements for providing mutual legal assistance. The Bill is included in the legislative programme for 2001/02.

The challenge of policy coherence: some examples

Trade policy

The initiatives of the United Kingdom in the trade policy area aim at achieving greater policy coherence and promoting the use of trade to reduce poverty. They derive from the globalisation White Paper and the concern that poor countries should also benefit from globalisation. The main objectives are to promote greater participation in international trade by poor people and poor countries and increase the benefits and minimise the costs of international trade for the poor. Support for greater access and hence open trade does not, however, mean unregulated trade. For open trade to work for the poor, an effective multilateral trading system is needed which takes account of the interests of developing countries. The United Kingdom is therefore actively promoting a development agenda at this level. The British government has also been pushing for the next round of multilateral trade negotiations to be a development round with a pro-poor agenda including improved access to developed country markets for products in which developing countries enjoy comparative advantage and a readiness to address developing countries' concerns about implementation of the Uruguay Round agreements. At the same time, the United Kingdom is supportive of the EU position which aims at expanding the trade agenda to address issues related to labour, environment, investment and competition with the aim of agreeing new rules which would support development. However, developing countries are concerned about their ability to cope with a broad agenda and are often more concerned about agriculture, textiles and implementing existing agreements. There is consequently a tension to manage between trade and development agendas.

Following the failure of the Seattle Ministerial Conference to launch a new round of trade negotiations, the United Kingdom has given more weight to promoting the needs of developing countries. This requires reforms of the World Trade Organisation (WTO) and the rules-based system and further reduction in the inequities of the existing international trading system (notably in the areas of agriculture, textiles and anti-dumping). The United Kingdom supported the establishment of the Advisory Centre on WTO Law which will help developing countries better exercise their rights. The British government also established in 2001 a Commission on Intellectual Property Rights to examine how current global intellectual property arrangements impact on the poor (see Box 3).

DFID does not limit its efforts to influencing the global trade agenda. It considers that it is equally important to enable developing countries to participate effectively in the WTO and the international trading system. Building trade policy capacity is essential if poor countries are to protect and promote their interests in a new trade round. This explains why DFID is planning to double its support in this area from GBP 15 million in recent years to GBP 30 million over the next three years. This is done in a way to mainstream trade in the development strategies of partner countries, in line with the recently approved *DAC Guidelines on Capacity Development for Trade in the New Global Context*. As part of this increased effort, DFID launched a new Africa Trade and Poverty Programme which provides technical support for capacity building in trade policy formulation and negotiation and is launching a programme to enhance understanding of trade issues among programme managers.

The United Kingdom has been a traditional advocate of free trade and the globalisation White Paper provides a strong commitment to reduce barriers to trade. Securing support within the British government for the EU's "Everything But Arms" (EBA) Initiative was, however, not a straight-forward process and required a thorough internal consultation process. In principle, all departments were ready to support the EBA proposal to allow free access for all imports except arms from least-developed countries even though the domestic sugar industry strongly opposed the proposal. At the same time, the United Kingdom was involved in the reform of the EU sugar regime and pointed out that EBA needed to be made consistent with other EU negotiations underway with the aim of protecting the interests of the EU's traditional developing country suppliers which benefit from the Sugar Protocol and the Special Preferential Sugar arrangements.

Lobbying in the United Kingdom, as well as in other European countries, was one of the factors which made the EC submit a scaled-down proposal with a transition period for the imports of sugar, rice and bananas. Oxfam made a useful contribution to the EU-wide debate by commissioning research on the possible impacts of EBA³. One of the findings indicated that the claim of the threat of EBA for United Kingdom sugar beet producers was over-stated. This example shows that achieving policy coherence remains difficult when it goes against domestic vested interests. DFID should nonetheless continue to produce timely and high quality research and policy input that can have an impact in changing the balance between these interests.

Box 13. Commission on Intellectual Property Rights

The objective of the Commission is to come up with a better understanding of intellectual property rules and practices so that they can take greater account of the interests of developing countries. The Commission will rely to the extent possible on data and information already collected, which will limit the need for undertaking new studies. The consultation process will include: i) visits to selected developing countries (including Brazil, China, India, Kenya and South Africa); ii) discussions with international *fora* such as the WTO, UNCTAD, OECD and EU; and iii) on-line activities.

The Commission's final recommendations should address the following issues: i) how national intellectual property regimes should best be designed to benefit developing countries; ii) how the international framework of rules and agreements might be improved and developed; and iii) the broader policy framework (including competition policy and law) in developing countries relevant to the regulation of intellectual property rights. The Commission will focus its analysis on the following nine areas: i) intellectual property rights, technology and development; ii) pharmaceuticals and vaccines; iii) genetic resources, gene-based inventions and agriculture; iv) traditional knowledge and folklore; v) intellectual property rights, the internet and copyright; vi) national intellectual property rights legislation in developing countries; vii) trade-related intellectual rights and the international framework; viii) process and constitutional issues in international intellectual property rule making; and ix) institutional issues for intellectual property rights regimes in developing countries.

This is a welcome but ambitious programme, facing a tight time frame with final reporting due in June 2002. The challenge remains whether the Commission, composed of six personalities of high international reputation and mixed background but set up under the sole initiative of the British government, will meet its ambition of reaching an international audience and forge broad consensus. Another challenge will be to link with other stakeholders in a timely fashion, particularly with regards to developing countries.

Export controls

The United Kingdom is a major arms exporter. The reform of British arms export controls has long been overdue and the serious flaws in the existing system were well documented in the 1996 Scott Report on the *Export of Defence Equipment and Dual-Use Goods to Iraq*. A White Paper on Strategic Export Controls was subsequently released in 1998. The government has stated that the United Kingdom will no longer supply arms which will be used for internal repression or external aggression⁴ where they will have a negative impact on sustainable development, in line with the 1998 EU Code of Conduct on the export of arms. DFID is responsible within the United Kingdom government for assessing the impact of arms export licences on sustainable development of recipient countries. At the international level, the United Kingdom

3. See Christopher Stevens and Jane Kennan, *The Impact of the EU's "Everything but Arms" Proposal: A Report to OXFAM* available from the Internet at: <http://www.oxfam.org.uk/policy/papers/eba.htm>.

4. According to the *Strategic Export Controls Annual Report 2000* published by the FCO, export licences for military equipment were approved by DTI for some countries which have internal conflicts, have been criticised over their human rights records or may be involved in external aggression. However, the information presented in this report does not allow for an informed judgement to be made on how the guidelines are being applied.

was a strong promoter of the EU Code of Conduct. At the UN conference on Illicit Trade in Small Arms in July 2001, the United Kingdom reiterated its support for more transparency in the official trade in firearms and a reduction in total volume and flow of firearms in the world. Despite this good will, the government has been slow in making progress towards introducing its own legislation⁵ to improve parliamentary scrutiny of military export controls, set out the purpose of restrictions and regulate arms brokering and trafficking. NGOs, with the support of public opinion⁶, have been pushing for new legislation to enhance the effectiveness and extend the scope of government controls over the arms trade..

Another indication of the difficulties of mainstreaming development concerns across government is the more recent case of whether to grant an export licence for an air traffic control system for Tanzania, a country currently receiving USD 50 to 100 million annually in debt relief as part of the HIPC initiative. The proposed British system is comparatively expensive and considered state-of-the-art. The Bretton Woods institutions and Oxfam have raised concerns over the impact on its debt burden if Tanzania were to buy the British system. The British government will take a decision after the Government of Tanzania has completed a review and the IMF Board has determined whether this purchase is in line with Tanzania's Poverty Reduction and Growth Facility.

Export credit and guarantees

A major review of ECGD was carried out in 1999/2000. The objective was to define ECGD's future role in light of the challenges of the 21st century. One concern addressed was the relationship between ECGD's activities and the United Kingdom's wider objectives, notably in the area of sustainable development, human rights and good governance. The review led to the adoption in December 2000 of new business principles which address the concerns of sustainable development (including environmental and social impacts), human rights, debt sustainability, transparency and business integrity. The challenge will be to ensure that the business principles are effectively put into practice. Further adjustment of internal assessment systems will be needed for ECGD to implement its new mission. A new Advisory Council with a more broadly based representation was established in early 2001 to review ECGD performance against its business principles.

ECDG has put in place a screening process to ensure all applications for support take account of the environmental and social impacts of goods and projects, consistent with good practice in other export credit agencies, as well as potential human rights implications. Because of its commitment to debt relief and the contribution of export credits to the debt burden, the United Kingdom has been implementing the principle of using export credits only to support productive expenditure in poor countries since 1997. The screening process in the case of IDA-eligible countries also needs to ensure that activities supported by export credits do not contribute to the creation of unsustainable debt burden. It is too early to judge the effectiveness of the new screening process for export credits.

British advocacy efforts were a useful contribution towards the adoption by the OECD Working Party on Export Credits and Credit Guarantees in July 2001 of a statement of principles designed to discourage the provision of officially supported export credits for unproductive expenditures in HIPCs. So far, there is no agreement on a definition of what constitutes "unproductive expenditure", but Members agree to report and review annually transactions to HIPCs.

5. The Export Control Bill was finally introduced in the House of Commons on 26th June 2001.

6. According to an opinion poll conducted in 2000, 87% of the public is in favour of tighter controls. In addition, 77% think the government has not done enough to stop the sale of arms to governments which abuse human rights.

The on-going controversy in the United Kingdom (as well as some other European countries) about the Ilisu hydroelectric dam in Turkey and the proposed support to a British construction company constitutes a test of policy coherence. In Parliament, both the International Trade Committee and the International Development Committee in their reports on the project urged DTI to have an early debate on sensitive projects of this type, rather than in the wake of decision-making. They also raised questions on the role of different government departments. This indicates that mainstreaming the development agenda across the government is an on-going task which will continue to deserve due attention. DFID and the FCO do not have the power of veto on export credits although they are consulted on sensitive cases. The International Development Committee has suggested a more systematic role for DFID in the screening process of projects in countries eligible for ODA.

Aid untying

The United Kingdom provided strong political leadership and support for the agreement reached at the DAC High Level Meeting in April 2001 on untying aid to least-developed countries. At the European level, the United Kingdom is continuing to push for an EU-wide untying of Member States' bilateral aid. When launching the globalisation White Paper, the government announced its intention to untie all development assistance, with effect from 1 April 2001. This decision, which builds on similar unilateral moves by some other DAC Members, was taken to give a further push to slow progress at the multilateral level and to improve the effectiveness of DFID assistance. This initiative builds on previous progress towards untying - British authorities estimate that approximately two-thirds of DFID's development assistance had already been untied and the most difficult case politically had already been dealt with when the Aid and Trade Provision was abolished in 1997. At that time, an in-depth review of untying had concluded that unilateral untying of the British aid programme would have only a marginal impact on the British economy.

Implementation of Britain's untying decision proceeded on schedule for the direct provision of goods and services. Contracts above the EU general procurement threshold of SDR 130 000 (approximately EUR 94 000) are now let according to EU procedures for international competitive bidding. A more streamlined procedure has been adopted for contracts below this threshold. Decisions have now also been made on how the principles of untying will be carried through to DFID's non-commercial activities. Grants to research institutions and scholarships administered within country programmes will be untied. The United Kingdom's support for the Commonwealth Scholarship and Fellowship Plan is part of a Commonwealth-wide programme and access to it will remain restricted to Commonwealth countries. DFID grants to NGOs are themselves untied and can be used for the purchase of goods or services from the best value source. Part of the rationale for assistance is building awareness and support for development within the United Kingdom; discussions are continuing on whether non-United Kingdom NGOs will be eligible to bid for support from central budgets, in addition to DFID's direct support to civil society in partner countries.

UNITED STATES

POLICY COHERENCE FOR DEVELOPMENT

The importance of the United States promoting policy coherence for development

When adopting the *Shaping the 21st Century* report, DAC members collectively set out their aim to assure that the entire range of relevant industrialised country policies are consistent with, and do not undermine, development objectives. The DAC Guidelines on *Poverty Reduction* emphasised that the degree of overall coherence between the policies of OECD member governments is a major factor influencing the effectiveness of development co-operation policies. As the world's largest economy, policies adopted by the United States can have a substantial impact on developing countries, both positive and negative. The United States' global leadership position also means that its decisions act as an important reference point for other donors. Given this pre-eminent position, sustainable poverty reduction in developing countries will require the United States in particular to work alongside other donors to promote policy coherence for development.

People in developing and industrialised countries alike can benefit substantially from reducing incoherence in public policies. For example, OECD and World Bank estimates indicate that tariffs and subsidies in OECD countries for agricultural and manufactured goods may cause annual losses to developing countries of more than USD 50 billion - the same order of magnitude as their total ODA receipts. If the impact of non-tariff barriers and other trade policy measures that add to transfer and transaction costs are included, the total static cost may be three times larger, and the dynamic effects even larger still. In the agriculture sector alone, OECD countries spend over USD 300 billion a year implementing these policies, of which the United States has spent more than USD 90 billion annually in recent years.¹

The DAC Guidelines on *Poverty Reduction* recognised that policy coherence is a major challenge because specific issues commonly involve domestic interest groups and government agencies with primary interests and responsibilities other than that of reducing global poverty. Furthermore, the degree of policy consistency tends to diminish as the domestic political sensitivity of issues rises. These are important considerations in the United States' context for three reasons. First, the separation of powers between the Executive branch and the legislature results in Congress playing an independent role in formulating policies that may already represent a carefully negotiated position by a range of government agencies. Also, as Members of the House of Representatives are elected for two-year terms only, this promotes a focus on issues with a direct domestic political impact. Finally, while special interest groups lobby Members of Congress to encourage them to support their particular cause, Members of Congress cannot easily gain other perspectives on development issues due to the restrictions placed on USAID engaging in "publicity or propaganda" activities (see Chapter 1).

1. Figures quoted are OECD estimates of total support to agriculture. In 2001, the Total Support Estimate for the United States was USD 95 billion, or 0.9% of its GDP (below the OECD average of 1.3%). For comparison, the Total Support Estimate for European Union Member States was USD 106 billion, 1.4% of their combined GDP, and for Japan was USD 59 billion, 1.4% of its GDP. See *Agricultural Policies in OECD Countries: Monitoring and Evaluation (2002)*.

Examples of policy coherence issues for the United States

There are many areas where policies of the industrialised countries can complement or frustrate development efforts. For practical purposes, and taking into account the likelihood of achieving changes, the DAC *Guidelines on Poverty Reduction* highlighted six priority areas: international trade and foreign direct investment; international finance; food and agriculture; natural resources and environmental sustainability; social issues, such as health and labour standards; and governance and conflict. This section discusses three areas where broader USG policies can impact on development prospects in developing countries. The three examples - trade policies, agricultural policies and tied aid - were also identified in the 1998 Peer Review but remain current issues of concern. This shows the importance of ensuring that effective mechanisms are in place to allow the development impacts of other policies to be taken into account in decision-making processes.

Trade policies

The United States is broadly supportive of a free liberal trading environment and encourages participation by developing countries in international trade. The President's new National Security Strategy emphasises the importance of promoting the connection between trade and development. It argues that trade policies can help developing countries strengthen property rights, competition, the rule of law, investment, the spread of knowledge, open societies, the efficient allocation of resources and regional integration – all leading to growth, opportunity and confidence in developing countries.

The United States played an important role at the Doha WTO Summit in 2001, helping to launch the new round of global trade negotiations by agreeing to allow future discussions aimed at clarifying and improving disciplines on Subsidies and Countervailing Measures, particularly antidumping measures. Congress has now, after considerable time and debate, followed through and provided the Bush Administration with the Trade Promotion Authority that greatly facilitates the United States' capacity to engage meaningfully in trade negotiations. One area of concern for Congress was granting the Executive branch with authority to engage in open-ended negotiations on antidumping and other Subsidies and Countervailing Measures. Once Trade Promotion Authority had been granted in July 2002, the Executive branch moved forward quickly with releasing a proposal on agricultural trade reform to be considered as part of negotiations at the WTO. The proposal aims to eliminate export subsidies and reduce world-wide tariffs and trade-distorting domestic support over a five-year period, which would yield benefits for farmers in both developed and developing countries.

In aggregate, the United States is a significant and expanding market for developing country exports. The total value of imports from developing countries was USD 588 billion in 2000. The United States imported 20% of world imports of manufactured goods from developing countries in 2000, up from 11% in 1980, and 32% of world imports of clothing, up from 16% in 1980.

United States import tariffs are, on average, relatively low although some high tariff rates and tariff escalation are apparent on some labour-intensive products which are both sensitive for United States domestic industries and important for developing countries. These include textiles, clothing, footwear and some processed agricultural products. These goods bring in a disproportionate share of United States tariff revenue - in 2001, USD 8.7 billion of the USD 18.6 billion of tariffs collected came from clothes and footwear alone, which made up only 6.7% of United States imports (see also Box 11). The average tariff rate on imports from developing countries was 7.3% in 2001, as compared to the United States average tariff of 1.6%. As well as increasing costs for poorer households in the United States, these policies can undermine efforts by USAID and others to promote export-led economic growth in developing countries, especially in those countries with a comparative advantage in producing these goods.

Box 14. Tariffs on imports from Mongolia and Norway

In 2001, the United States collected USD 23 million in tariffs on imports from Mongolia and USD 24 million on imports from Norway.

Norway ranked first out of the 173 countries included in the United Nations Development Programme's (UNDP's) Human Development Index for 2002. Norwegian exports to the United States consisted mostly of smoked salmon, jet engine parts and crude oil and had a total value of USD 5.18 billion. This implies an average tariff on imports from Norway of 0.5%.

Mongolia ranked 113th in the UNDP's Human Development Index. Mongolian exports to the United States consisted mostly of clothing, especially sweaters and suits, and had a total value of USD 0.14 billion. This implies an average tariff on imports from Mongolia of 16.1%.

The United States has taken a number of measures to open up its market to products from developing countries, including through its Generalised System of Preferences (GSP) Scheme first introduced in 1974, the Caribbean Basin Initiative (1984) [replaced by the Caribbean Basin Trade Partnership Act (CBTPA) in 2000] and the African Growth and Opportunity Act (AGOA) passed in 2000 (see Box 12). Each of these measures is limited to selected goods from certain developing countries.

Box 15. Schemes for increasing market access for exports from developing countries

General System of Preferences: The United States' GSP grants duty-free access to exports from many developing countries for around 2 900 tariff lines, as well as, since 1997, an additional 1 783 products from most least-developed countries. Between 1996 and 2001, duty-free imports from least-developed countries under the GSP rose from USD 49 million to USD 2.9 billion, although petroleum products accounted for the quasi-totality of the growth. Some important products for developing countries are not covered by the GSP, including textiles, apparel, footwear and agricultural products in excess of quota limitations. The GSP has been renewed seven times in the last ten years. Most recently, the scheme was inactive between 30 September 2001 and 6 August 2002.

Caribbean Basin Initiative: The CBI introduced a two-pronged approach of market access coupled with trade capacity building that was subsequently used as the basis for AGOA. Although apparel is excluded, there are high quotas for apparel formed from raw materials sourced in the United States. The CBI has been successful in promoting transformation of the export capabilities of eligible countries that have changed policies and institutional arrangements. Exports of coffee and bananas to the United States from five Central American countries fell from more than 60% of total exports in 1983 to less than 10% in 2001, when they were far surpassed by apparel, computer chips and non-traditional agricultural products.

Africa Growth and Opportunity Act: Under AGOA, substantial extra benefits have become available to eligible countries in sub-Saharan Africa, as compared to those granted under the GSP. These include: i) an expanded time horizon - AGOA preferences remain valid until at least 2008; ii) fewer limitations - AGOA preferences are not rescinded when exports reach a pre-determined limit; and iii) expanded product eligibility - AGOA offers duty-free access for an extra 1 800 tariff lines, including textiles, apparel, watches, footwear, handbags, luggage and leather. Strict rules of origin apply for textiles, to avoid trans-shipments from non-eligible countries, and a number of "import sensitive" products for the United States remain excluded, including such non-apparel textile products as blankets, bed linen and tablecloths. In 2001, the first full year of implementation of AGOA, the total value of imports from the 35 currently eligible countries declined by 10% to USD 17.1 billion, mostly due to falling oil prices. Of this amount, USD 8.2 billion worth of goods entered duty free, principally petroleum products (USD 6.8 billion), apparel (USD 356 million) and transportation equipment (USD 289 million).

The United States' efforts to open its market to exports from developing countries is done on a highly managed basis and would not appear the most effective approach to encouraging the establishment of a free and liberal global trading environment. The United States can unilaterally withdraw or change benefits in response to domestic concerns or because ancillary conditions beyond the control of individual firms or people are not met, including the protection of labour rights, protection of intellectual property rights and provision of market access to United States exporters. The resulting potential lack of continuity undermines efforts to take full advantage of opportunities created. For example, the on-and-off nature of the GSP adds to the uncertainties that investors considering moving into export-oriented activities in GSP-beneficiary countries need to consider and affects decisions by businesses in the United States sourcing inputs from GSP-beneficiary countries. Individual countries' eligibility for receiving benefits

under AGOA is determined annually, based on an assessment by the United States of whether countries have established, or are making continual progress towards establishing, a range of economic, governance, human rights and other conditions. The United States also retains some discretion to adjust the products covered by AGOA and can amend the already complicated rules-of-origin provisions on textiles. Businesses may well judge that these additional risks make potential investments or expansions in activities in developing countries unwise.

A particular issue regarding AGOA is consistency within the USG's assessment of countries. For example, while the United States Trade Representative recognises that "Kenya has failed to establish an effective system to combat serious and pervasive corruption and bribery", Kenya nevertheless remains eligible for AGOA benefits. At the same time, the Treasury Department has been supporting moves within international financial institutions to reduce co-operation with Kenya, due to concerns about large-scale corruption. The view of the Department of State, as expressed in its *Human Rights Report* for 2001, is that "the [Kenyan] government's human rights record remained poor, and it continued to commit numerous, serious abuses." Furthermore, given the size of the MCA and the transparent criteria that will be used to select eligible countries, it will be important that the United States ensures that selected countries are also considered by the international community to be performing well and to have good track records in governance and human rights. Otherwise, there is a risk that this initiative may destabilise programmes by other members of the donor community and be counterproductive for the partner countries concerned.

An additional obstacle for exporters to the United States is satisfying a range of non-tariff barriers, in particular rules of origin, health and safety standards and, for exporters of agricultural products, a series of sanitary and phytosanitary measures. Although the need to impose these limitations can be justified on scientific grounds, proving compliance can be a challenge for developing countries with limited human and institutional capacity in these areas. Among the range of trade capacity building activities sponsored by USG agencies, the United States offers technical assistance to help improve inspection procedures and process controls in developing countries. USAID has also recently launched a new Trade for African Development and Enterprise initiative that will provide technical assistance in trade capacity building.

Like other countries, developing countries are also subject to United States anti-dumping laws. While these laws are designed to protect United States producers from subsidised imports, they can also be used to protect domestic industries. Developing country exports of numerous products, but most notably cut flowers¹, have been the subject of repeated anti-dumping cases. Other examples where anti-dumping duties have been imposed include frozen concentrated orange juice from Brazil, fresh salmon and preserved mushrooms from Chile and honey from Argentina. The United States also recently imposed temporary safeguard duties on steel, although most developing country exports were exempted from the duties. Even so, Brazil is considered one of the fastest growing and most competitive steel producers in the world today and Brazil's duty-free quota corresponds to its current export levels, not the expected future levels on which investment decisions have been based. Brazil has lodged a complaint at the WTO over United States steel duties (and over the imposition of an excise tax by Florida on processed orange juice).

Agricultural policies

Agriculture provides livelihoods for the majority of people in most developing countries but this sector is vulnerable because it can be affected by policies adopted in industrialised countries. Efforts by OECD countries to protect domestic markets via agricultural support measures tend to stimulate domestic

1. To increase rural household incomes in Uganda, USAID is supporting the production of selected high-value non-traditional agricultural exports, including cut flowers. Ugandan cut flowers are currently mainly supplying markets in Europe. Further expansion to other markets, such as the United States, would contribute to higher economic growth in Uganda and a more rapid reduction in poverty.

production and depress world prices. This in turn can limit developing countries' export opportunities for their primary and processed agricultural products. In addition, subsidised OECD farm products are dumped on export markets, including in developing countries, creating unfair competition for farm products in those countries' domestic markets.

The United States guarantees prices for some domestic agricultural producers mainly through various subsidies (rather than by using trade policies). As a very large market, the United States' agricultural subsidies can have a significant effect on world market prices. For example, in 2000, the OECD estimated that the elimination of United States domestic support to oilseed production would have a cross-commodity effect and lead to a short-term increase of 6% to 7% in world soyabean prices. While the impact of lower world prices differs for producers and consumers, large price fluctuations not linked to market forces are potentially dramatic as they can result in efficient low-cost producers abandoning an industry. In poor countries, these producers may have few alternative sources of income and may have no access to social safety nets, pushing them deeper into poverty.

In 1996, the United States Congress passed the Federal Agriculture Improvement and Reform (FAIR) Act that aimed, during a period of rising world prices, to shift the United States away from agricultural subsidies linked to production levels and towards direct income support. However, many commodity prices subsequently declined and Congress approved price-support programmes that boosted farm income by roughly USD 7.5 billion in each of the past four years. The 2002 Farm Security and Rural Investment Act (the new "Farm Bill") reverses the intention to move towards liberalisation and is likely to dilute further the influence of market forces on farmers' production decisions. The planned increase in support, of around USD 7.4 billion per year, continues on a longer-term and more predictable basis the recent trend of "emergency" appropriations to underpin farm incomes.¹ The new law includes "circuit breakers" to ensure that the United States remains within its relatively low domestic support ceiling of USD 19.1 billion agreed with the WTO². While the expected overall level of support (relative to revenues in the agricultural sector) is difficult to predict, it may not greatly exceed that observed in recent years provided that additional emergency appropriations are not enacted.³ Nonetheless, the new Farm Bill will almost certainly result in increased agricultural production and lower world prices for some commodities, with the cost burden largely imposed on United States taxpayers and market adjustments borne by producers in competing countries in world markets.

The perceived protectionist stance displayed by Congress with the new Farm Bill is a source of concern to developing countries and was identified as an important issue by representatives of the Guatemalan and Ugandan governments met during the field visits to prepare for this review. Many of the products supported are important commodities for developing countries, including sugar, dairy products and cotton, and so there may continue to be significant repercussions for developing countries (see, for example, Box 13 relating to cotton). In addition, price support mechanisms are now being extended to

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1. The majority of farm payments in the United States go to a small share of farmers. An analysis conducted by the Environmental Working Group, a not-for-profit environmental research organisation, found that 20 congressional districts will receive 52% of USD 4.6 billion in emergency "Freedom to Farm" payments under the new Farm Bill. Within those 20 districts, 10% of farms will receive more than half the subsidies. (For further information, see: <http://www.ewg.org/reports/farmfairness/default.html>)
 2. For comparison, the "amber box" WTO agreed production-related subsidy ceiling for the European Union is USD 64.6 billion and for Japan is USD 27.0 billion. The United States' proposal for reforms in agricultural trade would lead to these limits being reduced to USD 12 billion for the European Union, USD 10 billion for the United States and USD 4 billion for Japan.
 3. The Senate voted on 10 September 2002 an additional USD 6 billion in aid for United States farmers affected by the current drought. This package still needs to be passed by the House of Representatives and approved by the President.

some other commodities, including dry peas, lentils and chickpeas, which are widely grown in developing countries and important export items for them, but for which the United States is currently only a minor producer and exporter. Guaranteed prices are an incentive for some United States farmers to expand production of these commodities and even a small increase in United States production could have a trade distorting effect and cause a fall in global prices.

Box 16. Subsidies to United States cotton farmers

World cotton prices have been declining since the mid-1990s. In response, Congress has granted emergency assistance to the United States' 25 000 cotton farmers since 1997. The value of this assistance in 2001 was approximately USD 2.1 billion (of the total annual subsidies to cotton farmers in industrialised countries of around USD 4.8 billion). Cotton producers in the United States have received other benefits as well, including quotas on imports and export subsidies, that have shielded production decisions from relative price movements. As a result of these practices, the total cotton harvest area in the United States increased by around 10% between 1998 and 2001 and United States cotton exports, which make up around one-third of world trade, are expected to reach their highest level since 1926.

Cotton prices have now hit a 30-year low of 42 cents a pound. Downward pressures on world prices have impacted on some of the poorest countries, especially in West and Central Africa which are among the lowest-cost producers in the world. The total world cotton harvest area has declined and cotton exports by non-United States producers are at their lowest levels in nearly 20 years. Governments in West and Central African countries are currently providing subsidies of the order of USD 50 million to USD 60 million a year to cushion their cotton farmers from the fall in prices. The loss of export receipts caused by the fall in world prices over the past two years is over 3% of GDP in Mali and Benin and around 1% to 2% of GDP in Burkina Faso and Chad. For comparison, the value of annual HIPC-initiative debt service relief to these countries is in the range of 0.81% to 1.58% of GDP.

According to estimates by the World Bank, the removal of cotton subsidies in the United States would produce a fall in United States production and lead to a rise in the international price in the short run by as much as 12 cents a pound. This would increase revenues from cotton by about USD 250 million in West and Central Africa countries, substantially more than the USD 137 million in ODA the United States provided to these countries in 2000.

United States agricultural policies that result in limiting access for developing country exports to the United States or have a significant influence on world prices can adversely affect USAID's export-focused rural development activities. Furthermore, USAID's capacity to pursue rural development activities adapted to the local conditions in developing countries is reduced by the agency being prohibited by law from working to promote foreign exports to the United States of some sensitive agricultural products, notably palm oil, citrus fruits and sugar. The OECD, in its *Agricultural Outlook 2002-2007*, reminds governments that the long-term prosperity and competitiveness of farm sectors is not served by insulating producers from world markets. Analysing agricultural issues from a broader and longer-term perspective may help promote sustainable agricultural industries in the United States, lower the tax burden on United States citizens and improve the effectiveness of USAID's agriculture and partner country export promotion efforts.

Tied aid

Tied aid requires goods and services for an aid activity to be purchased from United States suppliers.¹ This practice ensures returns to the United States' economy from the aid programme. Nearly three-quarters of United States bilateral ODA commitments were tied in 1996, the latest year for which the United States has reported these data to the DAC.

1. Tied aid, which includes loans, grants or associated financing packages with a concessionality level greater than zero per cent, is defined as aid which is in effect (in law or in fact) tied to the procurement of goods or services from the donor country or a restricted group of countries.

Bilateral ODA implemented by USAID is by law tied to the procurement of goods and services from the United States, but this restriction may be relaxed for reasons of availability, emergency or efficiency on a case-by-case basis. Since 1 January 2002, a waiver to this law has applied that enables the United States to implement the DAC Recommendation on Untying Official Development Assistance to the Least-Developed Countries. Food aid and free-standing technical co-operation, major components of the United States programme, are, by mutual agreement of the DAC, excluded from the recommendation's coverage and so implementation is not expected to have a substantial impact on reducing the United States' overall level of tied aid. On the other hand, United States firms now benefit from expanded access to procurement opportunities in other DAC members' aid programmes. Consequently, and as agreed in the recommendation, the United States is encouraged to undertake its best endeavours to identify and implement supplementary effort-sharing actions for providing untied ODA, so as to promote more balanced effort sharing among DAC members.

The tying of aid to United States sources reduces, in general¹ the cost effectiveness of the United States' ODA by limiting competition and undermines ownership of the development process by developing countries. For example, food aid is only sourced in the United States and the requirement that 75% of food aid be carried on United States-flagged ships is estimated to add an additional 50% to 200% to delivery costs. In the case of technical assistance, the tying of aid can impact on the quality of programmes because American experts may not be the most appropriate in all circumstances, or appropriately qualified Americans may not be readily available. The requirement or preference that USAID contractors in some developing countries purchase vehicles made in the United States can result in contractors spending more on vehicles and maintenance, as well as running a higher risk of vehicles being immobilised because spare parts are not available. Relaxing the requirement or preference to "Buy American" should improve both the efficiency and effectiveness of United States ODA. More generally, it would be revealing for an independent body, such as the GAO, to examine the cost to United States taxpayers of the tying of aid and report on its impact in terms of efficiency and effectiveness.

A mixed credit is a financing package including some ODA funds that are used to support the export of goods from a donor country to developing countries. Through the Export-Import Bank's Tied Aid Program Projects Fund, the United States has a trade policy tool for matching trade-distorting foreign tied aid offers in selected circumstances. The United States is also setting up a new two-year pilot mixed-credit scheme to finance developmentally sound capital projects involving United States exporters and businesses in creditworthy middle-income countries. In compliance with OECD guidelines, only projects in "commercially non-viable" areas will be supported (for example in environment, renewable energy, health care, education or water and sewerage). A minimum 35% grant from USAID will be combined with a loan from the Export-Import Bank. The challenge for any mixed-credit scheme is to meet development and business objectives simultaneously. This ultimately results in trade offs, with a risk of such schemes becoming supply driven. Some DAC members have stopped their mixed-credit schemes in recent years due to concerns about their effectiveness as a development tool. The new United States scheme could be important for expanding markets for some exporters and there are consequently risks that ODA resources will be diverted from highest-impact development activities. While proposals under the scheme must be generated by a USAID mission and this should help to ensure that projects are not supply driven, USAID will nonetheless also need to be strong, vigilant and actively engaged throughout the decision-making process in Washington, to ensure that development objectives are met.

1. The tying of aid has important consequences for developing countries and one of its negative effects is that it may increase costs to the recipient by as much as 20 to 30%. See Jepma, Catrinus J. (1991); *The Tying of Aid*; OECD Development Centre, Paris.

Promoting policy coherence within the United States

The Bush Administration is working to strengthen co-ordination across USG agencies responsible for formulating policies in closely related areas, including development. There remains scope, however, for the United States to address more formally, systematically and coherently the effects of broader government policies on developing countries. The Peer Review team has identified six areas where the United States could pursue reforms in order to promote greater policy coherence for development:

- (i) **Communicating commitment by the highest political authorities:** The current political leadership has shown a strong interest in responding to the development challenges faced by poor countries, as demonstrated by the President personally announcing several major initiatives and tours by the Secretary of State and the Secretary of the Treasury to Africa and other regions. Nevertheless, the vision behind this interest has not yet been articulated in a comprehensive mission statement or strategy that could serve as a basis for mobilising efforts across government agencies in support of this vision, although the National Security Strategy represents movement in that direction.
- (ii) **Increasing USAID's political involvement:** Within the executive branch, the National Security Council (NSC) is the principal forum for considering national security and foreign policy matters. Its role includes co-ordinating policies among various government agencies. The NSC is chaired by the President and includes several cabinet members as well as the President's National Security Advisor. The heads of other departments and agencies are invited to attend meetings when appropriate. However, consideration could be given to extending a standing invitation to the Administrator of USAID to attend NSC meetings so as to help inject into deliberations the wealth of knowledge and experience on development issues that USAID possesses. President Bush's proposals to transform America's national security institutions, outlined in his new National Security Strategy, could also extend to designating USAID as a national security institution. USAID recently placed a Director for Development Issues at the NSC, to serve as the primary advisor to the council's Office for International Economic Affairs on all matters pertaining to international development assistance (with the exception of humanitarian and food assistance). This demonstrates the significant input that USAID is capable of providing. The contribution USAID can make was demonstrated by the substantial input the agency was able to mobilise during the preparations of the DAC *Guidelines on Poverty Reduction*, particularly in relation to policy coherence.
- (iii) **Establishing mechanisms for exchange and consultation across government agencies:** While policy coherence for development as such has not been adopted as an objective for the Bush Administration, there is an awareness of the value of promoting co-ordination among government agencies and of fostering synergies towards achieving over-arching objectives. A series of high-level Policy Co-ordination Committees (PCCs) has been established on either an *ad hoc* or standing basis on a wide range of issues. In relation to development, *ad hoc* PCCs have been set up for specific purposes, such as preparation of the MCA, and to prepare for major international summits, such as the Monterrey Conference on Financing for Development. These PCCs operate on a short-term basis and appear to function well and produce results. An open-ended Development PCC has also been created, chaired by the Department of State and with other members including USAID, the Treasury Department of the and the OMB. However, this PCC has not yet clearly established the role and contribution it can make, which is regrettable because it could be a useful forum for examining issues from a longer-term perspective and for promoting broader USG coherence in relation to critical issues for developing countries.
- (iv) **Ensuring adequate analytical capacity:** Promoting policy coherence for development requires policies to be analysed from a developing country perspective and the findings used

to influence debates in inter-agency policy co-ordination fora. USAID has the credibility to contribute authoritatively to discussions on the impact of broader government policies on developing countries. However, USAID's capacity to do so has been eroded by personnel reductions during the 1990s which resulted in the agency losing many of its professional staff. USAID is working to redress this situation but needs to ensure that it recruits some professionals with appropriate knowledge and experience who can engage effectively with other agencies to promote policy coherence for development.

- (v) **Using the United States field presence:** Each United States ambassador stationed in a developing country is responsible for co-ordinating USG agencies present in that country. In recent years, efforts have been made to increase co-ordination through regular meetings of heads of agencies and the preparation of annual Mission Performance Plans that provide a common strategic framework for all agencies. These efforts primarily work to ensure a common basis of knowledge in-country on each agency's activities and how they contribute to the mission's overall goals, thereby promoting synergies and reducing overlaps. Nevertheless, as each agency's primary mission is to implement its own objectives, these fora are not well placed to enhance policy coherence across USG agencies. At the same time, the importance of coherence of USG policies becomes apparent at the field level and these fora should be used to identify examples of possible incoherence to report back to each agency's respective headquarters.
- (vi) **Systematically vetting legislation:** Within Congress, there are signs that greater account is being taken of the consequences of United States legislation on developing countries. For example, it is reported that provisions in the 2002 Farm Bill were altered to reduce the potential negative impact on the poorest countries. This process could nonetheless be made more systematic as turnover of Members of Congress, and of their staff, is sufficiently rapid that a structure should be put in place to ensure that this approach is not dependent on the personal commitment of a small number of individuals currently holding office.

Future considerations

There is a strong need to identify and address development **policy coherence** issues in the United States system. The size of the United States economy and its influence world wide means that even simple decisions of Congress or the Administration can drastically affect the impact of United States development co-operation.

As the primary USG advocate for development, USAID needs to play a stronger **leadership** role vis-à-vis other USG development agencies, in analysing and promoting development policy coherence decisions. It should seek out strong working relationships within co-ordinating groups such as the NSC and the PCC.

In accordance with the terms of the Recommendation to Untie ODA to the least-developed countries on effort sharing, the United States should undertake its best endeavours to identify and implement supplementary actions to untie its **bilateral assistance**.

Given the importance of the proposed MCA in ODA volume and development effectiveness terms, it will be crucial to ensure consistency between United States selection criteria and those being used by other members of the donor community.