

# **Development Co-operation Review**

## **Austria**



## **FOREWORD**

The Development Assistance Committee (DAC) conducts periodic reviews to improve the individual and collective development co-operation efforts of DAC Members. The policies and efforts of individual Members are critically examined approximately once every three years. Some six programmes are examined annually.

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

Putting all this information and analysis together, the Secretariat prepares a draft report on the Member's development co-operation which is the basis for the DAC review meeting. At this meeting senior officials from the Member under review discuss a series of questions posed in a brief document: "Main Issues for the Review". These questions are formulated by the Secretariat in association with the examiners. The main discussion points and operational policy recommendations emerging from the review meeting are set out in the Summary and Conclusions section of the publication.

This publication contains the Summary and Conclusions as agreed by the Committee following its review on 16 November 1999 in Paris, and the Report prepared by the Secretariat in association with the examiners, representing Belgium and Denmark, on the development co-operation policies and efforts of Austria. The report is published on the authority of the Secretary-General of the OECD.

Jean-Claude Faure  
DAC Chairman

## ACRONYMS

ACB	Austrian Co-ordination Bureau
ACP	African, Caribbean and Pacific countries
AFC	Austrian Federal Chancellery
AfDB	African Development Bank
AGEZ*	Umbrella Organisation of Austrian NGOs
ATS	Austrian schilling
CDI*	Centre for Industrial Development
CEECs	Central and Eastern European Countries
DAC	Development Assistance Committee
DDC	Department for Development Co-operation
EC	European Commission
EDF	European Development Fund
ERP	European Recovery Programme
EU	European Union
GDP	Gross domestic product
GNP	Gross national product
HIPCs	Heavily indebted poor countries
IDB	Inter-American Development Bank
IFIs	International financial institutions
IIZ*	Institute for International Co-operation
ITM	Institute of Tourism and Management
KFS*	Co-financing Office for Development Co-operation
KommEnt*	Society for Communication and Development
LLDCs	Least developed countries
NGO	Non-governmental organisation
NIS	New Independent States (of the former Soviet Union)
MOF	Ministry of Finance
MOFA	Ministry for Foreign Affairs
OA	Official Aid
ODA	Official Development Assistance
OEED*	Austrian Development Co-operation Service

OEFSE*	Austrian Foundation for Development Research
OOF	Other official flows
PCM	Project cycle management
RGOB	Royal Government of Bhutan
RNR	Renewal of natural resources
SADC	Southern African Development Community
SME	Small and medium-sized enterprises
SMME	Small, medium-sized and microenterprises
UN	United Nations
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
WID	Women in development

#### Exchange rates (ATS per USD)

1993	1994	1995	1996	1997	1998
11.631	11.4194	10.082	10.5788	12.1972	12.3758

#### Signs used:

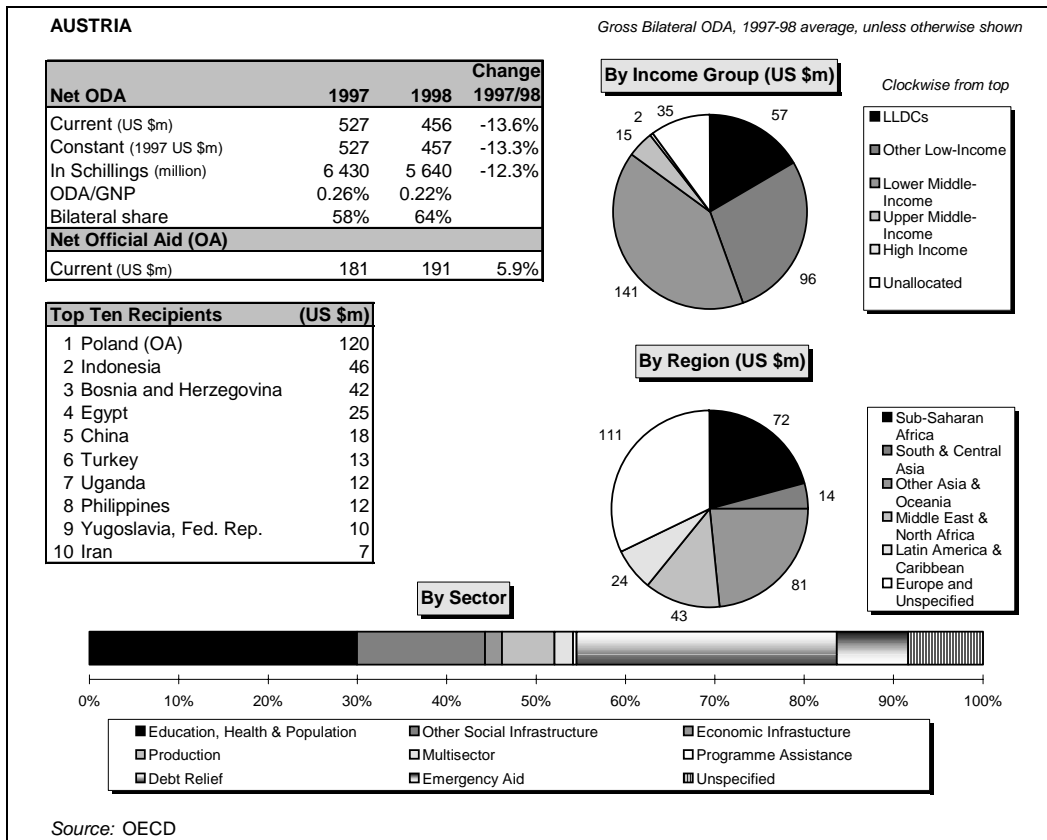
()	Secretariat estimate in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately but included in total
n.a.	Not applicable
P	Provisional

Slight discrepancies in totals are due to rounding

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\* Denotes acronym in original language

## Austria's aid programme at a glance



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## SUMMARY AND CONCLUSIONS

### Overview

With a net Official Development Assistance (ODA) of 456 million United States dollars (USD) [5.6 billion Austrian schillings (ATS)] in 1998, Austria ranked 16th among the 21 Development Assistance Committee (DAC) Member countries. Its official development assistance/gross national product (ODA/GNP) ratio of 0.22% was slightly below the DAC average of 0.24%.

One pending issue in the Austrian aid programme is that it still needs an overall strategy binding all the expenditures that Austria considers as ODA to a clear set of development objectives. Currently, Austria's reporting of bilateral ODA includes three components - concessional export credits, assistance to refugees in Austria, and imputed student costs - which do not have development as their primary objective. Although the combined share of these components has been reduced significantly from the level of 55% of total ODA in 1994, they still attract a considerable share of 18%. This amount is almost equivalent to the 20% ODA spent for the bilateral programme under the Department for Development Co-operation (DDC) within the Ministry for Foreign Affairs (MOFA).

The Austrian aid programme has also yet to strengthen effective co-ordination mechanisms. Responsibilities for aid efforts remain dispersed over a number of ministries and provincial and local government authorities. Basic tasks such as ensuring consistency and sharing information among ministries still tend to be *ad hoc*, reflecting the fact that the government as a whole has not treated its ODA components as part of a coherent programme. Currently, MOFA's role is limited to awareness-raising and persuasion initiatives. Greater coherence could be achieved if MOFA had a more extensive and explicit leadership role, backed by a clear political mandate from the government.

### Selected major components of the Austrian ODA programme

#### *Multilateral co-operation*

Thirty-two percent of Austria's ODA is disbursed to multilateral organisations. Since its accession to the European Union in 1995, a large part of Austria's contributions to multilateral co-operation has been taken up by the European Community (EC). In recent years, Austria has progressively taken on an active involvement in the shaping of EC development policies. Contributions to the EC budget have constantly risen from USD 84 million in 1995 to USD 97 million in 1998 (about a fifth of total Austrian ODA). Forecast data suggest that in 2000, contributions will be further increased to USD 161 million, including disbursements to the European Development Fund (EDF).

### ***Debt relief***

As a follow up to the decision of the G7/G8 Cologne Summit in 1999, Austria announced its intention to forgive up to 80% of its debtor countries' loan obligations under the HIPC Initiative. This amount includes the cancellation of Austria's export credits and guarantees. Austria's debt relief time schedule and sequencing will depend on the implementation of the enlarged HIPC Initiative.

### ***Co-operation with Central and Eastern European Countries (CEECs) and the New Independent States (NIS)***

Twenty-five percent of Austria's bilateral ODA gross disbursements was made towards Europe. Austria's co-operation with CEECs and NIS is managed by the Austrian Federal Chancellery. The new co-operation strategy has two specific objectives: (i) assist selected CEECs to prepare for EU accession, and (ii) strengthen efforts in building a pluralistic democracy and a sustainable market economy. The sector priorities include: energy; environment and water resources management; employment and social services; and public administration. The strategy concept is guided by principles of good neighbourhood and based on a strong involvement of the Austrian business community. This programme could benefit from discussions carried out at the DAC, such as good governance, peace and conflict prevention.

### ***The bilateral programme of the Department for Development Co-operation***

In recent years, the DDC has made real progress in: concentrating project activities and budgets to its partner countries; focusing increasingly on cross-cutting issues; developing aid management tools; and clarifying relationships with NGOs. On the other hand, the quality of its programme is affected by: a relatively high number of partner countries; a limited number of country and sector strategies; staffing situation; and a need to mainstream poverty focus at all programme levels. This component, which is generally considered the Austrian core bilateral aid programme, utilises only about 20% of the total ODA budget.

### **ODA reporting issues**

#### **Concessional export credits**

Although the share of concessional export credits has fallen from 27% in 1994 to 4% in 1998, by definition, export credits do not strictly fall under ODA, as their primary motivation is generally not developmental. As specified in the DAC Statistical Reporting Directives, if a grant or a concessional loan that is linked to developmental objectives is provided to soften the terms of the export credit, then that grant or loan may be reported separately as 'Associated Financing' and counted as ODA. The export credit part, on commercial terms, has to be recorded as 'Other Official Flows'. Despite these rules, Austria is reporting its whole financial package as concessional loans under 'Non-Grant Bilateral ODA'. The explanation of the Austrian authorities is that the concessional and the non-concessional parts cannot be separated for calculation. Due to this practice, Austria's ODA outflow is overstated, although the subsequent repayments of these loans could reduce net ODA. Moreover, since export credits are not linked with DDC's bilateral programme, as a consequence, countries such as China and Indonesia have become the top recipients of not only the export credits, but of the entire Austrian bilateral ODA.

### ***Imputed student costs***

The share of imputed student costs in total ODA has been approximately 9-10%, which is a figure half as large as the total budget for DDC's bilateral programme. According to the DAC Statistical Directives, imputed student costs are eligible for inclusion in ODA if they are part of a conscious policy of development co-operation which includes specification of the costs in official budgets. However, Austria seems to use a retroactive method by totalling the running costs of Austrian universities and higher education establishments, dividing it by the total number of students to obtain the unit cost per student, and then multiplying it by the number of students from developing countries. (By law, students from developing countries are exempted from paying tuition fees.) In other words, any student originating from a developing country who is studying any subject, irrespective of developmental objectives, could be included and counted under ODA. Austria needs to modify its treatment of this component, as well as to make information more transparent.

### ***Assistance to refugees in Austria***

The share of ODA spent for refugee assistance in Austria (excluding expenditures by local authorities) has considerably declined from 21% in 1992 to 7% in 1998. However, the reporting of these expenditures is not complying with the DAC Statistical Reporting Directives, which specifies that refugee assistance can only be claimed as ODA for the first year of stay in Austria. As Austria states that refugee-linked expenditures cannot be clearly distinguished between the first and subsequent years, this component is frequently reported beyond the one-year threshold. On the other hand, refugee assistance is now combined with appropriate integration activities, such as language, educational and vocational training programmes which are tailored towards the labour market needs of the refugees' home countries.

### **Recommendations**

- Austria should increase ODA to reach a level that would appropriately reflect its economic performance and capacity.
- Austria should have an overall aid strategy that links all its components to a clear set of development objectives. In this connection, Austria should reconstitute and strengthen its ODA Advisory Council.
- Mechanisms should be set up to co-ordinate the ODA activities of all agencies concerned, share more information, and mainstream DAC principles.
- A comprehensive ODA budget comprising all aid components, with the expenditures reported in one annual report, should be established. Such a report may also help raise public awareness and support.
- Reporting on concessional export credits, assistance to refugees, and imputed student costs, should be brought in line with DAC reporting requirements and practices. Planned discussions between Austrian authorities and the Secretariat should settle all pending discrepancies in ODA interpretation and reporting.
- The share of DDC budget should be increased to reach a level commensurate with that of other DAC Members' core bilateral programme.

- DDC should enhance its programme by: i) focusing more on poverty reduction; ii) concentrating on a reduced number of partner countries; iii) increasing country and sector strategies; iv) increasing evaluations; and v) reforming hiring policies and improving human resources management. DDC should also strengthen its role in monitoring and evaluating the export credits.

## CHAPTER 1

### COMPONENTS OF THE AUSTRIAN AID PROGRAMME

#### **Aid responsibilities and co-ordination**

##### *Overview*

Austria is one of the smaller donors of the Development Assistance Committee (DAC). Its net ODA in 1998, 456 million United States dollars (USD), ranked 16th among the 21 DAC Member countries. Its official development assistance/gross national product (ODA/GNP) ratio of 0.22% was slightly below the DAC average of 0.24%. In Austria's reporting of ODA, there are three components – concessional export credits, assistance to refugees in Austria, and imputed student costs – that together amount to about a fifth of its total ODA volume. However, as these activities do not seem to have development as their primary objective, Austria's reporting could result in an overestimation of total ODA expenditures. The DAC Secretariat is obliged to accept reporting by Members if they insist it is correct, but this does not imply that the reporting practice is in conformity with the DAC Statistical Reporting Directives.

The Austrian aid programme still needs to address some long-standing systemic issues, and this report will therefore inevitably repeat points made in previous Peer Reviews of Austria. One pending issue in the Austrian aid programme is that it still needs an overall strategy binding all the expenditures Austria considers as ODA to a clear set of development objectives. There is also room to foster political and public commitment to improve the quality and management of the Austrian aid programme.

##### *Aid responsibilities and major aid components*

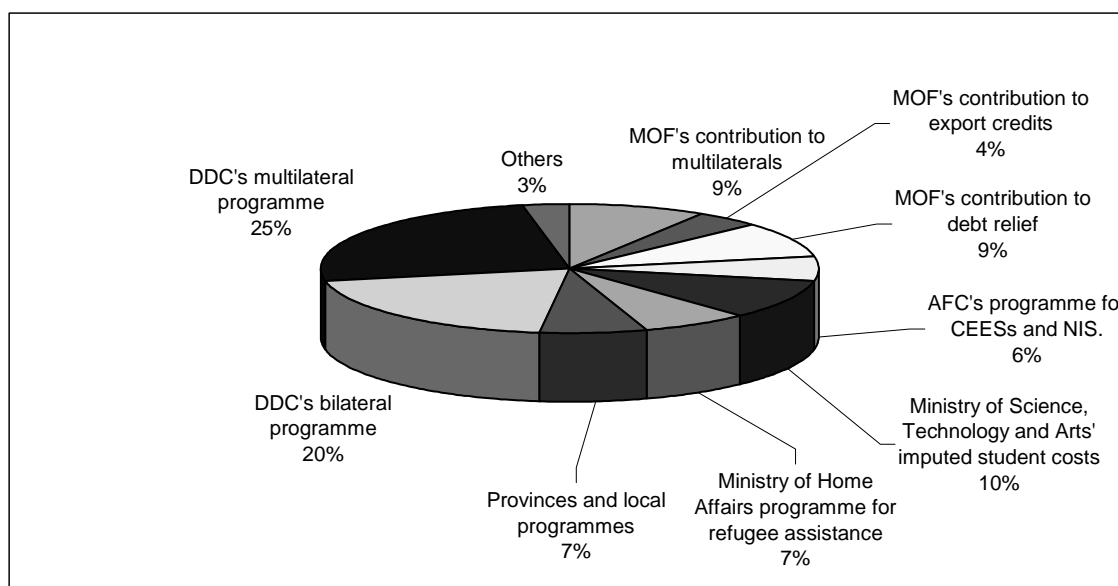
Responsibility for Austria's aid administration remain dispersed over a number of ministries and provincial and local government authorities (see Figure 1 and Chart 1):

- The Ministry of Finance (MOF) controls approximately 22% of the total ODA budget. It is responsible for Austria's contributions to international financial institutions (IFIs) (9%) and also funds concessional export credits (4%) and debt relief (9%).
- The Department for Development Co-operation (DDC) of the Ministry for Foreign Affairs (MOFA) is responsible for the bilateral programme outside Eastern Europe. These activities account for only 20% of Austria's total ODA, about Austrian schillings (ATS) 1 billion (USD 81 million) annually. DDC is also in charge of multilateral organisations, such as the United Nations (UN) group and the European Community (EC) (25%).

- The Ministry of Science and Research handles the imputed educational costs of developing country students in Austria. This component has remained at approximately 9-10% of ODA.
- The Austrian Federal Chancellery (AFC) manages programmes for Central and Eastern European Countries (CEECs) and New Independent States (NIS) classified as Part I and Part II countries (about 6% of total ODA).
- The Ministry of Home Affairs administers programmes for refugees arriving in Austria, which account for 7% of ODA.
- The *Bundesländer* (provinces), local authorities and the Economic Chambers also fund their own ODA projects for mainly refugee assistance, totalling about 7% of ODA.

It is hard to assess the development impact of the fragmented aid activities outside the responsibility of DDC, or to compare overall aid effectiveness with that of other DAC Members. What is needed is a unified aid policy that would eliminate the less developmentally relevant activities, and direct the remainder towards widely shared international development goals. Poverty reduction is now the stated priority objective for DDC's bilateral development co-operation, but is not reflected in the geographical and sectoral distribution of total ODA. Nor have the objectives of the Development Partnership Strategy, adopted by the DAC in 1996 and often referred to in DDC documents, seem to have been incorporated in most components of Austria's development co-operation.

Figure 1. **Distribution of Austrian ODA, 1998**



Source: OECD.

### ***Aid co-ordination***

The Austrian aid programme has yet to strengthen effective co-ordination mechanisms. Basic tasks such as ensuring consistency and sharing information among ministries still tend to be *ad hoc*. This reflects the fact that the government as a whole has not treated its ODA components as part of a coherent programme. Currently, MOFA's role is limited to awareness-raising and persuasion

initiatives. On the other hand, DDC states that its joint project implementation initiatives with other ministries are working well. There are also formal co-operation mechanisms between DDC and MOF both for multilateral issues, particularly EC matters, and for the development of the Three Year Programmes. However, greater coherence could be achieved if MOFA had a more extensive and explicit leadership role, backed by a clear political mandate from the government.

## **Selected major components of the aid programme**

### ***Multilateral assistance and the approach to multilateral co-operation***

In 1998, Austria spent 32% of its total ODA on multilateral assistance. Of this amount, 26% went to IFIs, 49% to EC and 25% to UN and other agencies. The MOF decides on the funding of these organisations, but shares responsibility with DDC for programme development and policy dialogue. In general, MOF is in charge of the IFIs, such as the World Bank and regional banks, and DDC is responsible for the EC and UN agencies.

Austria's policy is to support specific multilateral projects that promote its own priorities and interests through:

- Solidarity in burden-sharing.
- Contribution to a global impact of development aid.
- The aid effectiveness of multilateral organisations.
- Economic benefits for the Austrian economy through procurement of Austrian inputs.

### ***International financial institutions***

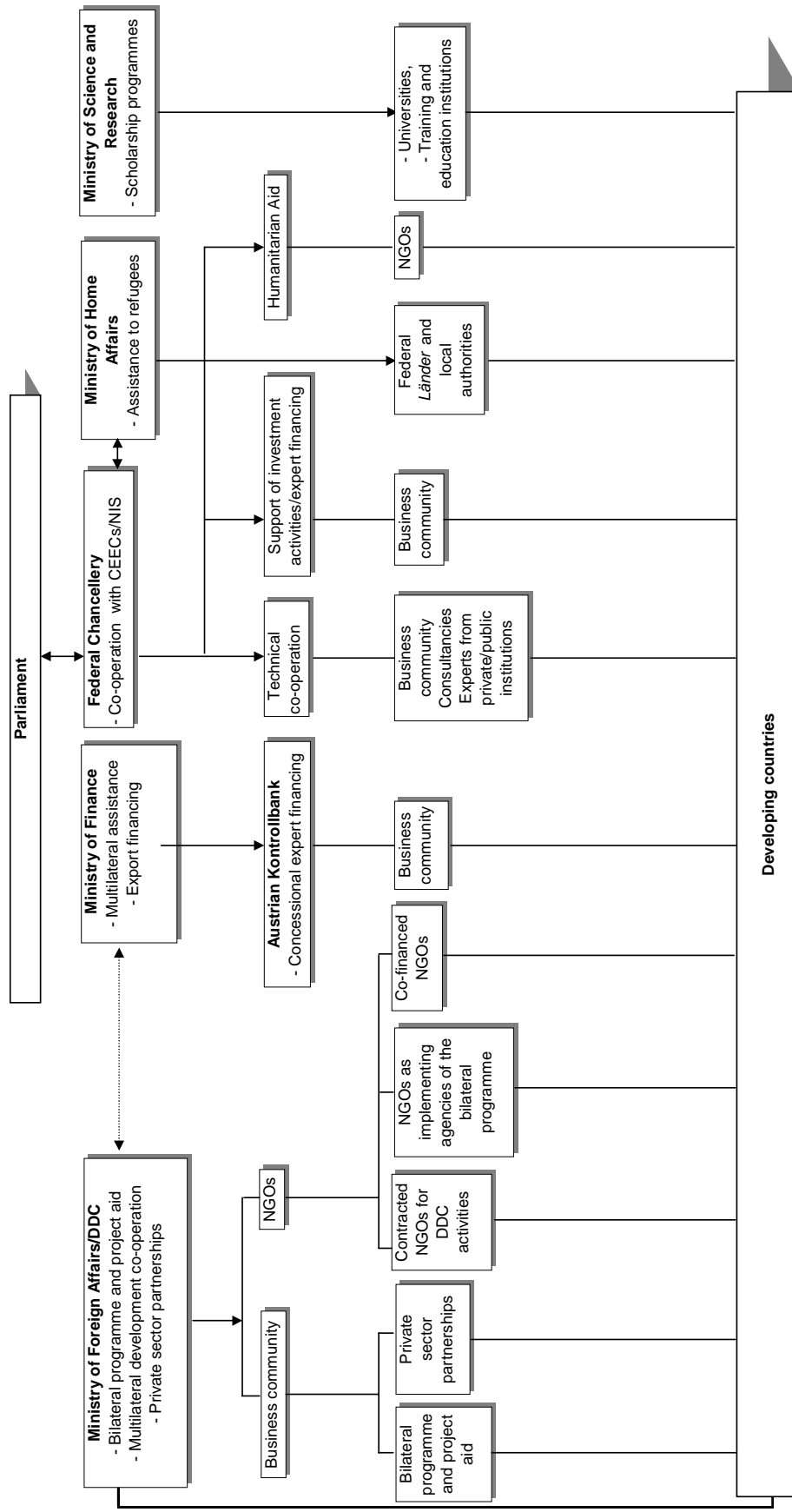
Austria's assistance to IFIs is mainly guided by its commitment to fair burden sharing. Although IFIs receive a substantial share of Austria's multilateral ODA, its positions within these institutions are selective. In the future, MOF intends to stabilise the contributions to IFIs at the present level, though additional funds may be pledged for the heavily-indebted poor countries (HIPC) initiative.

### ***The European Community***

Since its accession to the European Union (EU) in 1995, a large part of Austria's contributions to multilateral co-operation has been taken up by the EC. Contributions to the EC budget have generally been increasing and were USD 81 million in 1998, with the share amounting to 16% of total Austrian ODA. Forecast data suggest that in 2000, contributions will be further increased as they will include disbursements to the European Development Fund (EDF).

During its EU Presidency in the second half of 1998, Austria focused on three main topics of the EU development agenda: (i) the EU's future relations with the African, Caribbean and Pacific countries (ACP) (Post-Lomé); (ii) shaping and implementing the agenda of the EU Development Council (Austria is particularly emphasising conflict prevention, tourism, and co-ordination of EU operations); and (iii) intensification of relations between the EU and the Southern African Development Community (SADC). In line with these working priorities, Austria organised a number of conferences which achieved progress in moving forward dialogue and negotiations, such as the Seminar on Conflict Resolution, Conference of Parliamentarians and NGO Representatives from EU and SADC countries, EU-SADC Conference of Ministers, and the EU-ACP Ministers' Meeting.

Chart 1. The Austrian aid system



Source: OECD.

The DDC's Division for Multilateral Development Co-operation has progressively taken on a more active involvement in the shaping and monitoring of EU development policies. In particular, it is working towards (i) incorporation of Austrian development objectives and priorities into the EC working programme and (ii) greater coherence between EU and DDC development policies. It is also active in distributing results of EC working programmes within MOFA and among aid administration ministries so as to enable the EC experience to feed into the whole spectrum of Austria's own policies. EC aid management tools, such as the logical framework, manuals on micro-finance, water, forest management and council resolutions (e.g. tourism and conflict prevention) are being applied by DDC in its bilateral programme. Furthermore, follow-up of working priorities under the Austrian EU Presidency is taking place within the DDC's bilateral programme. For example, Austria is actively supporting the peace process in Togo and Burundi, and the present Director General of DDC is leading the Commission for Rehabilitation and Development for the Arusha IV round of negotiations. DDC is also continuing to organise its own seminars on conflict prevention by benefiting from the expertise in the area gained under the EU Presidency.

Austria's current co-operation with the EC concentrates on the following activities:

- Participating in setting up an overall EC policy statement on development aid under special consideration of (i) EC comparative advantages in regional integration, trade and humanitarian aid; and (ii) a result-oriented re-organisation of EC services.
- Ensuring that poverty reduction is the guiding principle of EC programmes/projects and financial flows.
- Improving EU aid co-ordination.
- Emphasising the importance of cross-cutting issues in EC development assistance.
- Improving coherence of EU aid policy with other policies related to developing countries.
- Re-organising EU-ACP relations by incorporating achievements in the areas mentioned above.
- Strengthening Austrian participation at policy level and in EC programmes and projects, for example, through co-financing schemes and the participation of Austrian companies in EC tenders.

Apart from the government's co-operation with the EU, since 1995, the EU-Platform of the Austrian NGOs has been representing the interests of Austria's development NGOs *vis-à-vis* the EC, the European Parliament, and the Council of Europe. This body is part of a network comprising 900 different NGOs from the 15 EU countries. It gathers information and promotes dialogue with other European NGOs concerning EU's development policies and instruments.

### *UN Organisations*

Active participation in UN bodies focuses mainly on the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO). As a present member of the UNDP Administrative Council, Austria will contribute to the work through (i) strengthening the co-operation capacity of UNDP, (ii) raising the effectiveness of development co-operation institutions in the field and (iii) creating efficient linkages between bilateral and multilateral technical co-operation. As stated in the DDC's Three Year Programme, Austria also intends to influence the development of UNDP aid policies and to monitor their implementation.

Austria has an interest in the successful implementation of the reform of UNIDO, which is headquartered in Vienna. Austria is one of the organisation's most important donor countries. For example, in line with UNIDO's direction towards an enhanced focus on an environmentally-friendly industrial production, Austria has contributed to the financing of specific training centres. Until the end of 2001, Austria will also be a member of the UNIDO Industrial Development Board and the Committee for Budget and Programmes, the leading decision-taking bodies of the organisation. Through active participation in both bodies, Austria will try to support the organisation in its effort to improve effectiveness.

### *Concessional export credits*

Although the share of concessional export credits has fallen from 27% in 1994 to 4% in 1998, by definition, export credits do not strictly fall under ODA, as their primary motivation is generally not developmental. As specified in the DAC Statistical Reporting Directives, if a grant or a concessional loan that is linked to developmental objectives is provided to soften the terms of an export credit, then that grant or loan may be reported separately as 'Associated Financing' and counted as ODA. The export credit part, on commercial terms, has to be recorded as 'Other Official Flows' (OOF). Despite these rules, Austria is reporting its whole financial package as concessional loans under 'Non-Grant Bilateral ODA'. The explanation of the Austrian authorities is that the concessional and the non-concessional parts cannot be separated for calculation. Due to this practice, Austria's ODA outflow is overstated, although the subsequent repayments of these loans could reduce net ODA. At present, it is difficult to say in advance whether the decreasing trend in export credits is structural, as no final plans exist for such further decrease.

Under Austria's current practices, an export credit project is reported as ODA when it is judged to contribute to DDC's development co-operation objectives. Thus, at a fairly advanced stage of project approval, the responsible unit in DDC is asked to make an aid quality assessment. Depending on each case, DDC either consults outside experts or does the assessment itself, drawing on the available project information, aid documentation and in-house expertise. As DDC normally obtains the project documents only a few days before the final approval session of the inter-ministerial export credit committee chaired by MOF, in most cases, such assessments can only be cursory, as observed in some examples provided for this Review.

Austria does not seem to have a strategy for export credits based on developmental objectives. Furthermore, these activities are generally not subordinated to any country or sector strategy. DAC guidelines on environment, gender, poverty, governance, and so on, do not play a major role in the selection and implementation of such export credits. There does not seem to be an effective way of measuring the socio-economic impact in a particular country either. Moreover, the approval of export credits does not take into consideration the "priority" and "co-operation" countries of DDC's bilateral programme in terms of incentives, softer loan terms, and so on. As a consequence, countries such as China and Indonesia, which are not among its partner countries, have both repeatedly ranked among the top five recipients of Austrian ODA. (For project examples in these recipient countries see Table 1.)

In general, there is no monitoring and evaluation system to ensure that the credits are used for developmental purposes, as DDC staff in the field or other Austrian officials are not assigned to supervise the activities in the developing countries. However, there is a pilot initiative in Indonesia in which DDC is taking on some monitoring and evaluation function. This greater involvement of DDC in export credits is a promising step and its expansion to other countries is strongly encouraged (see Annex I below).

Table 1. **Sample destination and type of ODA loan commitments, 1997**

Country	Project	Grant element %	Reported ODA, amount (in USD million)
China	Sprinklers	46	2.3
China	Sprinklers	46	1.9
China	Drinking water plant	42	2.8
China	Electromechanical parts, sewage treatment	51	3.5
Indonesia	Hospital medical equipment	60	27.7
Philippines	Refurbishment of hospitals	51	15.4

Source: OECD/DDC.

### ***Debt relief***

Least developed and low-income countries owe Austria approximately ATS 1.7 billion (about USD 137 million), scheduled to be repaid by 2043. In 1997, the Austrian Parliament authorised the MOF and MFA to cancel all official debt resulting from bilateral co-operation agreements and funded by the federal budget. Up to now, an amount of ATS 1.3 billion (about USD 100 million) has been allocated to countries such as Burkina Faso, Ghana, Kenya, Madagascar, Mozambique, Nicaragua, Rwanda, Uganda, and Zimbabwe.

As a follow-up to the decision of the G7/G8 Cologne Summit in 1999, Austria announced its intention to forgive up to 80% of its debtor countries' loan obligations under the HIPC initiative. This amount includes the cancellation of Austria's export credits and guarantees. Austria's debt relief time schedule and sequencing will depend on the implementation of the enlarged HIPC initiative.

### ***Imputed student costs***

Austria has been claiming the costs for students from developing countries as ODA for a number of years. Past Reviews have criticised this practice as its share of total ODA disbursements has been high compared to other DAC Member countries. Hitherto, the Austrian authorities have not modified their practice in calculating imputed student costs despite the suggestions by the DAC. The share of imputed student costs in total ODA has been approximately 9-10% per annum, which is a figure half as large as the total budget for DDC's bilateral programme.

According to the DAC Statistical Directives, imputed student costs are eligible for inclusion in ODA if they are part of a conscious policy of development co-operation that includes specification of the costs in official budgets. However, Austria seems to use a retroactive method, by totalling the running costs of Austrian universities and higher education establishments, dividing it by the total number of students to obtain the unit cost per student, and then multiplying it by the number of students from developing countries. (By law, students from developing countries are exempted from paying tuition fees.) In other words, any student originating from a developing country who is studying any subject, irrespective of developmental objectives, could be included and counted under ODA.

Another point of concern to aid eligibility, raised in the last Review in 1996, is "the limited influence which the aid administration has over the composition of foreign students". The Directives state that the costs can be reported if "there is an appropriate degree of involvement by the authorities responsible for ODA programmes in the formulation of policy on the intake and tuition of students, bearing special national factors in mind." Furthermore, "(t)he demonstration of involvement should relate to such aspects as the role of the ODA authorities... in the specification of sectors and levels of

education; the needs of the aid recipients concerned for particular qualifications; the numbers and selection of the categories of students or trainees to be brought into the host country; the extent to which tuition can be tailored to the needs of aid recipients' students; the conduct of discussions with aid recipients on the co-ordination of the supply of places in the donor's educational system with each country's requirements;". However, no reply has been given by Austria regarding these points, and it appears that the Austrian aid authorities have very little say in the selection of students or the developmental relevance of their courses. Furthermore, the origin of students from developing countries has raised some concern as only a small share came from LLDCs. Most students were from former Yugoslavia, Turkey and Iran – a fact which is reflected in the list of the top ten ODA recipients (see Annex II, Table II-4).

Austria could also make information more transparent regarding who these students are, what they are studying, and for what objectives. Data could be compiled on an annual basis so that it would be clear to the public that these funds have been made available under the auspices of Austria's development co-operation.

### *Assistance to refugees in Austria*

Assistance to refugees in Austria is managed by the Ministry of Home Affairs. The Federal *Länder* (provinces) and local authorities also implement refugee programmes using ODA in their localities. Refugees here comprise two categories: (i) aid to refugees who are asylum applicants, and (ii) aid to *de facto* refugees who are under temporary protection in Austria for a limited period of time. Undoubtedly, accommodating and providing assistance to refugees are activities which are highly respectable from a humanitarian perspective. Nevertheless, the development impact of ODA spent for these categories has not been clearly assessed and has been questioned. Another concern relates to non-compliance with the reporting of ODA for refugees. As specified by the DAC Statistical Reporting Directives, refugee assistance can only be claimed as ODA for the first year of stay in Austria. However, as most refugees stay longer and programmes for them partially fall under the responsibility of the Federal *Länder* and local authorities, Austria states that refugee-linked expenditures cannot be clearly distinguished between the first and the subsequent years. The frequent reporting above the one-year threshold leads to an overestimation of this aid component and of ODA.

In the past, refugee assistance, particularly under temporary protection, received a considerable share of total ODA. However, in line with a slow-down in the influx of refugees, the share of ODA spent for refugee assistance has considerably declined from 21% in 1992 to 7% in 1998. Refugee assistance is now combined with appropriate reintegration activities, such as language, educational and vocational training programmes which are tailored towards the labour market needs of the refugees' home countries. Reintegration activities have been concentrated on Bosnia-Herzegovina, particularly through projects in the construction sector, such as housing repair and building of repatriation centres and old people's homes. In addition, Austria is giving support to Bosnian higher education institutions by financing equipment, scholarships and exchange programmes. It is hoped that by raising their attractiveness, students and teaching staff who are at present studying and working abroad will return to Bosnia-Herzegovina.

The trend of declining expenditures for refugee assistance may be reversed by the Kosovo crisis which has led to another new wave of refugees flowing into Austria. Currently, the Ministry of Home Affairs is providing direct financial support to the refugees who are willing to return to Kosovo by covering transportation costs and start-up allowances and thereby facilitating their reintegration. Austria at present has granted temporary protection for up to 10 000 refugees from the Kosovo crisis (see Table 2).

Table 2. Kosovo crisis: mobilisation of additional funds in 1999

Purpose	Responsible entity	Amount
Refugee assistance (Skhodra Camp etc.)	Ministry of Home Affairs Ministry of Defence	USD 38 million
Emergency aid	AFC MOFA	USD 4 million
Co-operation with CEECs and NIS + Supplementary budget with special permission of MOF	AFC	USD 11 million + USD 9 million
Support for the countries included in the Stability Pact in South Eastern Europe	AFC	USD 15 million for 1999 and beyond

Source: OECD.

### *Co-operation with Central and Eastern European Countries and New Independent States*

#### *Trend*

Co-operation with CEECs and the NIS is playing a major role in Austria's aid programme. Austria's co-operation with these countries is managed by AFC. It designs programmes and controls the budget, which is separate from the bilateral programme of DDC. However, it is unclear as to how budgetary and programme allocations are demarcated between Part I and Part II countries. The amount of bilateral ODA that Austria allocates to the European countries, although declining, is still far above the DAC average – in 1998, it was 25%, while the DAC average was 4% (see Table II-3).

#### *The co-operation strategy with Central and Eastern European Countries and New Independent States*

Since January 1999, co-operation with CEECs and NIS has been based on a new strategy to streamline regional and sectoral development activities in these countries. The strategy concept is guided by principles of good neighbourhood and has the following two main objectives: (i) assist selected CEECs to prepare for EU accession; and (ii) strengthen efforts in building a pluralistic democracy and a sustainable market economy. Based on these objectives, AFC provides assistance to primarily two sets of countries. The first set consists of Slovakia, Bulgaria and Romania – countries that have already reached a relatively advanced stage in transforming their economic and political system. Under the new strategy, they will receive assistance in preparing for EU accession through achieving compliance with European standards, especially regarding environment protection and public administration. The second set comprises countries which have been severely affected by war and which still have massive difficulties in both economic and political transformation. AFC has selected Albania, Bosnia-Herzegovina and Macedonia for this set. The co-operation focus here is to strengthen their efforts in building a pluralistic democracy and a sustainable market economy. The remaining CEECs/NIS countries receive aid on an *ad hoc* basis and through multi-bi arrangements.

Sector priorities reflect Austria's strong economic and political interests. By concentrating on (i) energy and (ii) environment and water resources management, the projects will offer manifold opportunities for Austrian consulting firms. Two additional priority sectors are (iii) employment and social services and (iv) public administration. Here, activities will aim at capacity building, especially involving labour market institutions and introducing EU standards in public administration, but also at employment generation through small and medium-sized enterprise (SME) development. Aid provided by AFC for technical and humanitarian assistance is channelled as grants. In addition, specialised Austrian institutions provide loans or guarantees to support investment activities and experts by the Austrian private sector. For all priority countries, the AFC has developed bilateral

agreements with the recipient governments. As the agreements are broad and general, they also allow the inclusion of other activities on a case-by-case basis, such as education, health, agriculture, tourism, and transport. Austria is encouraged to incorporate discussions carried out at the DAC, such as good governance, peace and conflict prevention, into the co-operation activities of these countries.

#### *Involvement of the Austrian business community and NGOs*

As the overall aid strategy is based on a strong involvement of the Austrian business community, investment opportunities for the Austrian private sector are regarded as a key element. Conversely, the developmental needs and priorities in basic social services of the partner countries play a secondary role in the programme concept. Furthermore, technical assistance, such as training and consultancy, is mainly conceived as a supporting function in facilitating the implementation of the investment project. (Technical assistance can also be provided to support projects in public administration, social sectors, and democracy.) In the recipient CEECs, most co-operation partners are government institutions at local, regional and/or federal levels. Austrian NGOs are only minimally involved in activities in this region. They are generally selected as implementors of projects in the areas of democracy, human rights, and humanitarian aid, such as reintegration of refugees and supply of food and medicine.

#### *Trends in disbursement in light of the Balkan conflicts*

ODA to CEECs and NIS has been mainly concentrated on Bosnia–Herzegovina (see Table 3). It has been by far the largest recipient, followed by Yugoslavia and Croatia. Although humanitarian assistance to the CEECs/NIS countries is not covered in the strategy, significant amounts of resources have recently been allocated to the urgent need of assistance in the Kosovo crisis. Table 2 shows the purpose, amounts, and different entities that are administering Kosovo related projects in 1999. The war in Kosovo has provided CEECs co-operation with a new impetus, as it will require additional ODA resources for reconstruction purposes. In the next few years, the trend of ODA to these countries is expected to rise, as additional funds have already been earmarked for refugee assistance and reconstruction. Austria states that this ODA, once approved, will not be diverted from other ODA budget lines, but that it will be given additionally. AFC expects a strong political commitment by the Austrian government to support the war-affected Balkan countries, both bilaterally and through the reconstruction programmes of the international donor community.

Table 3. ODA to CEECs/NIS and other transitional countries, 1996-98

Country	1996	1997	1998
	0.1	0.1	0.1
Bosnia-Herzegovina	96.8	44.9	38.5
Croatia	6.1	6.9	5.1
Ex-Yugoslavia, Unspecified	9.1	-	-
Georgia	0.3	0.3	0.4
Kazakstan	0.0	0.2	1.0
Kyrgyz Republic	0.3	0.2	0.5
Macedonia (former Yugoslav Republic)	0.2	0.2	1.3
Moldova	0.1	0.0	0.0
Slovenia	5.4	0.2	3.7
Tajikistan	0.1	0.2	0.3
Yugoslavia, Federal Republic	0.0	7.4	13.4
<b>Total</b>	<b>121.7</b>	<b>67.9</b>	<b>68.9</b>

Source: OECD.

The AFC has established field offices in Sarajevo, Skopje, Tirana, Sofia and Bucharest to monitor project implementation and co-ordinate activities with other donors as well as with the Ministry of Home Affairs regarding the repatriation and reintegration of refugees. As a direct response to the post-war situation in the Balkan region, AFC intends to open a new field office in Priština and Podgorica.



## CHAPTER 2

### DEPARTMENT FOR DEVELOPMENT CO-OPERATION AND OTHER STAKEHOLDERS

#### **DDC's bilateral programme and project aid**

##### *The Three Year Programme*

The Three Year Programme is the guiding strategy paper for DDC's bilateral programme and project assistance. It is based on six fundamental objectives: (i) to combat poverty, (ii) to foster democracy, (iii) to include equal participation of women in the development process, (iv) to preserve the natural environment, (v) to enhance social development of the economy and (vi) to carry out partnership. It is also broadly oriented towards the Development Partnership Strategy and various DAC guidelines. Apart from highlighting relevant aspects of DDC's bilateral programme, such as geographical and sectoral focus, aid implementing partners and co-financing, evaluation, debt relief, development education and information, the Programme also gives an outline for multilateral co-operation activities. It has been jointly elaborated by MOFA and MOF, commented on by the Advisory Board of Development Co-operation and noted by the Austrian Council of Ministers. However, the Three Year Programme is binding only for aid implementors of MOFA: it is a mere option for the other ministries that are implementing components of the aid programme. As already mentioned, MOF does not have a strategy for export credits based on developmental objectives, and AFC has its own strategy with its own set of objectives.

##### *Regional and sector focus*

In recent years, DDC has made real progress in: concentrating project activities and budgets to its partner countries; focusing increasingly on cross-cutting issues, developing aid management tools; and clarifying relationships with NGOs. However, since the last Review, DDC's share of budget in total ODA has not increased significantly and remains small. It was ATS 1.1 billion (USD 89 million) or approximately 20% of total ODA budget in 1998. The eight priority countries of DDC funded activities are Nicaragua, Burkina Faso, Cape Verde, Ethiopia, Rwanda, Uganda, Mozambique and Bhutan. The 11 co-operation countries are Costa Rica, El Salvador, Guatemala, Senegal, Burundi, Kenya, Tanzania, Namibia, Zimbabwe, Nepal, and Pakistan. These 19 priority and co-operation countries are together called partner countries, and its number is relatively high compared to the small DDC budget, as well as in contrast to other comparable DAC Members. Consequently, the amount of ODA received by each partner country can be extremely low (see Table 4). In 1998, the DDC aid programme reached the target of directing 70% of its budget (USD 63 million) to its partner countries. Out of this amount, 66% went to the priority countries and 34% to the co-operation countries. Among the priority countries, Uganda and Nicaragua received disproportionately high amounts of ODA. These two countries combined received more than half the budget for priority countries, and all other countries in this group received relatively small amounts. Moreover, within the overall ODA programme, these partner countries have almost no relation to the priority order of actual ODA bilateral disbursement, as will be shown in Chapter 3.

Table 4. Breakdown of bilateral programme and project aid by priority and cooperation countries, 1996-98

		1996		1997		1998	
		USD million	%	USD million	%	USD million	%
<b>Priority countries</b>	Uganda	13.0	13%	10.3	13%	12.5	14%
	Nicaragua	8.6	8%	4.9	6%	9.3	10%
	Rwanda	1.7	2%	1.1	1%	4.3	5%
	Mozambique	2.3	2%	5.2	7%	4.0	4%
	Bhutan	3.9	4%	4.5	6%	3.5	4%
	Burkina Faso	4.1	4%	1.3	2%	3.0	3%
	Cape Verde	2.8	3%	3.8	5%	2.7	3%
	Ethiopia	1.8	2%	2.0	3%	2.5	3%
<b>Sub Total</b>		<b>38.2</b>	<b>37%</b>	<b>33.0</b>	<b>42%</b>	<b>41.8</b>	<b>46%</b>
<b>Co-operation countries</b>	Tanzania	7.9	8%	4.8	6%	6.2	7%
	Guatemala	1.6	2%	2.5	3%	3.1	3%
	Zimbabwe	1.0	1%	1.8	2%	2.7	3%
	Senegal	2.8	3%	1.1	1%	2.5	3%
	Kenya	2.9	3%	2.6	3%	1.8	2%
	El Salvador	1.7	2%	1.1	1%	1.5	2%
	Nepal	2.0	2%	0.9	1%	1.5	2%
	Namibia	0.9	1%	1.9	2%	1.3	1%
	Pakistan	0.3	0%	0.1	0%	0.5	1%
	Costa Rica	0.2	0%	0.5	1%	0.3	0%
	Burundi	1.6	2%	0.1	0%	0.3	0%
<b>Sub Total</b>		<b>23.0</b>	<b>22%</b>	<b>17.5</b>	<b>22%</b>	<b>21.6</b>	<b>24%</b>
<b>Priority and co-operation countries total</b>		<b>61.2</b>	<b>59%</b>	<b>50.5</b>	<b>65%</b>	<b>63.4</b>	<b>70%</b>
<b>Programme and project aid total</b>		<b>103.5</b>	<b>100%</b>	<b>78.2</b>	<b>100%</b>	<b>90.4</b>	<b>100%</b>

Source : OEFSE.

Among the different regions, key sectors of co-operation are as follows. In *Africa*: soil and water protection; education and vocational training; small, medium-sized and micro-enterprises (SMMEs); support for training institutions at community level; health; railroad rehabilitation; support for inter-regional railroad policy; energy supply, supporting democratic structures and the legal system; improving the administrative system; integrated rural development; and developing the administration at district level. In *Asia*: energy supply through the development of hydroelectric power schemes; sustainable forestry; tourism, preservation of cultural heritage, development of national parks; development of human resources in ministries, research institutes and the tourism sector. In *Central America*: democratisation and peace process building; integrated rural development, small-scale industries; rainforest protection; and water supply and sewage systems. These sectors are in compliance with the objectives stated in the Three Year Programme. However, considering the size of the DDC budget, focusing on a fewer number of sectors may lead to a more effective development co-operation.

### *Country and sector strategies*

Since 1993, DDC has been in the process of developing country strategies for its 19 partner countries. They are drafted by field personnel and independent consultants, in co-operation with the partner governments. The number of country strategies is still limited: so far, only four have been completed in 6 years (Cape Verde, Ethiopia, Mozambique, and Uganda). In addition, one regional strategy for Central America and one special strategy for Palestine have been completed. A major challenge to

effective co-operation that was identified in the field mission to Bhutan was the absence of an operational Austrian country strategy or at least of a long-term comprehensive plan. Country strategies and co-operation agreements should cover not only DDC activities but also include projects under other aid components, such as export credits that may be reported as ODA (see Annex I).

Only three global sector strategies have been finalised by DDC: (i) water, (ii) SMME and (iii) transport. These sector policy papers have been used as strategic frameworks for the development of some national sector programmes. DDC is preparing a number of other sector policy papers, country and national sector programmes and guidelines. In Burkina Faso, there are already sector programmes for agriculture/integrated rural development and vocational training. A recently drafted sector policy paper on education focuses for the first time on basic education, though along with vocational training and higher education.

By reacting to the need for greater ownership in partner countries, DDC aims to spend at least 50% of the allocation to priority countries through direct budget support, provided that the recipient country has advanced administrative capacities for the national execution of sector or sub-sector programmes. Direct budget support is currently provided in Bhutan, Burkina Faso, Cape Verde, Ethiopia, Mozambique, Nicaragua and Uganda. However, the execution modalities are extremely challenging and could cause programmes to stop in some cases, as in the case of Bhutan. In line with this new orientation, the share of direct fund transfers within the total DDC budget rose from 1% in 1994 to 15% in 1997. Unfortunately, this caused not only disapproval among the Austrian NGO community but also among some Parliamentarians who claimed that by this, Austrian aid would lose its “national identity”.

### *The staffing situation*

Over the years, staffing in DDC has been a source of concern. The shortage of staff is increasingly compensated by employing consultants and by contracting out some activity areas to NGOs, such as statistics, publications, and development education. According to DDC officials, both outsourcing measures have increased the quality of work. The decentralisation of administration activities to field offices is creating additional staff constraints. DDC has established co-ordination bureaus in all its priority countries except Rwanda. However, only four DDC officials have been assigned overseas - one of them in Bhutan - due to present staffing policy, and all other co-ordinator posts are filled with external experts. Owing to the small budget for personnel, approximately 40 staff members who are not DDC officials are financed out of the earmarked budget for programme and project aid. The outsourcing of DDC activities to NGOs and consultants for specific DDC tasks could lead to lack of continuity as well as loss of institutional memory when consultants suddenly leave or are declared redundant due to budget constraints. Rethinking on how to ensure greater continuity, institutional development, and effective feedback mechanisms need to be instated in DDC's human resources management.

### *Cross-cutting issues*

#### *Poverty*

The design and implementation of DDC's bilateral programme has been oriented towards four guiding principles: 1) selection and concentration of assistance towards the poorest countries as priority and co-operation countries; 2) selection of particularly needy regions, provinces and districts within the partner countries and support for the decentralisation process; 3) orientation of the sector-specific

policy approaches towards immediate efforts for the poor; and 4) selection of disadvantaged target groups. By implementing these principles, DDC has made poverty reduction one leading objective of its bilateral programme. DDC states that its current approach to poverty reduction is to target selected vulnerable social groups: women, children, the aged, and ethnic, religious, political and social minorities. It mentions that it does not only aim at improving basic social services and providing income generating opportunities for the poor, but also pursues a more equitable distribution of resources and empowerment of the most vulnerable segments of society. However, further efforts are needed by DDC in mainstreaming poverty at all programme levels and in operationalising the identification of target groups.

### *Gender equality*

Since the last Review, DDC has made some effort to incorporate gender issues into its work programme and to mainstream them in its country and sector programmes. The screening of projects and programmes for gender equality is now being carried out based on the DAC Guidelines for Gender Equality and Women's Empowerment. DDC has also organised training seminars for Austrian and local NGOs aiming at awareness-raising of gender issues and the enhancement of women's participation in their activities. Since April 1996, a gender consultant is working for DDC, who acts as a resource person for the Department, NGOs and field staff whenever there is need for specific consultation. However, the consultant's working priority lies at the policy and programming level and less at the project level. The field mission to Bhutan revealed that a systematic approach to gender mainstreaming is yet to be developed and that substantial work is needed in this area.

### *Environment*

The preservation of the natural environment is another one of DDC's major objectives. In its bilateral programme, the number of projects which pursue environmental protection as their main objective and the share of the DDC budget spent for this project category have considerably increased over the last two years. Furthermore, all new project proposals are screened for their environmental and socio-economic sustainability. In addition, on-going projects that started before the requirement of environmental assessments became official must undergo an *ex post* evaluation of their environmental sustainability. The environmental impact assessment is based on DAC's Environmental Guidelines and the environmental policy marker system.

### *Democracy and human rights*

The introduction and strengthening of democracy and peace and the protection of human rights is also one of DDC's explicit development objectives. In line with this overall policy commitment, DDC is evaluating its programmes, projects and other forms of bilateral and multilateral assistance on whether they conform to the principles of democracy and human rights. The scope of projects in this area also includes support towards good governance, the rule of law, fair elections, crime prevention, capacity building of local NGOs and decentralisation of public administration units.

### *Evaluation*

The responsible unit for evaluating bilateral projects and programmes within DDC is the Division for Evaluation, Inspection and Control. The task of this Division has remained unchanged since the last

Review — it focuses its activities on financial audit and administrative inspection of technical assistance projects administered by DDC. The Division does not evaluate the development impact of export credit projects, assistance to refugees in Austria, or the development impact of higher education for students from developing countries. The annual budget of ATS 5 million (USD 403 000) has been maintained and is expected to remain at this level in the future. By comparison, evaluations of on-going and completed projects play only a subordinate role, mainly because the scarce personnel are already occupied with audit and control activities and additional tasks.

From 1996 to July 1999, 14 evaluations were conducted, mainly in African partner countries. Evaluations are carried out either by the Evaluation Division itself or commissioned to outside consultants. The Division tends to initiate evaluations only when there is a clear demand from the project staff, Parliament, or ministerial groups. Moreover, most evaluations have hitherto been mid-term reviews of on-going projects, although post-project evaluations are expected to be enhanced. The Division aims to increase evaluations on the performance of strategic directions and instruments rather than on individual project activities. Efforts are made to better integrate evaluation as a component of project cycle management.

Evaluation reports are published in a long and a short version. Austria states that the dissemination of evaluation results has improved, especially to the partner countries. One major finding from the evaluations carried out so far is the discrepancy between the project concept and implementation. Project ideas are often interesting, innovative and challenging, but project monitoring and management are weak. Furthermore, in many cases, projects are not financially sustainable. The Evaluation Division argues that a more modest and realistic objective setting would probably lead to better project performance. For example, the evaluation report on Austrian support to “Microfinance in Zimbabwe” highlighted the need for better information-sharing and co-ordination of decision-taking among the different actors within the Ministry for Foreign Affairs, particularly during project implementation. These findings point to internal organisational issues in DDC.

### *Effectiveness*

While the DDC’s bilateral programme seems to be embedded in a set of guiding objectives and regional priorities, its performance is hampered by a number of weaknesses, particularly at the aid management level. Country and sector programming is lagging behind actual aid implementation, and the present way of conducting evaluations is too selective and limited. Moreover, there is no clear focus on poverty reduction in the actual aid programme activities, and thus DDC faces the need for further improvements. In view of the continuing tight budget for bilateral activities, constraints in staff resources and the above mentioned weaknesses, a reduction of number of partner and co-operation countries as well as of sectors and sub-sectors could be considered as options. It could help raise the effectiveness of projects and thus could enhance the quality of the programme.

### **Austrian NGOs**

#### *The changing role of NGOs in aid implementation*

NGOs play a major role in Austria’s development co-operation policy, either as implementing agents for DDC or as implementors of their own projects, in most cases co-financed by DDC. NGO activities concentrate on rural development, small business, democracy, education and micro-credit. Relations between DDC and NGOs have been traditionally harmonious and built on finding compromise, as stated in the last Review. However, gradual reform of co-operation modalities towards greater

efficiency of NGO work, as well as DDC's strengthening of policy frameworks, aid objectives and field presence, have considerably affected their relation. Today, NGOs are confronted with (i) more competitive regulations and guidelines ('bidding for projects'); (ii) stricter budget and administrative control; (iii) the progressive introduction of country and sector programmes; (iv) stronger monitoring by DDC via its field offices; (v) new incentive schemes favouring private sector activities in development aid; and (vi) a shift towards stronger involvement of local NGOs. All these changes have reduced the privileged access that NGOs once had in project financing as well as their degree of autonomy in project design and implementation.

### ***Reforming co-operation with NGOs***

Larger NGOs have established their own small consulting firms, either alongside the NGO or through change of their legal status, in order to better compete with private companies and other national and international NGOs. On the other hand, smaller NGOs have difficulties in keeping pace with the need for greater competitiveness and may have to rely more on their own funds. Under the present co-financing schemes, NGOs can obtain a grant from DDC up to 75% of project costs in DDC's partner countries and up to 35% of project costs in other developing countries outside Europe. Under a separate DDC/EU co-financing scheme, the EC covers up to 50% of project costs within a range of USD 12 000 to USD 500 000 for a duration of up to five years. DDC can contribute additionally up to 35% within a range of USD 9 000 to USD 350 000 for the project costs. The NGO self-finances the balance of at least 15%, which must include the cost of project evaluation.

In view of increasing private sector participation and more government-to-government aid particularly through budget support, DDC's budget share reserved for NGOs has considerably fallen from 45% in 1994 to 36% in 1997. In contrast, direct co-operation with the partner country governments has risen sharply from 1% in 1994 to 15% in 1997 (data: OEFSE). This trend of a falling budget share for NGOs is pushing them to lobby harder for additional public funds. Although fund-raising for emergency aid may not be as difficult as it evokes a spontaneous reaction of solidarity among the Austrian public, most NGOs face a severe problem in fully financing developmental project costs out of their own resources. A general disincentive for funding NGOs is the fact that the Austrian tax system does not allow any tax deductions for charity donations.

As DDC can only make budget commitments on an annual basis, NGOs have to plan and implement their projects - which normally run for more than one year - under insecure financial conditions. DDC management, however, has expressed its intention to work towards the approval of multi-year commitments that could ease the working circumstances of both DDC and NGOs. In the meantime, the recently introduced block grants and three-year working agreements help ameliorate this situation. In the first phase, agreements were made with four large NGOs designated as DDC's aid implementing agents. They were the Austrian Development Co-operation Service (OEED), the Co-financing Office for Development Co-operation (KFS), the Institute for International Co-operation (IIZ), and CARE Austria. In 1998, these NGOs took up 7% of DDC's total programme and project aid.

With the concentration of DDC's bilateral aid on selected priority and co-operation countries and the progressive introduction of country and sector programmes, NGOs had to readjust their regional and sectoral project priorities. Today, compliance with DDC policy directions clearly determines (i) whether they can qualify as implementing agents and (ii) the amount of co-financing they can receive. In principle, NGOs welcomed this move towards a stronger focus on development activities. Greater political convergence and complementary working relations have thus been achieved at country programme levels for Uganda, Nicaragua, Guatemala, El Salvador, Senegal, Zimbabwe and

Nepal. However, as NGOs see themselves as partners of DDC, they also want to be increasingly involved in the development of country and sector programmes and in decision-making processes. Although there is frequent interaction between DDC staff and NGOs, it appears that both sides still have to find the appropriate co-operation modalities.

Furthermore, NGOs still struggle with their own identity: even when they are almost entirely financed by public spending, they tend not to consider themselves as 'quasi-government agencies'. They stress, instead, their NGO identity and values and the importance of their autonomy *vis-à-vis* the Government. Furthermore, NGOs do not easily accept intervention by representatives of DDC field offices in their work. On the DDC side, it would naturally like to see the NGOs follow its policies and country and sector programmes so as to maximise the focus and the quality of its bilateral programme. In this respect, DDC is planning to introduce standardised annual project progress analysis that will allow a better monitoring of NGO activities.

### ***The NGO platform organisation***

Despite the challenges in DDC and NGO relations, NGOs are eager to improve their co-operation with DDC, as well as to develop a better Austrian aid policy in general. The most important platform for the articulation of NGO interests is the Umbrella Organisation of Austrian NGOs (AGEZ). It represents the NGOs in their dialogue with the government and also acts as a discussion forum on development aid policies.

AGEZ states that it would like to see the following reforms implemented in the Austrian ODA system. Austria could consider these suggestions to foster public support and to further improve the quality and management of the Austrian aid programme.

- Consolidation of all aid administration under one single federal department.
- Development of a master plan for the implementation of all ODA bilateral and multilateral commitments.
- A substantial increase in the budget for DDC programmes and projects.
- Earmarking of at least 40% of the bilateral budget for NGO work.
- Establishment of multi-year agreements to enable NGOs to plan beyond a year.
- Greater involvement of the Parliament in the formulation and monitoring of development policies.
- Enhancement of transparency in DDC's sectoral and country programmes.

### **Private sector partnership programmes**

The Austrian aid administration welcomes a stronger involvement of the private sector in development co-operation activities with two main goals in view: (i) to complement scarce ODA sources by private funds, and (ii) to diversify the types of aid implementors in order to enhance competition and efficiency. The Private Sector Partnership Programme recently designed by DDC aims at creating long-term partnerships between Austrian SMEs and those of developing countries. By offering financial support to reduce some of the direct costs, it is hoped that Austrian companies will invest in developing countries and make a positive impact on their economic development and prospects.

Financial support will be granted to partnership projects in DDC's partner countries (up to 30% of direct project costs) or other developing countries outside Europe (25% of direct project costs). The aid administration has reserved approximately USD 1 million for the pilot phase of the programme. Interested Austrian SMEs have to submit a business plan which must prove that the selected project will (i) contribute to the creation and/or development of competitive enterprises in the partner countries, (ii) become financially viable and (iii) transfer know-how from the Austrian enterprise to the company in the developing country. Projects can be located in all sectors except banking, real estate and insurance. Business plans are evaluated by a committee in MOFA to ensure that projects are in line with DDC's development aid objectives and guidelines and are therefore eligible for financial support. All technical aspects of the partnership programme are handled by two specialised government finance institutions (the *BUERGES-Foerderungsbank* and the *Finanzierungsgarantie-Gesellschaft/FGG*).

Hitherto, the response of the Austrian business community to the partnership programme has been ambivalent. Initially, the programme aimed at fostering partnerships between Austrian companies and developing country returnees who were leaving Austria and planning to set up their own business in their home country. One issue is the vagueness regarding who the main beneficiaries of this programme should be, both in Austria as well as in the developing countries. For example, in addition to profit-oriented companies, the current programme offers the possibility of including Austrian NGOs in the partnership arrangements. The priority sectors of the programme also need more clarification and guidance.

In a different programme, the Austrian Chamber of Commerce is co-operating with the Centre for the Development of Industry (CDI) of the EU in business-twinning arrangements. Through this programme, the Chamber is hoping to guide the Austrian private sector into business partnerships with companies in ACP countries, especially the poorest ones. To date, Austrian companies have signed ten co-operation agreements with companies in Zimbabwe and Ghana, including projects in food processing, metal, plastic, wood and mining sectors.

First-hand experience with the CDI programme could help the Austrian aid administration to reshape its own partnership programme. Providing the Austrian business community with adequate information, such as the specific country's investment prospects, the legal environment and profiles of potential partner companies, will be crucial in arranging successful partnerships. Careful monitoring and evaluation of the projects will also be required in order to ensure that ODA allocated to these partnerships programmes will have a positive developmental impact on the country.

### **Development education and information policy**

Most of MOFA's development education activities are carried out by Austrian NGOs. From 1996 to 1998/99, these NGOs received ATS 34 million (USD 2.7 million) annually out of the DDC budget, which were spent for co-ordinating training, cultural programmes, documentation, publication and so on. Additional ATS 16 million (USD 1.3 million) were distributed among DDC field projects, mostly to those with existing activities in development education and publication. The variety of development education and other types of information material offered by NGOs is impressive and of high quality. During the last three years, supported activities concentrated on issues related to labour, global trade, the development policies of the EU, environment/climate and cultural exchange. The focus has been mainly on African and Central American partner countries. These NGO materials are distributed to teachers, journalists, mass media, community institutions and other interest groups. Since 1994, co-ordination of the development education and information programme has been contracted out to the Society for Communication and Development (*KommEnt*).

In addition, DDC carries out its own communication programme which targets decision-makers, civil service, and the public at large. This programme includes: publication of articles, brochures and a special newsletter; field visits for journalists; film and video productions; broadcasting and organisation of cultural events. Both programmes – development education and information by NGOs and DDC's own communication programme – are subject to a checklist of expected results, which will, at a later stage, allow an impact assessment of the activities conducted.



## CHAPTER 3

### BASIC PROFILES

#### ODA Volume

Austria's annual total ODA disbursements tend to fluctuate, partly because Austria does not have a comprehensive aid budget. Since 1996, Austria's performance in net ODA disbursements has vacillated around half a billion US dollars (see Table II-1). After a 7% real increase between 1996 and 1997, data for 1998 show a fall of 13% to USD 456 million. As a share of GNP, Austria's ODA rose from 0.24% in 1996 to 0.26% in 1997, but fell to 0.22% in 1998, slightly below DAC average of 0.24%.

The decrease in net ODA between 1997 and 1998 was partially due the non-replenishment cycle of the World Bank Group. Bilateral aid slightly increased, including disbursements for action relating to debt and technical co-operation (see Table II-2). In 1998, Austria's bilateral ODA as a share of its total ODA was slightly below DAC average (68% compared to 71%) with a particularly low share of project and programme grants (5% of total ODA compared to the DAC average of 13%). Multilateral aid (32%) was slightly higher than the average for DAC members (29%) – and including multi-bilateral expenditure, the percentage was 53%.

#### Contribution to multilaterals

In 1998, Austria spent USD 165 million for multilateral organisations in 1997 constant USD, of which 49% was for the EC, 26% for IFIs and 25% for the UN and other agencies, as mentioned in Chapter 1 (see Table 2). Since its accession to the EU, Austria's contributions to the EC have been constantly high and generally increasing. With an amount of USD 81 million in 1998, this contribution was 16% of total ODA, almost equal to the budget for DDC's bilateral programme. In 1997–98, most of the funding for IFIs went to the World Bank Group, followed by the regional development banks. Among specified UN agencies, the highest share of contributions went to UNDP (37%), and the World Food Programme (WFP) (11%) (see charts under Table II-2).

#### Income and geographical distribution

Austria's gross bilateral allocable ODA disbursement has generally been highest for the group of *lower middle-income countries*. In 1998, they received a share of 45% of the gross bilateral ODA disbursements (see Table II-3). The group of lower middle-income countries included Austria's Central American co-operation countries (except Nicaragua), Namibia, a number of Eastern European countries, plus Egypt and Indonesia. Bilateral ODA to other low-income countries amounted to 30% of total bilateral ODA. This group included major European ODA recipients (i.e. *inter alia*, Bosnia-Herzegovina and Albania), Nicaragua, and China, a main destination for export credits. The

share going to LLDCs was 20% which was slightly below DAC average of 24%. On the other hand, in the last five years, this share has been constantly rising.

Europe, Sub-Saharan Africa, and Far East Asia received about a quarter of bilateral ODA respectively. Austria's aid towards South and Central Asia of 5% was much less than DAC average of 14%. By contrast, as mentioned earlier, Austria's share of bilateral ODA to Europe was extraordinarily high compared to the DAC average of 4% (see Table II-3). Although bilateral ODA to this region has generally fallen since 1994, Austria is still one of the leading DAC member countries in co-operating with Eastern Europe, including assistance to refugees. During the five years, the share going to Sub-Saharan Africa has gradually increased.

Taking the 1997–98 average figures, the top recipients of bilateral ODA were Indonesia, Bosnia-Herzegovina, Egypt, and China (see Table II-4), all major export credit destination countries except for Bosnia. Also included in the list of top ten recipients were Turkey and Iran, the countries where a considerable number of students in Austria come from. These mentioned countries have generally remained in the top ten during the last decade. As for the partner countries of DDC, Uganda ranked sixth and Nicaragua ranked tenth in 1997-98. It must be underlined that the list of the top 20 recipients included only seven out of DDC's 19 partner countries.

### **Sectoral distribution**

In 1997–1998, 46% of allocable bilateral ODA commitments was made for social infrastructure and services (see Table II-5). Education received 24%; however, most of the amount was for imputed student costs, research, and other tertiary education, and basic education received only 1%. The health sector received 7%, but as with basic education, expenditure for basic health was also 1% and population programmes hardly received any ODA. Water supply and sanitation was also among the main sectors with 9%, but the majority was not for low-cost projects targeted to the rural poor.

Austria states that in recent years, 20% of bilateral aid was allocated to basic social services, such as primary health care, primary education, water and sanitation, which related to poverty reduction. It is further claimed that therefore, Austria conforms to the Copenhagen 20/20 Initiative. However, there is a misconception regarding the definition of the Initiative. First, the Initiative requires donors to allocate 20% of their total ODA, as opposed to 20% of bilateral ODA, to basic social services. Second, one only counts the allocation towards basic social services, which excludes tertiary level services, such as support towards university education, medical research institutions, and large water and sanitation infrastructure. In 1997, Austria's commitments towards basic social services amounted to only ATS 79.3 million (USD 6.4 million), which was 1.3% of total ODA. As stated above, most of Austria's support in the education sector is attributable to the students studying higher education in Austria. Furthermore, low-cost water and sanitation was only ATS 6 million (USD 488 000) as opposed to non-low cost, which was ATS 176 million (USD 14 million) in grants and loans. A major effort is therefore required by Austria in increasing allocation towards basic social services. Austria could also develop a system to track allocations towards basic social services, including how to take multilateral contributions into account.

### **Official aid to CEECs/NIS**

Assistance to CEECs and NIS traditionally plays an important role in Austria's development co-operation. Since the beginning of the 1990's, Austria has given remarkable support to the transition economies (see Table 5 below). In 1998, the highest amounts of official aid (OA) were received by

Poland (USD 117 million), Hungary (USD 4 million), the Czech Republic (USD 4 million), and the Slovak Republic (USD 3 million). Over the last years, OA to Poland has been exceptionally high, mainly going into budget support for debt relief purposes. In fact, in 1997–98, Poland’s OA was approximately equivalent to the aid towards Indonesia, Bosnia-Herzegovina, and Egypt together, the top three recipients of Austrian ODA.

**Table 5. Total net OA to CEECs/NIS**

In USD million

	1992	1993	1994	1995	1996	1997	1998
<b>Belarus</b>	0.2	0.2	0.1	3.1	2.1	0.3	0.2
<b>Bulgaria</b>	2.7	1.0	1.3	1.6	1.1	1.2	1.7
<b>Czech Republic</b>	8.2	7.3	8.8	13.9	9.1	6.9	3.8
<b>Estonia</b>	0.1	0.1	0.1	0.1	0.1	0.0	0.1
<b>Hungary</b>	8.0	9.0	5.4	4.4	5.2	3.5	4.0
<b>Latvia</b>	0.0	0.1	0.0	0.2	0.1	0.1	0.1
<b>Lithuania</b>	0.1	0.1	0.1	0.1	0.2	0.1	0.1
<b>Poland</b>	258.0	328.9	190.1	189.8	151.1	122.1	117.3
<b>Romania</b>	16.2	2.0	2.1	2.3	1.9	1.0	1.0
<b>Russia</b>	2.9	4.0	2.1	2.7	0.5	0.6	0.7
<b>Ukraine</b>	2.0	1.3	1.1	1.0	0.3	0.4	3.2
<b>Unallocated</b>	18.5	13.8	17.0	10.7	9.8	7.0	8.4
<b>Total</b>	<b>316.7</b>	<b>367.7</b>	<b>228.3</b>	<b>229.9</b>	<b>181.4</b>	<b>143.0</b>	<b>140.6</b>

Source: OECD.

### **Tying and procurement**

A considerable portion of Austrian aid is tied or otherwise related to domestic constituents. Concessional export credits, imputed student costs and aid for refugees fall into these categories for obvious reasons. The major part of DDC administered aid is also carried out by Austrian NGOs, firms and consultancy firms. This situation will slowly change if (i) budgetary support to developing countries increases, (ii) foreign NGOs and companies become eligible to bid and implement Austrian projects, and (iii) DDC carries out a larger share of its procurement in developing countries. In 1997, 39% of USD 219 million - total bilateral ODA excluding technical co-operation and administrative costs - was tied<sup>1</sup>. A general untying of aid has not been supported by the Austrian government.

From the field mission to Bhutan, it was not obvious whether Austria was carrying out clear and transparent ODA procurement procedures for goods and services. As recent as July 1999, MOFA developed and issued a *Document for Invitation of Tenders*. The DAC Secretariat has received this document, but clarification and refinement is still required. Austria also needs to provide its procurement profile for the Working Party on Financial Aspects of Development Assistance, and better effort is needed in this area of information sharing.

1. Development Co-operation 1998 Report, *Efforts and Policies of the Members of the Development Assistance Committee*, p. A50



## ANNEX I

### AUSTRIA'S AID PROGRAMME IN BHUTAN

#### **Introduction**

To prepare for the Development Assistance Committee (DAC) review of Austria's aid programme on 16 November 1999, examiners from Belgium and Denmark undertook a mission with the Secretariat to Bhutan between 5–11 September 1999. Persons met and projects visited are listed in Appendix 1. Bhutan is one of the eight priority countries for Austrian development co-operation and was the 11th top recipient of its bilateral ODA for 1997–98. The Peer Review mission's main findings indicated that the field office has made major efforts in establishing itself through good partnership in Bhutan and that clearer directions, guidelines, and coherence in the overall Austrian aid programme could further optimise the implementation of field activities.

#### **Country background of Bhutan**

Bhutan is a small and unique kingdom, landlocked between two regional superpowers, namely India and China. The country is relatively unknown to the outside world, as the government's policy has been to limit exposure to protect and preserve its cultural heritage of Tibetan Buddhism. Bhutan did not really open up its country to foreigners until the mid-1970s. The current king is popular among the people and is actively involved in domestic affairs. The national assembly, whose members are partly elected, meets once a year for a month. The new cabinet that was formed last year is considered to be increasingly open to the international arena. The nation is generally peaceful, though there are underlying tensions with India, which include the stationing of its army in Bhutan for political reasons. There is also an internal ethnic issue that could potentially go awry: the sizeable Nepali population, which has been living in Bhutan for generations, has been discriminated against, and in some cases relocated to neighbouring countries, such as Nepal.

One of the impediments in development co-operation with Bhutan is the absence of reliable statistics. Partially due to the ethnic issue mentioned above, the Royal Government of Bhutan (RGOB) is unwilling to carry out various household surveys and to release credible results from the census. According to the information which is available, Bhutan's human development indicators show a typical profile of a developing nation (see Appendix 2). However, progress has been made in the last decade in terms of life expectancy, infant mortality rate, increased health coverage, and literacy rate. RGOB places high priority on education and health services and has been allocating around 23% of its national budget to the social sectors for many years already, exceeding the target of the Copenhagen 20/20 Initiative. Furthermore, partially due to its rich natural resources and low population density, donors generally tend to consider that poverty in Bhutan is not as widespread as it is in neighbouring countries. Gender equality also scores fairly well, partially due to its land inheritance system of maternal lineage, although few women take up higher civil service posts and the rates of school drop outs for girls are estimated to be higher than those of boys.

According to its Eighth Five Year Plan (1997–2002), the developmental objectives to be pursued are as follows: self-reliance; sustainability; preservation and promotion of cultural and traditional values; national security; balanced development; improving the quality of life; institutional strengthening and human resource development; decentralisation and community participation; and privatisation and private sector development. Excluding the social sectors, the core priority areas are, *inter alia*: hydropower; infrastructure; human resources development; agriculture; manufacturing; transport and communications; electricity; and service sectors. Bhutan as well as many donors consider the hydropower sector to become the engine of growth for the country that would pay for the social sectors and also reduce aid dependency. In 1998, export income from hydropower contributed 47% of Bhutan's national budget — RGOB expects it to grow to 85% in the coming years. Although a high level of dependency on electricity exports to India is a very risky strategy for long term economic growth, neither the RGOB nor the donors seem able to consider a better alternative or a different vision for the future.

On the other hand, RGOB officials mention that one of the other possible sources of foreign exchange is promoting exclusive tourism of low intake and high return. The choice is based on the fact that firstly, Bhutan is cautious in opening up its country, and secondly, it acknowledges its weak capacity in competing with India and Nepal for mass tourism. In recent years, an inflow of about 4 000 tourists generated around USD 4 million per annum, which represented the fourth largest source of foreign exchange. Although the tourism sector was liberalised in 1992, due to rudimentary logistical infrastructure, seasonal limitations, and undeveloped marketing capacity, the full potential for tourism is yet to be realised.

### **Development co-operation between RGOB and donors**

Bhutan has a limited number of development partners, partially due to the recency in opening up its country. The other reason is due to its selectivity and cautious stance towards donors. One of the earlier forms of official technical co-operation started in 1964 by Japan under the Colombo Plan. The multinational institutions subsequently started co-operation in the 1970s, followed by other bilateral donors in the 1980s. That said, the largest bilateral donor to Bhutan has been India — though not being a DAC Member, details of its aid is unclear. Otherwise, Japan, Denmark, Switzerland, Netherlands, and Austria, are the five main DAC Member donors to Bhutan, in the order of ODA volume. Netherlands and Switzerland are represented by non-governmental organisations (NGOs) which partially undertake official ODA activities. As for multilateral institutions, some UN agencies have permanent offices, but neither do the World Bank nor the Asian Development Bank, though they provide a small number of loans.

Some donors contend that RGOB is not eager to form a robust partnership with the Bretton Woods Institutions or large Western bilateral donors, but that instead, it tends to prefer smaller ones, especially with a monarchy. Bhutan is one of the highest per capita aid recipients in the world with 55–66% of its national budget being externally financed; yet RGOB is generally considered to be in the driver's seat, maintaining the ownership over the main orientations of development co-operation activities. The financial and aid administration system is highly centralised and based on a top-down approach, with the Ministry of Finance carrying out key aid co-ordination of all external financing - including those to support what little local NGOs there are. All funds are therefore being pooled in the national accounts (except for certain tied procurements) along with domestic resources. RGOB is also increasingly carrying out the National Execution modality which enables it to take more control over implementation, procurement, disbursement, and reporting of donor programmes under a unified system. Donors generally consider the RGOB to be one of the least corrupt governments in the

developing world, but that its lack of transparency concerning data collection and disclosure make partnership and policy dialogue particularly challenging.

There have been regular bi-annual Round Table discussions in Geneva where donors pledged around USD 440 million in the most recent one in January 1997. At the local level, the donor representatives alternately organise informal lunches without a formalised agenda and to which basically any co-operating organisation can attend. However, there is no other regular meeting among the multi and bilateral donors. The RGOB is not forthcoming in an efficient and transparent collective donor co-ordination, and there is some reticence amongst the donors as well. While there exists a so-called “Like-Minded group”, which consists only of the European donors, *i.e.* Denmark, Switzerland, Netherlands, and Austria, that tries to meet monthly, it focuses its discussions on political rather than on sectoral or programmatic issues. In fact, there is very little formalised sectoral co-ordination amongst the donors. The irregular sector co-ordination meetings, introduced upon the request of several donors at the last Round Table, play mostly the role of a funding conference for a relevant sector and are inadequate for sectoral policy discussions.

## **Austrian co-operation with Bhutan**

### ***Chronology***

Official Austrian co-operation with Bhutan started by a delegation visiting the country in 1986. An agreement for development co-operation was signed in 1989, which immediately enabled Austrian consultants to carry out a feasibility study on a hydroelectric power plant upon Bhutanese request. Planning and project activities were also initiated in the forestry and tourism sectors. However, programmatic developments were delayed until 1994 when an Austrian co-ordinator was posted to establish an office in Thimpu, the capital. This office, called the Austrian Co-ordination Bureau (ACB), gradually consolidated a portfolio of projects. Although consultations had been taking place since 1988, they were irregular and informal. In 1997, Austria formalised an agreement with the RGOB, called Agreed Minutes, on the priority sectors that they had been co-operating in. In the following year, a regular and formal annual consultation process was started.

### ***Administrative set up***

The ACB in Bhutan does not have a full-fledged diplomatic representative and was administratively incorporated under the Austrian Embassy in Delhi only in August 1999. The ACB staffing includes one Austrian co-ordinator and three national staff for programme co-ordination, finance, and administration. According to Austrian regulations, the Co-ordinator is either hired from the private sector or is a civil servant from the Department for Development Co-operation (DDC) of the Ministry for Foreign Affairs (MOFA) on leave of absence and taking up the post as a private consultant. The amount for ACB administration is roughly around 8% equivalent of the aid to Bhutan, excluding the Basochhu Powerplant Project.

### ***Sectors and projects***

Austria has agreed to provide Bhutan an average budget volume of ATS 35 million (USD 3 million) per year during 1997–1999 on a sliding scale<sup>2</sup>. The following are the four main sectors of Austrian co-operation to Bhutan, some projects under each sector, as well as few on-going projects that fall out of the priority sectors.

#### i) Hydroelectric power:

- 2 Mega Watt (MW) power plant in Rangjung (USD 6 million) and two rehabilitation.
- 22 MW Basochhu Powerplant Phase I (USD 27 million), expected to complete in 2001.
- 38 MW Basochhu Powerplant Phase II (estimated cost USD 27 million), currently under planning and expected to start in 2002.

#### ii) Tourism:

- Training for trekking guides and development of maps (USD 577 000).

#### iii) Renewal of natural resources (RNR):

- Capacity building for research on fir and others (USD 0.5 million).

#### iv) Preservation of cultural heritage:

- Restoration of Dzongs (buildings of district administration and Buddhist clergy) up to 1999 (USD 600 000). Phase II is being planned.

#### v) Other selected projects:

- Hesothangkha repair workshop for road maintenance equipment (USD 1 million).
- Human resources development in financial management (USD 769 000).
- Introduction of endoscopic techniques (USD 31 000).
- Support to a local Austrian optometrist (USD 15 000).
- Support to women's organisation for capacity building in micro-enterprise development (USD 12 000).

### **Examples of good practice of ACB**

A start-up of any field office is a challenging task: exploring areas of mutual interest with the recipient country, developing a new relationship with the government and other stakeholders; and identifying a niche and a specific role among pre-existing donors. In this respect, the ACB has

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2. The ATS 350 million (USD 27 million) for Basocchu Phase I is not included.

installed and adapted itself quickly and adequately and is now a key player among the small donor community. The following findings are some of the positive achievements in Austria's co-operation with Bhutan that could be mainstreamed in its bilateral development co-operation system.

### ***Identification of comparative advantage areas***

DDC's ODA guidelines are unclear about the priority sectors in Austrian bilateral aid; however, it seems to suggest that Austria should co-operate in areas of comparative advantage. As for RGOB, as mentioned earlier, its priority areas include hydropower, infrastructure, human resources development, RNR and tourism. Against this background, one could see that some of the projects financed by Austria are consistent with Austria's comparative advantage and RGOB's priorities. The agreed areas of co-operation were in some cases suggested by RGOB and in some cases actively proposed by Austria. For example, RGOB mentions that it approached Austria for the assistance in hydropower as it considered this country to be one of the world leaders in this area. (Hydropower projects in Bhutan are environmentally friendly and do not involve dam construction or major resettlements of displaced people.) In addition, Austria, a landlocked and mountainous country, has expertise in the area of trekking and forestry, and has trained almost all the sixty or so Bhutanese licensed guides through its project. Furthermore, with Austria's appreciation towards its own historical buildings and legacies, its understanding towards and co-operation in the restoration of Bhutanese Dzongs was welcomed by RGOB. In sum, Austria's efforts in trying to match its development co-operation priorities and comparative advantage with Bhutan's developmental needs and priorities is commendable.

### ***Initiation of a systematic approach***

The Austrian aid system does not require a country assistance strategy or a standard memorandum of understanding to document the agreed priority areas and other terms of co-operation with the host government. Furthermore, an institutionalised approach to project cycle management (PCM), including standardised processes for project appraisal, implementation, monitoring, and evaluation, is also still under development. Despite the absence of such operational directives, the ACB in Bhutan has introduced various measures to systematise its mode of co-operation. It has initiated an annual consultation process and formally exchanged a document representing a memorandum of understanding that lists, *inter alia*, the priority sectors, financial allocation, and project administration modalities. ACB has also started to develop its own manual on PCM based on the EU model, as well as guidelines on national execution, based on the UNDP model. It is said that a new approach to country programming has been discussed in Vienna during the last two years and that it is expected to become effective in due course. Austria mentions that time is needed to close the on-going programmes and projects in order to negotiate new agreements with partner countries that will include all stakeholders concerned. In the meantime, the efforts by the ACB in Bhutan could be used by DDC as a reference in finalising or developing standardised systems for its overall bilateral co-operation programme.

### ***Partnership***

Donors, including ACB, do not need to prod RGOB on ownership over its development, as it is already more or less in control. RGOB nevertheless appreciates ACB's approach to partnership, particularly in being co-operative to its National Execution modality. Regarding ACB's partnership with other donors, there were relatively frequent informal contacts and information gathering efforts. ACB did, however, have some problems with Japan, for example, as the latter's co-operation with

RGOB in providing road maintenance equipment and in placing a Japanese volunteer ended up in the Hesothangkha workshop financed by Austria without sufficient discussion. Japan is nonetheless not actively co-operative with any other bilateral donor in Bhutan. As for the Asian Development Bank, ACB has been consulting and exchanging information with its office in Manila concerning the hydropower sector. Furthermore, though there is hardly any NGO as such in Bhutan, ACB has started to support a quasi-non-governmental women's organisation. At a more operational level of partnership, in the domain of good governance and democracy, ACB has hired staff from the discriminated Nepali ethnic group and has succeeded in getting RGOB to include a non-discrimination clause in agreements — efforts not yet being achieved by other donors. On balance, the ACB has been making sufficient effort in maintaining good partnership with RGOB, other donors, and selected stakeholders.

### **Generic issues that need to be addressed**

The following are some of the issues that have been identified in Bhutan that may reflect some fundamental challenges in the overall Austrian aid system. In particular, the absence of a comprehensive country assistance strategy or a long-term plan that includes appropriate pipeline projects weakens the programme's relevance, effectiveness, and coherence.

### ***Aid instruments***

An ad hoc characteristic of co-operation is reflected in the mix of aid instruments that do not seem to have obvious rationale. For example, the first hydropower project in Rangjung was provided purely on a grant basis, while the Basochhu Phase I consists of half grant and half-concessional loan from the European Recovery Programme (ERP). This facility is a fund established under the Marshall Plan, which requires some allocation to be made for developing countries. The loan terms are: approximately 0.75% interest rate, 25 years repayment period, 10 years grace period, and 70% tied to Austrian firms. As for Basochhu Phase II, it will most likely be financed by export credits. Most of the ATS 350 million for Phase I had already been disbursed before 1997; therefore, due to accounting practices, the amount is not included in the annual programme level of ATS 35 million, despite the fact that activities will continue. Needless to say, the export credit for Phase II will not be included either. From these facts, one is compelled to ask Austria to clarify the rationale for using and mixing different types of instruments. Moreover, there is a need to assess whether each of the instruments is relevant and effective in the overall development co-operation with Bhutan.

### ***ACB's administrative role***

The unclear coherence in the aid instruments is also reflected in the ambiguity of the supervisory role of ACB in the hydropower sector. First, the Rangjung power project was started before ACB was established and before a proper monitoring mechanism was firmly in place. The project is currently facing several topographical and aquatic problems that require costly rehabilitation, regular monitoring and follow-up. Second, according to the agreement between Austria and RGOB, ACB did not have official responsibility over the Basochhu project without obvious reasons, except for providing logistical services. This was changed only recently, and DDC is now carrying out an increased supervisory function. However, when Phase II starts with the export credits, ACB may have an even smaller role in assuring quality control and environmental soundness of the project, as export credits are under the Ministry of Finance (MOF) and not DDC. (To this, DDC is currently discussing with MOF on taking a role in monitoring export credits in general, and thus progress may be expected in

Bhutan.) Although there have been informal review meetings on the Basochhu Project, ACB had not been involved. Only in July 1999, a formal Steering Committee was established, to which ACB became a member, along with others such as the project management representatives of the RGOB, the consultants, the Ambassador in Delhi, and DDC. The decisions of the Steering Committee will be binding for ACB, but whether and how ACB's feedback and concerns will be taken into consideration in these decisions remain to be seen.

### ***Project objectives, monitoring and evaluation***

Although some of the ongoing projects are in areas of Austrian comparative advantage, as well as in the priority sectors of RGOB, there are a number of large and small projects that fall outside the categories whose objectives are unclear. For example, the Hesothangkha repair workshop for road maintenance equipment started off with the Basochhu hydropower plant project, which required the construction of roads, and which in turn, required a workshop to repair road construction machinery. An Austrian consultant was placed as a technical advisor, and the project has now developed a life of its own. The project does not seem to have an explicit results-based purpose, nor is it obvious as to where it is heading in the future, what it has achieved, or how sustainable it is. Currently, the RGOB is placing the project in a difficult situation by suddenly ending its budgetary support and expecting it to self-sustain based on cost-recovery, while requiring the maintenance of 50% more civil servants than necessary. As a result of unclear objectives and the non-existence of output indicators or benchmarks, it is virtually impossible to monitor progress or evaluate success in an objective way.

Another example raises the question on how Austria plans to assess the success of training trekking guides, particularly relating to the improved capacity in the tourism sector and the increased revenues to the country. The Integrated Forestry Management Project of the RNR area is currently stalled due to misuse of funds under National Execution — the original objectives and expected outcome have been vague. Furthermore, while the introduction of endoscopic techniques by experts from Vienna and the support for a local Austrian optometrist may be useful to some segment of the Bhutanese population, they call for some explanation regarding their developmental objectives and how these types of technical assistance play a role in the overall health sector priorities of the country. These ambiguities in fact originate from the absence of a systematic PCM that needs to be addressed as part of a comprehensive rethinking on project development and supervision. DDC in Vienna is just about to standardise the PCM formats using a logical framework, which would be used in future operations.

### ***ACB's sectoral and cross-cutting expertise and support***

The ACB Co-ordinator administers the different sectors as a generalist and arranges technical specialists from Vienna to supervise projects and advise the Austrian private consultants posted at the project sites. According to ACB, this technical support is insufficient to manage highly specialised areas such as hydropower, including procurement matters. The consultant posted in Basochhu is from the private sector, and requires supervision from ODA administrators whose perspectives are more developmental than commercial. Although cross-cutting issues such as poverty, gender, and environment are not gravely problematic in Bhutan, the absence of a mechanism in the Austrian aid system to ensure that they are properly raised, analysed, addressed and monitored is a source of concern. In other words, the degree of incorporation concerning cross-cutting issues in project management seems to be left up to the discretion of the field staff. More could be done in Bhutan in these areas, such as partnering with other donors to pressure the RGOB in obtaining poverty data, training women as trekking guides, ensuring independent environmental assessments, and in

particular, ensuing capacity building considerations in each project, including outside government structures.

Another problem is the personnel policy of the Austrian Government. As the former Co-ordinator who initiated and operationalised the aid programme in Bhutan during five years comes from the private sector, he will not necessarily return to DDC. This could result in a major loss in terms of lack of continuity as well as institutional memory and development, both for ACB and at DDC headquarters. The overall Austrian policy that requires field offices to be staffed by individuals outside the civil service without a guaranteed mechanism to absorb them into the aid system after their assignments needs to be seriously reviewed.

### ***Procurement and checks-and-balance systems***

There are also some questions regarding the procedure of procurement of goods and services. First, regarding the selection of Austrian consultants, a transparent and accountable selection process did not seem to have taken place in the co-operation with Bhutan. This applies to the consultants for the Hesothingkha workshop project, endoscopic techniques, optometry, Dzong restoration, and the trainers for the trekking guides. The reason is not due to a diversion, but based on the fact that Austria had not established adequate guidelines in this area to safeguard against potential domestic vested interests.

This particularly applied to the absence of a clear procurement procedure for large contracts. For instance, the Austrian company that completed the feasibility study for Bosacchu Phase I, as well as the environmental assessment, is also the company that is carrying out the consultancy for its implementation. Moreover, the same company is expected to undertake Phase II as well. It is also questionable as to whether an adequate assessment was carried out regarding Bhutan's technological and human resource capacity in managing and financially sustaining a complex and high tech hydropower system. The question that then arises is whether Austria has an adequate mechanism within its aid system to debate choices that could be based on political or commercial grounds and to ensure sound developmental considerations. Austria states that it has issued guidelines for procurement of goods and services in July 1999. The DAC Secretariat is currently assessing the transparency and incorporation of safeguards in the procedures.

### **Main findings**

Bhutan may not be a truly representative country for Austrian development co-operation: it is not one of Austria's main recipient countries; the donor community is small, which in turn makes Austria a relatively important player; donor assistance and co-ordination to the country in general is at an exploratory and infant stage; and RGOB has strong ownership over its development. Under these conditions, one could nevertheless observe that ACB in Bhutan has made commendable efforts in establishing itself, especially with limited guidance and directions from Vienna. It has tried to work in areas of co-operation where Austria has a comparative advantage; attempted to develop a coherent and systematic approach in project management; and maintained good partnership with the RGOB, donors, and other stakeholders.

On the other hand, Austria could learn from and address some of the symptomatic and generic problems manifested in Bhutan. In particular, other partner countries may be less corruption-free than Bhutan and thereby require stricter and more systematic administrative mechanisms for development co-operation. More effort could also be made in Vienna to ensure that cross-cutting issues are

mainstreamed, so that other partner countries that are not well performing as Bhutan would also receive adequate technical guidance and additional support. Thus, Austria needs to: clarify the rationale and the role of different aid instruments to be provided; reinstate the field offices to oversee all co-operation activities; develop a sound PCM system including results-based objectives, indicators, and procedures to measure impact; ensure adequate technical and cross-cutting support with better communication between the field and headquarters; review the personnel policy to ensure continuity and institutional development; and carry out fair and transparent procurement procedures as well as adequate checks-and-balance mechanisms. Most of all, requiring the development of a comprehensive country assistance strategy could be one way of improving the coherence of the co-operation.

## **APPENDIX 1**

### **PERSONS MET AND PROJECTS VISITED**

- The incumbent Austrian Co-ordinator, the former Co-ordinator, and the Bhutanese staff of ACB.
- Authorities of RGOB dealing with Austria's aid programme in Bhutan from the Ministry of Trade, Industry, and Energy and the Ministry of Finance.
- Representatives of the following multilateral and bilateral institutions: UNDP, Denmark, SNV (Netherlands), and HELVETAS (Switzerland).
- Representatives of the National Women's Association of Bhutan, an NGO receiving funding from Austria.
- The mission visited the following projects: Basochhu Powerplant Phase I and the Hesothangkha Mechanical Workshop.

**APPENDIX 2**  
**BHUTAN: BASIC SOCIO-ECONOMIC DATA**

<b>Bhutan</b>			
Population (thousands)	737	Population growth (%)	2.9
Surface area (1 000 sq. km)	47.0	Population per sq. km	15
GDP (USD millions)	383	GNP per capita (USD)	430
<b>People</b>			
Life expectancy	61	Years	
Fertility rate	6	Births per woman	
Infant mortality rate	63	Per 1 000 live births	
Under 5 mortality rate	—	Per 10 000 children	
Child malnutrition	38	% of children under 5	
Urban population	6	% of total	
Rural population density	516	Per sq. km of arable land	
Illiteracy – male	—	% of people 15 and above	
Illiteracy – female	—	% of people 15 and above	
Net primary enrolment	—	% of relevant age group	
Net secondary enrolment	—	% of relevant age group	
Girls in primary school	43	% of total enrolment	
Girls in secondary school	—	% of total enrolment	
<b>Environment</b>			
Forests	—	Thousands of sq. km	
Deforestation	—	% change (1990–1995)	
Water use	0.0	% of total resources	
CO2 emissions	0.4	Metric tons per capita	
Access to safe water	75	% of urban population	
Access to sanitation	90	% of urban population	
Energy use per capita	—	Kg of oil equivalent per capita	
Electricity use par capita	—	kWh per capita	
<b>Technology and infrastructure</b>			
Telephone mainlines	10	Per 1 000 people	
Cost of 3 minutes local call	0.02	USD	
Personal computers	—	Per 1 000 people	
Internet hosts	0.03	Per 10 000 people	
Paved roads	61	% of total	
Aircraft departures	1	Thousands	
<b>Economy</b>			
GDP growth	6.5	Annual %	
GDP implicit price deflator	10.1	Annual % growth	
Value added in agriculture	141	USD millions	
Value added industry	142	USD millions	
Value added in services	92	USD millions	
Exports of goods and services	120	USD millions	
Imports of good and services	160	USD millions	
Gross domestic investment	163	USD millions	
Foreign direct investment	0	USD millions	
Central government revenues	17.5	% of GDP	
Overall budget deficit	2.0	% of GDP	
Money and quasi money	59	Annual % growth	
<b>Trade and finance</b>			
Trade as share of PPP GDP	—	%	
Trade growth less GDP growth	—	Average % (1987–1997)	
High–technology exports	—	% of manufactured exports	
Net barter terms of trade	—	(1995=100)	
Present value of debt	47	USD millions	
Total debt service	6	USD millions	
Short term debt	2	USD millions	
Aid per capita	95	USD	

Source: World Bank



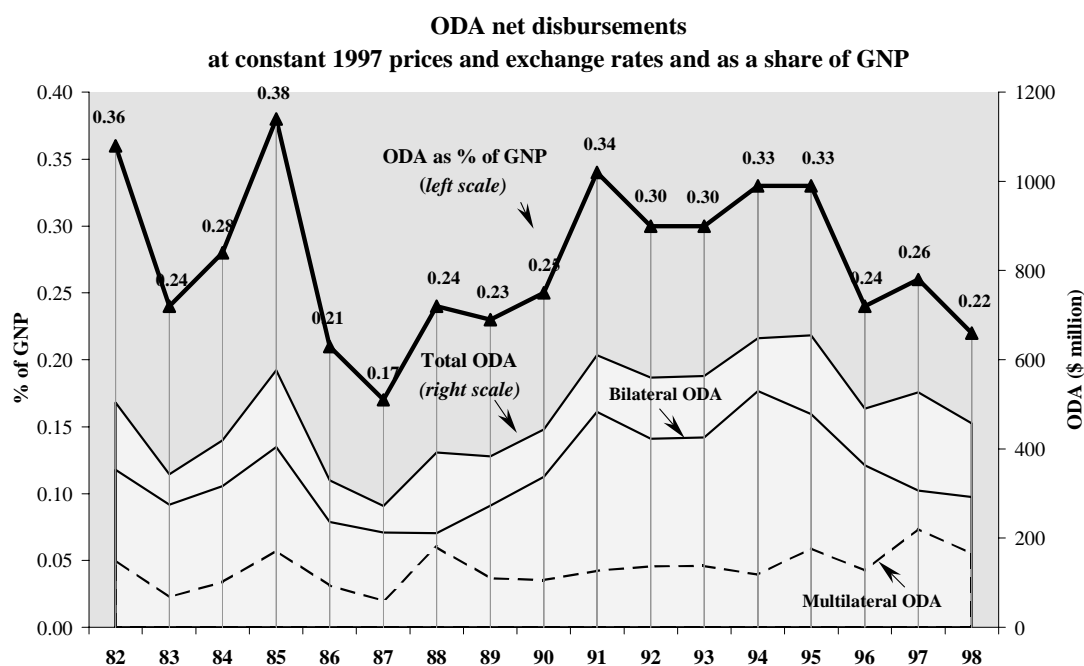
**ANNEX II**  
**STATISTICS OF AID AND OTHER FLOWS**

Table II-1. Total financial flows

USD million at current prices and exchange rates

Austria	Net disbursements						
	1982-83	1987-88	1994	1995	1996	1997	1998
<b>Total official flows</b>	<b>181</b>	<b>281</b>	<b>1 045</b>	<b>1 176</b>	<b>1 122</b>	<b>856</b>	<b>728</b>
Official development assistance	197	251	655	767	557	527	456
Bilateral	146	160	536	560	412	306	292
Multilateral	51	92	120	207	145	221	164
Official aid	n.a.	n.a.	261	313	226	181	191
Bilateral			231	235	186	145	144
Multilateral			30	79	40	36	47
Other official flows	- 16	30	129	96	340	148	81
Bilateral	- 16	30	129	96	147	62	81
Multilateral	-	-	-	-	193	86	-
<b>Grants by NGOs</b>	<b>14</b>	<b>25</b>	<b>40</b>	<b>60</b>	<b>52</b>	<b>33</b>	<b>52</b>
<b>Private flows at market terms</b>	<b>- 61</b>	<b>- 30</b>	<b>654</b>	<b>528</b>	<b>1 293</b>	<b>1 678</b>	<b>1 270</b>
Bilateral: <i>of which</i>	- 61	- 30	654	528	1 293	1 678	1 270
Direct investment	33	24	447	607	601	953	1 179
Export credits	- 94	- 54	206	- 79	691	725	91
Multilateral	-	-	-	-	-	-	-
<b>Total flows</b>	<b>133</b>	<b>275</b>	<b>1 739</b>	<b>1 764</b>	<b>2 468</b>	<b>2 568</b>	<b>2 050</b>
<i>for reference:</i>							
ODA (at constant 1997 \$ million)	424	332	648	655	491	527	457
ODA (as a % of GNP)	0.30	0.21	0.33	0.33	0.24	0.26	0.22
Total flows (as a % of GNP)(a)	0.20	0.23	0.52	0.39	0.82	0.80	0.42

a. To countries eligible for ODA.



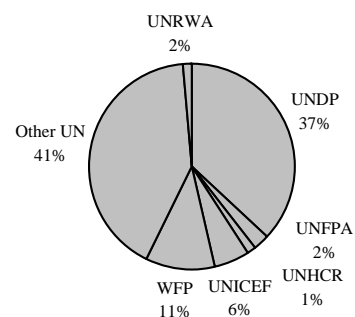
Source: OECD.

Table II-2. ODA by main categories

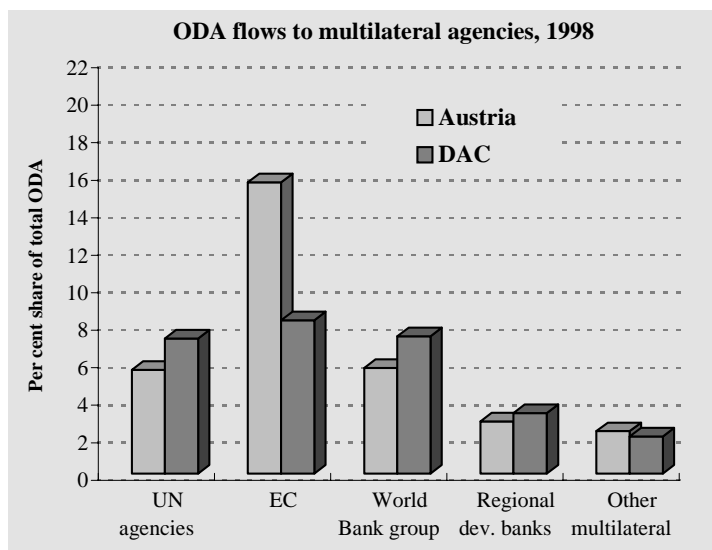
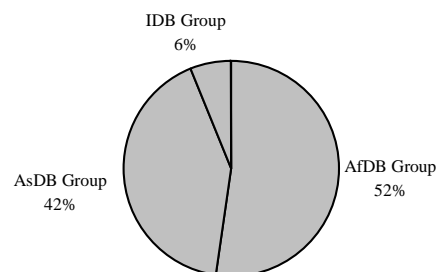
Austria	Constant 1997 \$ million					Per cent share					Total DAC 1998%
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	
	<b>Bilateral</b>	<b>571</b>	<b>521</b>	<b>411</b>	<b>341</b>	<b>353</b>	<b>83</b>	<b>75</b>	<b>76</b>	<b>61</b>	
Project and programme aid											
Grants	78	13	28	32	27	11	2	5	6	5	13
Loans	220	198	98	87	76	32	28	18	15	15	16
Technical co-operation	101	138	130	115	123	15	20	24	20	24	22
Developmental Food aid (a)	3	4	1	2	2	0	1	0	0	0	2
Emergency and Distress relief (a)	126	98	81	37	34	18	14	15	7	7	5
Action relating to debt	24	33	37	36	46	4	5	7	6	9	6
Core support to NGOs	3	4	4	4	2	0	1	1	1	0	2
Administrative costs	7	14	13	14	20	1	2	2	2	4	5
Other grants	8	20	18	15	23	1	3	3	3	4	2
<b>Multilateral</b>	<b>118</b>	<b>177</b>	<b>128</b>	<b>221</b>	<b>165</b>	<b>17</b>	<b>25</b>	<b>24</b>	<b>39</b>	<b>32</b>	<b>29</b>
UN agencies	30	30	32	29	29	4	4	6	5	6	7
EC	-	72	83	97	81	-	10	15	17	16	8
World Bank group	56	62	2	70	29	8	9	0	12	6	7
Regional development banks (b)	23	0	3	11	14	3	0	1	2	3	3
Other multilateral	3	13	7	15	12	0	2	1	3	2	2
<b>Total gross ODA</b>	<b>689</b>	<b>698</b>	<b>538</b>	<b>562</b>	<b>518</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Repayments</b>	<b>- 40</b>	<b>- 43</b>	<b>- 48</b>	<b>- 35</b>	<b>- 61</b>						
<b>Total net ODA</b>	<b>648</b>	<b>655</b>	<b>491</b>	<b>527</b>	<b>457</b>						
<i>For reference:</i>											
Aid channelled through NGOs	-	55	-	-	-						
Associated financing (c)	-	0	0	-	-						

- a. Emergency food aid included with Developmental Food Aid up to end 1995.
- b. Excluding EBRD.
- c. ODA grants and loans in associated financing packages.

UN Agencies  
(1997-98 Average)



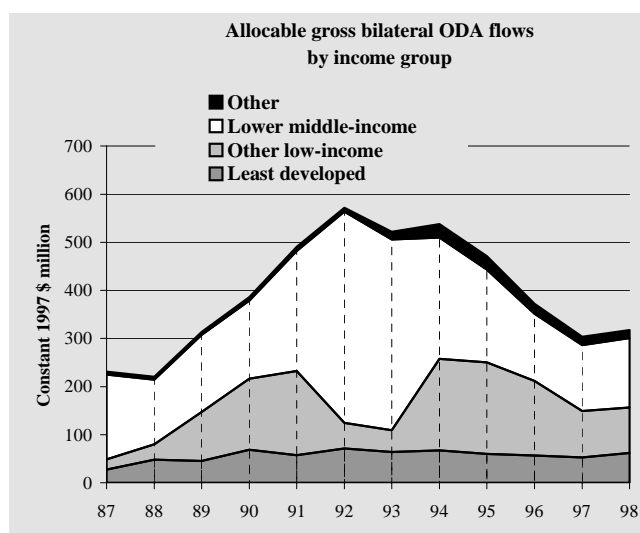
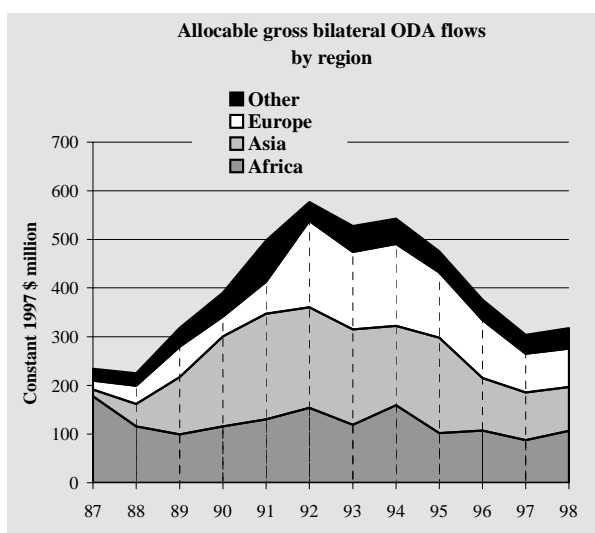
Regional Development Banks  
(1997-98 Average)



Source: OECD.

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

Austria	Constant 1997 \$ million					Per cent share					Total DAC 1998%
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	
	<b>Africa</b>	159	102	107	88	106	29	22	28	29	
Sub-Saharan Africa	69	65	82	63	77	13	14	22	21	24	<b>28</b>
North Africa	91	38	25	25	29	17	8	7	8	9	<b>8</b>
<b>Asia</b>	163	196	108	98	90	30	41	29	32	28	<b>39</b>
South and Central Asia	12	10	11	13	15	2	2	3	4	5	<b>14</b>
Far East	151	186	97	85	75	28	39	26	28	24	<b>24</b>
<b>America</b>	30	28	26	21	26	5	6	7	7	8	<b>13</b>
North and Central America	21	20	16	14	19	4	4	4	4	6	<b>7</b>
South America	9	8	10	7	7	2	2	3	2	2	<b>7</b>
<b>Middle East</b>	23	15	16	17	15	4	3	4	6	5	<b>4</b>
<b>Oceania</b>	0	0	0	0	1	0	0	0	0	0	<b>5</b>
<b>Europe</b>	168	134	119	80	79	31	28	32	26	25	<b>4</b>
<b>Total bilateral allocable</b>	<b>543</b>	<b>476</b>	<b>376</b>	<b>303</b>	<b>318</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Least developed</b>	67	60	57	53	62	12	13	15	17	20	<b>24</b>
<b>Other low-income</b>	190	191	155	96	95	35	40	41	32	30	<b>31</b>
<b>Lower middle-income</b>	253	193	139	138	144	47	40	37	45	45	<b>35</b>
<b>Upper middle-income</b>	23	23	16	15	15	4	5	4	5	5	<b>6</b>
<b>High-income</b>	5	5	5	2	2	1	1	1	1	1	<b>3</b>
<b>More advanced developing countries</b>	5	4	4	-	-	1	1	1	-	-	<b>-</b>
<i>For reference:</i>											
<i>Total bilateral</i>	571	520	409	340	351	100	100	100	100	100	<b>100</b>
<i>of which: Unallocated</i>	28	44	32	36	33	5	8	8	11	9	<b>22</b>



Source: OECD.

Table II-4. Main recipients of bilateral ODA

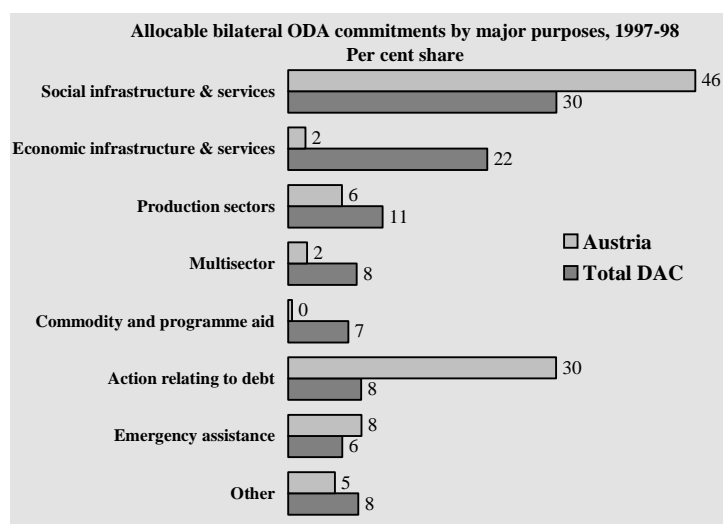
Austria	1987-88			1992-1993			1997-1998		
	Current \$ million	Constant 1997 \$ mn.	Per cent share	Current \$ million	Constant 1997 \$ mn.	Per cent share	Current \$ million	Constant 1997 \$ mn.	Per cent share
Algeria	54	73	32	142	145	26	46	46	15
Egypt	20	27	12	117	120	22	42	42	13
Turkey	18	23	10	41	42	8	25	25	8
China	10	13	6	37	38	7	18	18	6
Iran	8	11	5	21	22	4	13	13	4
<b>Top 5 recipients</b>	<b>111</b>	<b>147</b>	<b>64</b>	<b>359</b>	<b>366</b>	<b>66</b>	<b>142</b>	<b>142</b>	<b>46</b>
Ethiopia	7	10	4	20	21	4	12	12	4
Indonesia	6	7	3	17	18	3	12	12	4
Kenya	4	6	3	15	15	3	10	10	3
Uganda	4	5	2	13	13	2	7	7	2
Mozambique	3	4	2	7	8	1	7	7	2
<b>Top 10 recipients</b>	<b>135</b>	<b>179</b>	<b>78</b>	<b>432</b>	<b>441</b>	<b>80</b>	<b>191</b>	<b>192</b>	<b>62</b>
Sts Ex-Yugoslavia unsp.	3	4	2	6	7	1	7	7	2
Rwanda	3	3	1	6	6	1	7	7	2
Tanzania	2	3	1	6	6	1	6	6	2
Korea, Rep.	2	3	1	5	5	1	6	6	2
Burundi	2	3	1	5	5	1	5	5	2
<b>Top 15 recipients</b>	<b>147</b>	<b>195</b>	<b>85</b>	<b>460</b>	<b>469</b>	<b>85</b>	<b>223</b>	<b>223</b>	<b>72</b>
Cape Verde	2	3	1	4	5	1	5	5	2
Guatemala	2	3	1	3	4	1	5	5	2
Chinese Taipei	2	2	1	3	3	1	5	5	2
Nicaragua	2	2	1	3	3	1	4	4	1
Zambia	1	2	1	3	3	1	4	4	1
<b>Top 20 recipients</b>	<b>156</b>	<b>207</b>	<b>90</b>	<b>476</b>	<b>487</b>	<b>88</b>	<b>247</b>	<b>248</b>	<b>80</b>
<b>Total (102 recipients)</b>	<b>173</b>	<b>230</b>	<b>100</b>	<b>541</b>	<b>552</b>	<b>100</b>	<b>310</b>	<b>311</b>	<b>100</b>
Unallocated	24	32		29	30		37	37	
<b>Total bilateral gross</b>	<b>197</b>	<b>261</b>		<b>570</b>	<b>582</b>		<b>347</b>	<b>347</b>	
				<b>Total (116 recipients)</b>	<b>541</b>	<b>100</b>	<b>Total (114 recipients)</b>	<b>310</b>	<b>311</b>
				Unallocated	29	30	Unallocated	37	37
				<b>Total bilateral gross</b>	<b>570</b>		<b>Total bilateral gross</b>	<b>347</b>	

Source: OECD.

Table II-5. Bilateral ODA by major purposes

*Commitments, two-year averages*

Austria	1987-88		1992-93		1997-98		Total DAC per cent
	\$ million	Per cent	\$ million	Per cent	\$ million	Per cent	
<b>Social infrastructure &amp; services</b>	<b>63</b>	<b>26</b>	<b>152</b>	<b>16</b>	<b>199</b>	<b>46</b>	<b>30</b>
Education	47	19	105	11	104	24	10
of which: basic education	-	-	-	-	2	1	1
Health	7	3	15	2	31	7	4
of which: basic health	-	-	-	-	6	1	2
Population programmes	-	-	-	-	0	0	2
Water supply & sanitation	3	1	19	2	38	9	7
Government & civil society	0	0	4	0	19	4	4
Other social infrastructure & services	7	3	9	1	7	2	4
<b>Economic infrastructure &amp; services</b>	<b>130</b>	<b>54</b>	<b>153</b>	<b>16</b>	<b>9</b>	<b>2</b>	<b>22</b>
Transport & storage	70	29	44	5	4	1	10
Communications	1	0	35	4	0	0	1
Energy	26	11	73	8	2	0	9
Banking & financial services	0	0	0	0	2	1	1
Business & other services	34	14	1	0	0	0	2
<b>Production sectors</b>	<b>26</b>	<b>11</b>	<b>73</b>	<b>8</b>	<b>26</b>	<b>6</b>	<b>11</b>
Agriculture, forestry & fishing	8	3	15	2	16	4	8
Industry, mining & construction	18	8	55	6	9	2	2
Trade & tourism	0	0	3	0	2	0	0
Other	-	-	-	-	0	0	0
<b>Multisector</b>	<b>6</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>9</b>	<b>2</b>	<b>8</b>
<b>Commodity and programme aid</b>	<b>2</b>	<b>1</b>	<b>9</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>7</b>
<b>Action relating to debt</b>	<b>0</b>	<b>0</b>	<b>414</b>	<b>43</b>	<b>131</b>	<b>30</b>	<b>8</b>
<b>Emergency assistance</b>	<b>10</b>	<b>4</b>	<b>136</b>	<b>14</b>	<b>36</b>	<b>8</b>	<b>6</b>
<b>Administrative costs of donors</b>	<b>5</b>	<b>2</b>	<b>9</b>	<b>1</b>	<b>20</b>	<b>5</b>	<b>6</b>
<b>Support to NGOs</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>3</b>	<b>1</b>	<b>2</b>
<b>Total bilateral allocable</b>	<b>243</b>	<b>100</b>	<b>954</b>	<b>100</b>	<b>434</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>							
Total bilateral	244	72	957	88	448	66	71
of which: Unallocated	1	0	4	0	15	2	5
Total multilateral	96	28	134	12	235	34	29
<b>Total ODA commitments</b>	<b>340</b>	<b>100</b>	<b>1 091</b>	<b>100</b>	<b>683</b>	<b>100</b>	<b>100</b>



Source: OECD.

Table II-6. Comparative aid performance

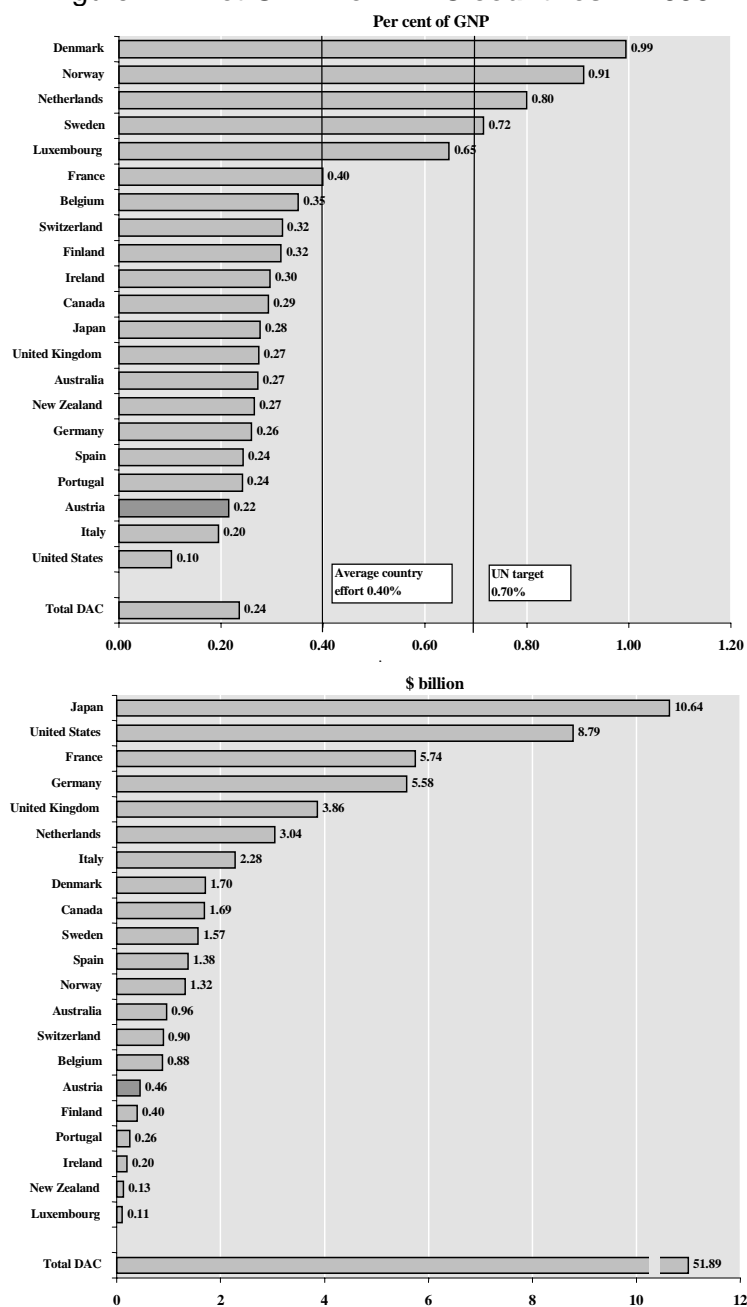
	Official development assistance		Grant element of ODA (commitments) 1997 % (a)	Share of multilateral aid 1998			ODA to LLDCs Bilateral and through multilateral agencies 1998 % of ODA % of GNP	Official aid 1998	
	\$ million	% of GNP		% of ODA (b)	% of GNP (c)	% of ODA (c)		\$ million	% of GNP
Australia	960	0.27	100.0	21.7	0.06	16.5	0.04	1	0.00
<b>Austria</b>	456	0.22	95.2	36.0	18.4	18.9	0.04	191	0.09
Belgium	883	0.35	99.3	39.2	17.1	27.5	0.10	68	0.03
Canada	1 691	0.29	100.0	28.6	0.08	20.0	0.06	157	0.03
Denmark	1 704	0.99	100.0	40.5	0.40	32.5	0.32	118	0.07
Finland	396	0.32	99.8	47.3	30.9	26.4	0.08	82	0.07
France	5 742	0.40	92.1	27.1	13.5	17.5	0.07	823	0.06
Germany	5 581	0.26	94.9	37.5	15.3	20.9	0.05	654	0.03
Ireland	199	0.30	100.0	37.8	13.1	45.6	0.14	-	-
Italy	2 278	0.20	96.6	69.4	38.4	35.8	0.07	243	0.02
Japan	10 640	0.28	78.8	19.6	0.05	14.6	0.04	132	0.00
Luxembourg	112	0.65	100.0	31.3	14.4	26.0	0.17	3	0.02
Netherlands	3 042	0.80	100.0	29.9	19.8	26.4	0.21	130	0.03
New Zealand	130	0.27	100.0	24.3	0.06	21.1	0.06	0	0.00
Norway	1 321	0.91	99.2	28.1	0.26	37.3	0.34	52	0.04
Portugal	259	0.24	98.5	31.8	8.8	54.5	0.13	22	0.02
Spain	1 376	0.24	93.0	39.1	12.2	9.1	0.02	5	0.00
Sweden	1 573	0.72	100.0	33.8	27.7	28.4	0.20	105	0.05
Switzerland	898	0.32	100.0	29.5	0.09	29.3	0.09	76	0.03
United Kingdom	3 864	0.27	100.0	44.8	23.2	25.8	0.07	435	0.03
United States	8 786	0.10	99.1	31.8	0.03	15.2	0.02	2 726	0.03
<b>Total DAC</b>	<b>51 888</b>	<b>0.24</b>	<b>91.8</b>	<b>32.3</b>	<b>22.8</b>	<b>20.7</b>	<b>0.05</b>	<b>6 024</b>	<b>0.03</b>
Memo: Average country effort		0.40							

Notes:

- a. Excluding debt reorganisation.
- b. Including European Community.
- c. Excluding European Community.

Source: OECD.

Figure II-1. Net ODA from DAC countries in 1998



Source: OECD.

## **PRESS RELEASE OF THE DAC PEER REVIEW OF AUSTRIA**

Austria's Official Development Assistance (ODA) of USD 456 million ranked 16th among the 21 DAC Member countries in 1998. Its ODA/Gross National Product (GNP) ratio of 0.22% was slightly below the Development Assistance Committee (DAC) overall effort of 0.24% and well below that of EU Members of 0.33%. Austria's total annual ODA disbursements fluctuate significantly, partly because it does not have an overall ODA budget.

The DAC reviewed Austria's development co-operation policies and programme on 16 November 1999. Its Chairman, Mr. Jean-Claude Faure, summarised the findings and recommendations as follows:

- Austria aims to increase the level of ODA. The Committee encourages these efforts, as they would better reflect Austria's economic performance and capacity.
- The Austrian aid programme would benefit from having an overall aid policy and strategy that links all its components to a clear set of development objectives. In this connection, the proposal to reconstitute Austria's ODA Advisory Council was welcomed.
- The Department for Development Co-operation (DDC) of the Ministry for Foreign Affairs is assuming wider co-ordination responsibilities. Nevertheless aid efforts remain dispersed over a number of federal ministries and provincial/local governments. Mechanisms are needed to co-ordinate the ODA activities of all agencies concerned, share more information, and mainstream DAC principles. A comprehensive ODA budget comprising all aid components, with the expenditures reported in one annual report, could be instrumental in this respect. Such a report may also help raise public awareness and support.
- Approximately 40% of Austria's ODA is disbursed to multilateral organisations. Since its accession to the European Union in 1995, much of Austria's multilateral co-operation has been allocated to the European Union or Commission (EC). In recent years, Austria has progressively taken on an active involvement in the shaping of EC development policies, in consistence with its overall efforts towards closer interaction with multilateral organisations.
- In recent years, the DDC has made real progress in concentrating project activities and budgets to partner countries, focusing increasingly on cross-cutting issues, developing aid management tools, and clarifying relationships with NGOs and their changing role in development co-operation. These core activities of the Austrian aid programme, which still only account for about 17% of total ODA, deserve to be expanded. DDC could also enhance its programme by i) focusing more on poverty reduction, including through private sector partnerships; ii) further concentrating on key partner countries, including civil society and their core programmes; iii) increasing the use of country and sector strategies; iv) improving evaluations, particularly focusing on impact and sustainability, and v) increasing human resources and enhancing the skills mix.

- Austria's reporting of bilateral ODA includes three components - concessional export credits, assistance to refugees in Austria, and student costs - which do not have development as their primary objective. The weight of these components fell in 1998, but still constituted about one fifth of total aid flows. Reporting on these activities will be brought in line with DAC reporting requirements and practices. To that end, discussions between Austrian authorities and the Secretariat will be held.

The Austrian Delegation was led by Ambassador Georg Lennkh, Director of DDC. The examining countries were Belgium and Denmark.

## DESCRIPTION OF KEY TERMS

*The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information. Full definitions of these and other related terms can be found in the "Glossary of Key Terms and Concepts" published in the DAC's annual Development Co-operation Report.*

**ASSOCIATED FINANCING:** The combination of OFFICIAL DEVELOPMENT ASSISTANCE, whether GRANTS or LOANS, with any other funding to form finance packages.

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

**DAC LIST OF AID RECIPIENTS:** A two-part List of Aid Recipients was introduced by the DAC with effect from 1 January 1994. Part I of the List is presented in the following categories (the word "countries" includes territories):

**LLDCs:** Least Developed Countries. Group established by the United Nations. To be classified as an LLDC, countries must fall below thresholds established for income, economic diversification and social development.

**Other LICs:** Other Low-Income Countries. Includes all non-LLDC countries with per capita GNP less than USD 765 in 1995 (World Bank Atlas basis).

**LMICs:** Lower Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between USD 766 and USD 3 035 in 1995.

**UMICs:** Upper Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between USD 3 036 and USD 9 385 in 1995.

**HICs:** High-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) more than USD 9 385 in 1995.

Part II of the List comprises "Countries in Transition". These comprise: i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and ii) more advanced developing countries.

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

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

**EXPORT CREDITS:** LOANS for the purpose of trade and which are not represented by a negotiable financial instrument. Frequently these LOANS bear interest at a rate subsidised by the government of the creditor country as a means of promoting exports.

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

**GRANT ELEMENT:** Reflects the **financial terms** of a commitment: interest rate, maturity and grace period (i.e. the interval to the first repayment of principal). The grant element is nil for a LOAN carrying an interest rate of 10%; it is 100% for a GRANT; and it lies between these two limits for a LOAN at less than 10% interest.

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

**OFFICIAL AID:** Flows which meet the conditions of eligibility for inclusion in OFFICIAL DEVELOPMENT ASSISTANCE, except that the recipients are on Part II of the DAC LIST OF AID RECIPIENTS.

**OFFICIAL DEVELOPMENT ASSISTANCE (ODA):** GRANTS or LOANS to countries and territories on Part I of the DAC LIST OF AID RECIPIENTS (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a LOAN, having a GRANT ELEMENT of at least 25%).

**OTHER OFFICIAL FLOWS (OOF):** Transactions by the official sector with countries on the DAC LIST OF AID RECIPIENTS which do not meet the conditions for eligibility as OFFICIAL DEVELOPMENT ASSISTANCE or OFFICIAL AID.

**PARTIALLY UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all recipient countries.

**PRIVATE FLOWS:** Consist of the following flows at market terms financed out of private sector resources:

**Direct investment:** Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC LIST OF AID RECIPIENTS.

**Bilateral portfolio investment:** Includes bank lending, and the purchase of shares, bonds and real estate.

**Multilateral portfolio investment:** This covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.

**Private export credits:** See EXPORT CREDITS.

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

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

**UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services may be fully and freely procured in substantially all countries.

**VOLUME:** Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in **constant prices and exchange rates**, with a reference year specified. This means that adjustment has been made to cover both inflation between the year in question and the reference year, and changes in the exchange rate between the currency concerned and the United States dollar over the same period.