

DAC Peer Review

AUSTRIA

Development Assistance Committee



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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

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In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the Development Assistance Committee, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

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The Peer Review Process

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

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

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

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with the examiners from Finland and Germany for the Peer Review on 27 October 2004.

ACRONYMS

ADA	Austrian Development Agency
AGEZ*	Working Association for Development Co-operation (Arbeitsgemeinschaft Entwicklungszusammenarbeit)
CAP	Common Agricultural Policy
CEE	Central and Eastern Europe
CSR	Corporate social responsibility
BIH	Bosnia and Herzegovina
DAC	Development Assistance Committee
EC	European Community
EEC	Eastern Europe and Central Asia
EFBH	European Fund for Bosnia and Herzegovina
EU	European Union
GDP	Gross domestic product
GNI	Gross national income
HIPC	Heavily Indebted Poor Countries
IFIs	International financial institutions
IMF	International Monetary Fund
KfW*	KfW development bank (Kreditanstalt für Wiederaufbau)
LDCs	Least Developed Countries
LMICs	Lower Middle-Income Countries
MDGs	Millennium Development Goals
MFA	Ministry for Foreign Affairs
MSME	Micro-, small- and medium-enterprise
NGO	Non-governmental organisation
OA	Official Aid
ODA	Official Development Assistance
ÖFSE*	Austrian Foundation for Development Research (Österreichische Forschungsstiftung für Entwicklungshilfe)
PRSP	Poverty Reduction Strategy Paper

RAAN*	North Atlantic Autonomous Region (Región Autónoma del Atlántico Norte)
RAAS*	South Atlantic Autonomous Region (Región Autónoma del Atlántico Sur)
SEE	South East Europe
SME	Small and medium-sized enterprise
SWAps	Sector-wide approaches
UN	United Nations
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organisation

* Denotes acronyms in original language

Exchange rates (EUR per USD)

2000	2001	2002	2003
1.0851	1.1166	1.0611	0.8851

Signs used:

EUR	Euro
USD	United States dollar
()	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.

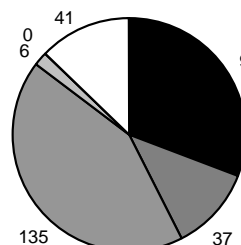
Austria's aid at a glance

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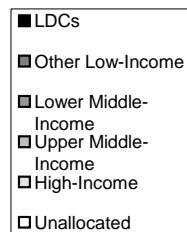
Gross Bilateral ODA, 2002-03 average, unless otherwise shown

Net ODA	2002	2003	Change 2002/03
Current (USD m)	520	505	-3.0%
Constant (2002 USD m)	520	414	-20.5%
In Euro (million)	552	447	-19.1%
ODA/GNI	0.26%	0.20%	
Bilateral share	70%	45%	
Net Official Aid (OA)			
Current (USD m)	196	245	25.1%

By Income Group (USD m)

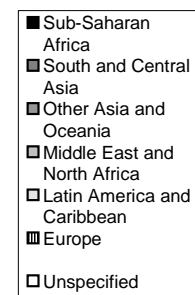
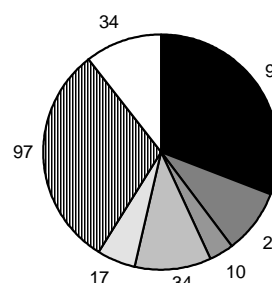


Clockwise from top



Top Ten Recipients of Gross ODA/OA (USD million)	
1 Poland (OA)	93
2 Serbia and Montenegro	53
3 Egypt	19
4 Tanzania	17
5 Turkey	16
6 Bosnia and Herzegovina	13
7 Mozambique	12
8 Russia (OA)	12
9 Bulgaria (OA)	10
10 Afghanistan	10

By Region (USD m)



By Sector

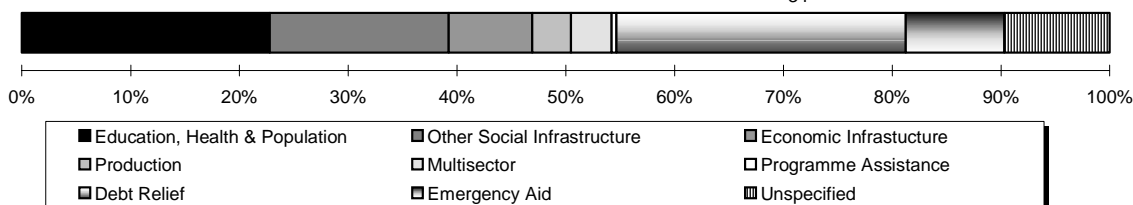


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DAC'S MAIN FINDINGS AND RECOMMENDATIONS

Overall framework and new orientations

Major policy and organisational reforms

Austrian development policy has undergone major changes during the last few years. The aid administration has been restructured and a medium-term Official Development Assistance (ODA) target to achieve the 2002 Barcelona Summit commitment has been set. In 2002, the new Development Co-operation Act was adopted (and amended in 2003), replacing the law on development co-operation from 1974. Together with the Three-Year Programme 2004-06, these two documents provide sound guidance for Austria's new policy orientations, its main objectives and principles.

In addition to earlier institutional reforms (*e.g.* in April 2000 responsibility for co-operation with Eastern Europe was shifted from the Federal Chancellery to the Ministry of Foreign Affairs [MFA] *i.e.* Section VII - Development Co-operation) Austria's aid architecture has been substantially changed on the basis of the new law. Since early 2004, Austria joined the ranks of those Development Assistance Committee (DAC) members whose MFA is responsible for aid policies and overall co-ordination along with a separate agency. In January 2004, the Austrian Development Agency (ADA) was created, acting as the intermediary executing agent for the bilateral programme. The MFA/Section VII's role as the focal point for development strategy and policy leadership within the Austrian aid system is expected to be strengthened by the foundation of ADA which takes over the operational part of the bilateral aid system. To be able to play a more proactive role, the MFA needs strong strategic policy formulation and co-ordinating capacity. One of the main reasons for the reorganisation is the anticipated increase of ODA. The currently projected 2004 expenditure of EUR 573 million will have to rise by EUR 222 million, or about 40%, in 2006 to meet the Barcelona ODA commitment of 0.33% of gross national income (GNI).

Despite being the focal point for development co-operation, the MFA's share in total ODA is only 22%. This is primarily due to the weight of those items – particularly debt relief and student costs – that are essentially outside federal government control. It does not reflect a lack of authority in the MFA over programmable aid activities, but rather the relatively small share of these core activities within the Austrian aid effort.

The reform process has not led to a reduced number of actors in the Austrian aid system. Apart from the MFA, seven other federal ministries are involved to varying degrees in development co-operation spending or policy decisions. Furthermore, Austrian provinces and some communities fund ODA projects. As for implementation, most of these actors work together with Austrian non-governmental organisations (NGOs), businesses, international organisations etc. It is the MFA's mandate to ensure a consistent aid programme for which the Three-Year Programme serves as the instrument for orientation and communication at the national and international level. Furthermore, country strategies aligned with partner countries' national strategies should be used as a frame of reference for all actors of Austrian development co-operation. The challenge will be to ensure a clear

division of labour between the different actors so that new policies are carried from theory to practice and that the high number of relatively small projects is reduced, well aligned to partner country strategies and co-ordinated with other donors.

Private sector and development has become a new focus of Austrian development co-operation, the intention being to involve Austrian firms more actively in the development of the private sector in partner countries. While Austrian firms are already engaged in South East Europe (SEE) to a considerable extent, their response to the new focus on partner countries in the South has been very limited to date. Austria should therefore carefully consider the scope of, and incentives needed for, engaging Austrian private firms in public-private partnership agreements in the South. Austria should continue its efforts to support private sector and development activities that maintain a clear focus on the economic development and welfare of recipient countries.

Geographically, Austria has decided to enhance its co-operation with Eastern Europe. Historical, economic, social, and cultural links with this region are stronger than those with partner countries in the South. When dealing with its partner countries in Eastern Europe Austria does not only consider development issues but also foreign and security policy and economic interests. As these policy areas involve different objectives, Austria should clarify how it “protects” development co-operation against use inconsistent with the purpose of aid, that is, the development of the partner country. The issue of how Austria situates development co-operation in relation to economic, foreign and security policy is of interest to all DAC members.

Poverty reduction and the MDGs – from commitment to practice

In the 2002 Development Co-operation Act combating poverty in developing countries is one of the three main objectives of Austrian development co-operation. The Three-Year Programme 2004-2006 includes a general commitment to the Millennium Development Goals (MDGs). Despite these clear policy statements, there is a lack of programming and implementation of the commitments. Poverty reduction is not yet fully mainstreamed into all projects and programmes. There is no dedicated focal point for poverty reduction in the Austrian development co-operation system equipped with sufficient resources and authority to be able to effectively propel action, institutional change and learning. Austrian co-operation would benefit from spelling out precisely how Austria intends to make practical contributions to meeting the MDGs. The MDG targets and indicators could be used to measure the results and impact of Austrian development co-operation.

Recommendations

- Austria points out that while development co-operation is part of foreign policy, it remains a distinct policy area. It would be useful to define the relations between development policy and other policies of national interest.
- The reform of Austrian development co-operation is still ongoing. The policies and strategic lines stated in the new Development Co-operation Act and the Three-Year Programme 2004-2006 have to be further operationalised by all actors of the Austrian aid system. A clear division of labour, especially between the MFA and ADA, has to be ensured.
- To promote consistency within Austrian development co-operation, the Three-Year Programme and country strategies should expand their coverage to all Austrian ODA relevant activities. Austria should also consider developing a formalised system to allow the MFA to co-ordinate effectively those activities for which it is not directly responsible.

- The stated policy commitment to poverty reduction and the MDGs needs to be made operational and be reflected in the allocation of resources. To mainstream poverty reduction into all projects and programmes, substantial staff resources are needed. Measuring the results of Austrian activities and their impact in terms of poverty reduction and contribution to the MDGs should be high priority.

Aid volume and distribution

The challenge of effectively implementing future ODA growth

Austria's ODA fell from USD 520 million, or 0.26% of GNI, in 2002 to USD 505 million or 0.20% of GNI in 2003. The fall resulted from short-term factors, including the postponement of some bilateral debt forgiveness agreements and unusually large repayments of earlier ODA loans. This demonstrates a striking feature of the Austrian aid programme, the high share of debt relief and the low share of other bilateral aid. 2003 was a low point for ODA flows. Substantial increases are needed for 2004 and beyond so that Austria can achieve its commitment at the 2002 Barcelona Summit to raise ODA to 0.33% of GNI by 2006. However, the amount of debt relief, which has been a significant factor in recent ODA growth, is likely to decline after 2006. In order to avoid a sharp drop in ODA, it is Austria's intention to increase its programmable aid, which will require a substantial expansion in the capacity of the MFA/ADA. A consistent strategy for fulfilling the commitments is needed and a multi-year predictable allocation path is recommended. Ideally, the funding envelope should be fixed for the entire Three-Year Programme. Further, the effective use of ODA increases will prove challenging, given the shortage of staff resources and limited use of new funding modalities.

Concentration should be enhanced

In raising the level of its bilateral programme, Austria should sharpen its focus on priority countries. At the moment, the list of top recipients is dominated by countries receiving debt relief and by the largest source countries for refugees and privately financed students in Austria. Despite the recommendation in the last Peer Review, the number of partner countries has not been reduced. Today, Austrian development co-operation (MFA/ADA) works together with 20 partner countries in the South (plus four special programme recipients) and 19 partner countries in the East. Due to the high number of partner countries and the small share of Austrian aid administered by the MFA/ADA, the amount of ODA received by each partner country can be extremely low.

Recommendations

- To fulfil its ODA commitments announced at the Barcelona Summit in 2002, Austria will require strong political support and a consistent strategy, including an explicit growth path.
- The required increase in programmable aid necessitates a substantial expansion of management and administrative capacity. A multi-year allocation path is needed to reinforce the predictability of Austrian aid and to bring it more in line with the programming needs of partner countries.
- Further concentration of Austria's aid programme would help achieve greater efficiency and effectiveness by creating a critical mass and allowing bigger sectorally-based programmes.

Policy coherence for development

On balance, the ground has been prepared for effective policy coherence work. Compared with other OECD member countries, Austria appears to stand midfield as far as its approach to policy coherence is concerned. The legal, programmatic and institutional basis for enhancing policy coherence for development has considerably improved in Austria in the last few years. By including a coherence clause, the new Development Co-operation Act provides an explicit legal basis for efforts to improve policy coherence for development. While every minister is obliged to act accordingly, it is up to the MFA to monitor and ensure compliance since the responsibility for enforcing the Act rests with the MFA. The Three-Year Programme is not just an internal document of the MFA; rather the MFA draws it up in consultation with the Ministry of Finance, submits it annually to the Council of Ministers and communicates it to the Austrian parliament for information. However, unlike in other OECD member countries, there is no requirement to report to parliament on policy coherence work.

Co-ordination largely takes place below the level of the Council of Ministers by means of informal contacts between Section VII and other sections of the MFA or other government departments. In order to intensify current inter-ministerial co-ordination for the sake of greater policy coherence, it is planned to use additional co-ordination fora such as the Private Sector and Development Platform and the Austrian Council for Sustainable Development. The MFA lacks staff and analytical capacity to deal with coherence issues in a systematic way.

According to both the MFA and NGOs, there is currently no intense debate in Austria on "hot" coherence issues. Yet there are a number of subjects that not only reveal incoherence but require attention with a view to either avoiding possible incoherencies or developing a more pro-active role for development co-operation, *e.g.* the Common Agricultural Policy (CAP) of the European Union (EU), and trade in textiles and clothing. Austrian NGOs have not taken the policy coherence clause included in the Development Co-operation Act as a point of reference. They need to thoroughly analyse and discuss the impact of other policies on developing countries and poverty reduction with a view to sensitising the government and the public.

Recommendations

- In order to monitor and ensure policy coherence for development, the MFA will need (i) a detailed strategy or policy framework (*e.g.* for the MDGs and poverty reduction) from which it can gauge the development impact of other policies, (ii) the means to engage analytical capacity, and (iii) the staff to initiate and organise effective coherence work.
- The Three-Year Programme should include a chapter on policy coherence specifying the areas where the MFA/Section VII wants to achieve progress in the short and medium term (coherence agenda).
- The Federal Ministry of Agriculture, Forestry, Environment and Water Management could be a special partner for the MFA in coherence work because of its lead role in Austria's Strategy for Sustainable Development and its responsibility for agriculture as a major area for coherence concerns.
- Coherence work requires public awareness building and Austrian NGOs can play a proactive role in drawing attention to policies which might be incoherent with development co-operation objectives.

Aid management and implementation

The Austrian Development Agency and its Co-ordination Offices

The main motives for the recent reform of the Austrian aid system and especially the creation of ADA were to (i) provide an adequate structure for effective and efficient management of increased aid volume, (ii) enhance co-operation with the EU including opening opportunities to tender for national execution of European Community (EC) aid, and (iii) promote private sector and development activities to help achieve the goals of poverty reduction and economic growth. ADA is a non-profit, limited liability company, owned by the federal government of Austria, represented by the MFA.

On the operational side, ADA is expected to increase implementation capacity, to ensure timely reaction to partner countries' demands and better co-ordination in the field. However, ADA contracts the actual implementation of programmes and projects mainly to a broad spectrum of NGOs and private firms. Since ADA is still at an early stage the full impact of its creation is not clear yet. In principle, it holds considerable potential for improved administration and co-ordination of Austrian development co-operation.

ADA headquarters receives considerable support from its Co-ordination Offices in the field. Before the reform process, staff of the Co-ordination Offices were employed by a private consultancy. Now Co-ordination Offices are integrated into Austria's diplomatic structure, representing Austrian development co-operation. They are responsible for managing the activities of the development co-operation programme of the MFA/ADA in the respective country or region whereas the activities financed by other Austrian ministries do not fall under their responsibility. Adequate delegation of authority to and enhanced capacities of the Offices are needed to ensure aid effectiveness.

Personnel policies (including for the Co-ordination Offices and local staff) need to be updated to meet the requirements of a growing and increasingly professional bilateral aid programme. At present, policies for staff training and career development are not yet defined. Staff awareness in certain areas is seen as "satisfactory" or "rudimentary" by some Austrian officials, and little expertise exists for new aid modalities (budget support and sector-wide approaches [SWAps]). In the light of Austria's intention to substantially increase development co-operation with SEE, ADA and the Co-ordination Offices will need increased staffing and skills.

Implementation – high share of NGOs and numerous small projects

NGOs have always played a major role in Austrian development co-operation: some 50% of the bilateral aid programme of the MFA/ADA is implemented through Austrian NGOs, over 20% is implemented by Austrian businesses. Austrian NGOs are contractors and development partners of the Austrian government (on a co-financing basis), and at the same time they play an advocacy role, which could lead to a conflict of interest.

Austrian development co-operation can be further characterised by its fragmentation in numerous small projects, which may restrict their impact on macro policy reforms and the MDGs. Austria's support to local civil society is appreciated by partner countries, which may be seen as an Austrian comparative advantage. New instruments have been developed to support NGOs – who are key to Austria's aid delivery – which should permit greater alignment to partner country strategies while respecting NGO roles, for example in advocacy. In line with the principles of ownership and partnership, Austria should increase the share of projects which are administered and implemented directly by local partners.

Aside from its focus on smaller, locally oriented projects, Austria also seeks to support macro policies. The support of such policies might, however, make different aid instruments necessary, such as capacity development of partner governments and civil society. In this context, Austria might consider developing orientations for the support of capacity development.

Austria participates in the financing of some SWAPs and it plans to increase support to them in the future. Austria does not yet provide direct budget support to any partner country. Its position in relation to this modality is ambiguous. The MFA should take the lead by adopting a clear position on participation in programme-based co-operation and joint financing arrangements (such as pooled funding, budget support). It will be necessary to study carefully the pros and cons related to possible shifts based on an analysis of Austria's comparative advantage.

Donor co-ordination, harmonisation and alignment – reinforce efforts

Austria's implementation of harmonisation and alignment (H&A) is still at an early stage. At the international level, Austria participates in several fora on H&A. At headquarters level, aid effectiveness and harmonisation items are addressed by an internal work group. Feedback on the Rome Declaration and ongoing discussions at DAC and EC level have taken place with the field offices and need to be continued. To improve the communication system on H&A, Austria has set up two focal points in the MFA and ADA. Austria has started to draft an action plan on H&A for the Austrian aid system which is due to be finalised during the second half of 2004. Up to now, explicit alignment of Austrian support to national strategies has taken place in very few countries. As far as capacities permit, staff of the Co-ordination Offices participate in policy dialogue groups or round tables. Given that Austria's main experience stems from projects at local level, the Co-ordination Offices should give higher priority to bottom-up approaches by bringing experiences from the "ground" to the policy level, especially in meetings to define sector strategies and donor co-ordination.

Procurement, project management and evaluation – systematic approach needed

The Austrian Advisory Board for Development Policy has made repeated recommendations that more attention should be paid to competitive tendering, and the Three-Year Programme 2004-2006 commits to improve in this area. However, in SEE particularly, the criteria for making a decision between direct procurement from NGOs and competitive tendering do not seem to be very clear, except for projects with an emphasis on investment (e.g. in the water sector). It is important to ensure a balance between prioritising locally competent actors and efficient, objective and transparent procurement practices, also when NGOs are selected.

Austria does not systematically use the project cycle approach to organise management of the different phases in the life cycle of projects. Adoption of such a model would facilitate a more systematic approach to project management as well as introduce some important quality assurance methods currently not used in the Austrian project management system.

Evaluation is regarded as an integral part of the life cycle of all programmes and projects. Since the reform process, responsibility for evaluations is shared between the MFA and ADA. The previous organisational independence of the evaluation function from decisions on policies, programmes and projects – set as a standard by the *Review of the DAC Principles for Evaluation of Development Assistance* (1998) – has been discontinued. In the case of the MFA the evaluation unit can report to the head of Section VII, and in ADA to either the Managing Director or the Board of Directors.

There is no complete list of evaluations available in the MFA and ADA, and no annual or periodic reports providing a synthesis of the main findings and lessons learnt of evaluations. It is hard

to judge how well the quality standards set in the Austrian Guidelines and the Manual on the Practice of Evaluation are met by the ADA desks, Co-ordination Offices and implementing agencies. The results of evaluations are shared and discussed both in the partner countries and at headquarters level, but the extent of systematic feedback from the evaluation process to policy making is unclear.

Recommendations

- Personnel policies for the MFA, ADA headquarters and Co-ordination Offices need to be updated to meet the requirements of a growing and increasingly professional bilateral aid programme. This includes a systematic approach to staff development. Specialist skills are needed in line with Austria's main development objectives and in the area of co-operation with Eastern Europe.
- Austria could benefit from a reflection on the role of NGOs as contractors versus development partners (on a co-financing basis) versus advocacy partners, to address possible conflict of interest issues that may exist under current arrangements. These considerations should be reflected in the current deliberations of the MFA/ADA on their policy towards NGOs.
- Austria is encouraged to take an active role in supporting the development and implementation of PRSPs and other national frameworks. Austria is a small donor with a particular profile in the support of NGOs and target groups on the ground. The MFA should carefully consider whether, and to what extent it should redirect part of its country allocations to programme and budget aid. In particular cases delegated co-operation may constitute an appropriate response.
- Austria will have to reinforce its efforts in H&A in particular by finalising its plan of action, taking into account the experience of other donors and implementing efforts in the partner countries. This implies increased communication on H&A between headquarters and the Co-ordination Offices as well as with NGOs. Dialogue and consultation with partner governments needs to be strengthened, and practical steps to harmonise and align all Austrian support (including NGOs) to partner country national strategies and systems should be increased.
- Logical framework approach and project cycle management should be used systematically in all projects. Clearer criteria for making a decision between direct procurement from NGOs and competitive tendering are needed.
- Regarding evaluation it is important (i) to ensure the organisational independence of the MFA's and ADA's evaluation units; (ii) to conduct more meta-evaluations to distil lessons learnt; (iii) to properly monitor the implementation of evaluation recommendations; and (iv) to continue establishing multi-annual work programmes for strategic evaluations. With regard to monitoring, the objectives of country and sector strategies should be specified in such a way that progress towards the intended outcome can be measured.

SECRETARIAT REPORT

CHAPTER 1

STRATEGIC FOUNDATIONS AND NEW ORIENTATIONS

The foundations of Austrian development co-operation and context of reforms

Despite various efforts, Austrian Official Development Assistance (ODA) figures have never been among the highest in the aid community. In the early 1980s Austria undertook to reach 0.7% ODA/gross national income (GNI) by the end of the decade. This **ODA commitment** has never been fulfilled. The ratio was 0.23% in 1989, and despite wide fluctuations there has been no overall trend since. From 2002 to 2003, Austria's ODA fell from USD 520 million to USD 505 million. The ODA/GNI ratio dropped from 0.26% to 0.20%.

The **long-term causes** of Austria's modest ODA performance are complex. For a start, the usual historical and intellectual stimuli to develop traditional aid programmes have been lacking in Austria. Austria did not have to respond to a colonial past by developing aid programmes as part of their decolonisation process, as did many other donors in the 1960s. Austria's important historical, social and cultural links are rather with countries in Central and Eastern Europe (CEE) which were part of the Austro-Hungarian Empire before 1918, and these links are today reflected in Austria's commitment to this region. Intellectual trends may also have played a role. The Austrian school of economic thinking for fostering development has traditionally emphasised the role of market mechanisms and the entrepreneur, rather than of resource transfer.

The Catholic Church has a long tradition of assistance to the poor. Catholic donations to impoverished overseas countries date back to the 19th century. These early forms of charity-oriented aid still partly survive, and **churches and non-governmental organisations (NGOs)** play an important role in today's Austrian aid system. Their engagement has, however, not translated into higher public spending on development aid.

Only now, against the international background of the European Union's (EU) aid commitment at the 2002 Barcelona Summit, are substantial aid increases expected in 2004 and beyond. To meet these commitments, Austria will need to raise ODA to 0.33% of GNI by 2006, requiring an increase of 40% over expected 2004 ODA expenditure (see Chapter 2).

The **wind of change in development politics**, including an ODA increase and policy aspects, should be seen in the context of other political reforms undertaken by the government during the past three or four years. Also, with EU enlargement in May 2004, Austria reacted promptly to the new challenges. The government has initiated a pension reform, privatisation of state-owned industries, and measures for enhancing competitiveness. Radical tax reforms, comparable with the tax regimes of the new accession countries, have been initiated, but these have drawn protests from trade unions and civil society. Exports have benefited from the opening of Eastern European countries in recent years,

though growth is expected to remain slow in 2004 before recovering modestly in 2005. In view of its geopolitical situation, Austria has a major interest in stability and rapid economic, social and environmental development in CEE (see also Box 1).

Development co-operation policy is, in this context, increasingly understood as part of responsible foreign policy. As Austria puts it, the **primary motivation** for its development co-operation is the need for international burden sharing in addressing global challenges like poverty and insecurity. There are also calls by the Austrian population for solidarity and social justice, creating some pressure at the political level. Commercial interests are acknowledged in co-operation with CEE.

Policy and organisational reform since the last Peer Review

In earlier Peer Reviews of Austria's development co-operation, the level of ODA was always of major concern. Other concerns focussed on the use of export credits, student costs and Austria's refugee policies as well as the need for concentration in the number of partner countries.

The picture has changed in important respects. In the past two to three years, development policy has undergone **major changes**. It has a stronger voice within a broader international orientation of Austrian policy. The aid administration has been restructured and a medium-term ODA target set.

Austria has adopted a new law on development co-operation, the **Development Co-operation Act** (2002 and amended in 2003). On the basis of the new law, Austria has developed a longer-term strategy for development co-operation, the Three-Year Programme 2004-2006.¹ Also based on the new law, Austria is undergoing a substantial reform of its aid architecture, mainly by creating the Austrian Development Agency (ADA).

The new Development Co-operation Act and the Three-Year Programme 2004 - 2006

The new Development Co-operation Act, together with the Three-Year Programme 2004-2006, provides a good foundation for Austria's new policy orientations, its principles and operational guidance. In practice, it will have to be complemented by operational strategies setting out individual steps and measures to reach its announced objectives.

According to the Act (Section 1.3) the main **objectives** of Austria's aid are to:

- **Combat poverty** in developing countries by promoting economic and social development, *i.e.* sustainable economic activity combined with structural, institutional and social change.
- **Ensure peace and human security**, especially by promoting democracy, rule of law, human rights and good governance.
- **Preserve the environment and protect natural resources** that form the basis for sustainable development.

The first and third objectives are retained from Austria's earlier policies. The focus on peace and conflict resolution has been strengthened. Also, the emphasis on human rights has been enhanced, including specifically the rights of children and the disabled.

1 This Peer Review refers to the Three-Year Programme 2004-2006 on Austrian Development Policy, Revised Version, Vienna 2004.

Again according to the Act (Section 1.4), Austrian aid will be guided by four **principles**, whereby any measures shall take into account:

- The aims of the respective **governments and populations** in the developing countries, with regard to the speed and kind of development process in question and their right to choose their priorities.
- The integration of measures into the **socio-cultural environment**, with specific regard being paid to cultural aspects and use of appropriate technology.
- Equality between **men and women**.
- In a suitable manner, the needs of **children and people with disabilities**.

As further stated in the Three-Year Programme 2004–2006, Austria sees **new challenges** for development aid arising particularly from the lack of progress in the last fifteen years, especially in Africa, and also in parts of South East Asia and Latin America. Furthermore, Austria has decided to give renewed attention to its co-operation with Eastern Europe.² The Austrian aid programme clearly distinguishes between the “Austrian Development Co-operation Core Programme 2004-2006” (which includes partner countries in Africa, Latin America and Asia) and the “Core Programme of the Austrian Co-operation with Eastern Europe 2004–2006”.³

The two programmes differ in their history and motivation: Austrian development co-operation with the **South** is characterised by a history without colonisation but a strong influence of the Catholic Church and Austrian NGOs. Priority countries are mainly Least Developed Countries (LDCs), and the aim is to address global challenges such as poverty and insecurity. Austrian co-operation with the **East** is influenced by strong historical, economic, social and cultural links with this region. Priority countries are located in South East Europe (SEE), mainly classified as Lower Middle-Income Countries (LMICs). In addition to the three main objectives of Austrian development co-operation, Austrian foreign policy and economic interests play an important role in the co-operation with this region (see Box 1).

In view of this situation, the Three-Year Programme 2004-2006 (p. 7) states three **characteristics** of Austria’s development policy and its implementation through development co-operation, co-operation with Eastern Europe and multilateral aid:

- **Constancy** and long-term planning with traditional partners.
- **Flexibility** and rapid reaction to all challenges, be they of a geographic or thematic nature.
- **Consolidation** of the available potential of NGOs and universities, private sector and financial instruments.

2 Although the Three-Year Programme distinguishes between South East Europe (SEE), Eastern Europe and Central Asia, and Central and Eastern Europe (CEE), it is not always clear which of the regional boundaries are meant.

3 By using the term “Austrian development co-operation”, the Peer Review refers to the programmes in all regions.

Box 1. EU enlargement and Austria's role in Central and Eastern Europe

The EU enlargement on 1 May 2004 presents challenges as well as opportunities for Austria. Austria accounts for only 2% of the EU's population but for 8% of the Union's trade with the CEE. Austria shares 1 300 kilometres of borders with four new EU members, which have been important markets for it during the past three or four years while business with Germany (Austria's largest market, accounting for 40% of its exports) and Switzerland has stagnated. Austria now exports as much to Hungary as it does to the USA. At the same time, Austria's new EU partners can boast stronger economic growth rates, lower taxes and more flexible labour markets. This puts the government under reform pressure.

Austrian industry, especially the energy sector, banking and financial services, and the construction industry have invested heavily in CEE. Thousands of Austrian companies established regional subsidiaries and production sites. Multinational groups started managing their regional production or service platforms for CEE countries from Vienna. In 2002, 16% of Austria's exports went to CEE and it is expected that it will reach 20% by 2005. In 2002, 60% of Austria's total foreign direct investment went to CEE (see *Financial Times*, 3 December 2003).

Co-operation with Eastern Europe, which was shifted from the Federal Chancellery (Prime Minister's Office) to the Ministry for Foreign Affairs (MFA) in 2000, has become a priority for Austrian aid. According to the Three-Year Programme 2004-2006 (p. 30-31), geographical allocations take account of partner countries' support requirements; Austria's foreign policy priorities; support for the EU integration process contribution to conflict prevention; Austria's economic, employment and security interests; investment potential for Austrian business and ODA eligibility. Presently ODA and Official Assistance (OA) to SEE countries averages about USD 100 million per year, but only about 10% of this is within the MFA/ADA core programme. Other main actors are the Ministry of Finance and the Ministry of Education, Science and Culture.

Austria has supported the Stability Pact for SEE. It was also involved in security and peace keeping as well as in reconstruction and humanitarian aid. It is presently directing its development aid, e.g. to Bosnia and Herzegovina (BIH), towards mainstreaming conflict prevention. The main sectoral priorities are education, economic development and employment. The promotion of the private sector and foreign direct investment through development assistance is key for enhanced economic development of Austria's neighbours, but poses the challenge of avoiding the misuse of ODA for simply promoting Austrian firms. The co-operation with the Eastern Europe and its specificities, e.g. a different understanding of poverty reduction, are not yet fully reflected in the (sectoral) concepts (see Chapters 3 and 6).

Important changes in Austria's aid architecture

Since early 2004, Austria joined the ranks of those Development Assistance Committee (DAC) members whose MFA is responsible for aid policies and overall co-ordination along with a separate agency – in this case ADA – acting as the intermediary executing agent for the bilateral core programme. Bilateral aid totalled USD 228 million or 45% of total Austrian ODA in 2003, but the core programme comprised only about half of this. ADA itself delegates the implementation of programmes and projects mainly to a broad spectrum of NGOs and private firms.

This structure is designed to meet the need for strengthened policy and administration to achieve a significant increase of ODA. Achieving the Barcelona target of 0.33% of GNI by 2006 will require the currently projected 2004 expenditure of EUR 573 million to rise by EUR 222 million, or about 40% (see Chapter 2).

In the new organisational system the **MFA/Section VII**⁴ **“Development Co-operation”** is to play a more proactive role with respect to the formulation and management of positions on

4 In order to avoid any misunderstanding, the Austrian term “Sektion” is directly translated into English as “section”, although regarding its hierarchical level, the term “department” would probably be more appropriate.

development policy and the pertinent strategic framework conditions. This focus will be strengthened by outsourcing operational tasks to the newly founded ADA. Sharing work with ADA is expected to enable the MFA to handle overall co-ordination of development co-operation more efficiently and coherently both within Austria and internationally.

Created in January 2004, **ADA** is a private company wholly owned by the federal government of Austria, represented by the MFA. ADA's main task is to operationalise Austria's development co-operation and ensure effective handling of an expected increase of ODA. The main motives for the creation of ADA were to (i) provide an adequate structure for effective and efficient management of increased aid volume, especially for bilateral projects; (ii) enhance co-operation with the EU including opening opportunities to tender for national execution of European Community (EC) aid; and (iii) to promote private sector and development activities to help achieve the goals of poverty reduction and economic growth.

These developments build on earlier **institutional reforms**, *e.g.* in April 2000, responsibility for co-operation with Eastern Europe was shifted from the Federal Chancellery to the MFA/Section VII (see Chapter 5 and Annex E).

The MFA/Section VII remains in charge of the bilateral core programme (only 11% of Austria's ODA). At the same time the MFA is mandated to ensure a **consistent aid programme**, in which a large number of federal ministries and other public and private actors are also involved. The challenge will be to ensure a useful and clear division of labour between the organisations, to ensure that new policies are implemented and that Austrian activities are well aligned and co-ordinated with partner countries and other donors. Many of these issues are at an initial stage, and much remains to be further developed.

There remain a number of overlaps between the MFA and ADA, which have to be further clarified. Overall, the reform has gone in the right directions. However, there are areas needing additional work, *e.g.* in the field of decentralisation of decision making. Whether Austria will take the reform process as far as possible remains to be seen.

Other important changes since the last Peer Review

The **private sector and development** has become a new focus, especially as regards Austrian co-operation with Eastern Europe, although there remains some ambiguity between private sector support in recipient countries and support for Austrian businesses (see Chapter 3).

A clause on **policy coherence** has been introduced in the new law. According to the clause the federal government must take into consideration the objectives and principles of development in work relating to the fields of policy that may have effects on developing countries. With this clause Austria for the first time-takes account of policy coherence in pursuing the aims and principles of development co-operation.

With regard to the **number of partner countries**, no further reduction has taken place, despite recommendations in the last Peer Review. Austrian development co-operation (MFA/ADA) works together with 20 partner countries in the South (plus 4 special programme recipients) and 19 partner countries in the East (see Annex D). Due to the high number of partner countries and the small share of Austrian aid administered by the MFA/ADA, the amount of ODA received by each partner country can be extremely low (see Chapter 2). Hence, further geographic concentration of the aid programme would help achieve greater efficiency and effectiveness by creating a critical mass and allowing bigger

sectorally-based programmes. The question remains whether Austria should consider a stronger focus on its immediate neighbours in CEE.

Austria is to be congratulated for reforming its **statistical reporting** in line with DAC norms. Details are given in Annex C.

Box 2. Selected issues of broader interest for all DAC members

In the wider picture, Austrian development policy and practice confronts issues and offers lessons that are of relevance to the present development debate in the DAC and the broader aid community.

- **Delineation of the roles of development co-operation policy and foreign policy.** As underlined by Austrian officials, since 11 September 2001 foreign policy and development policy are increasingly related; the demands on development co-operation have increased through links with humanitarian aid, security and conflict prevention etc. Austria offers an illustration of the challenges of present international discussions, especially with regard to the new relationship between development aid and security issues as well as the relationship between promotion of the private sector, foreign direct investment and the role of aid. As one senior Austrian official sees it, development co-operation seeks to preserve a long-term perspective – such as the MDGs and sustainable development beyond 2015 - while foreign policy tends to be more geared towards the short term. Close political linkages and co-ordination are needed but the policy area (“Politikfeld”) of development co-operation must also guard against misuse. For all DAC members there may be a need not only for a firm definition of development co-operation in relation to foreign policy, economic policy and security matters but also the implications of these policy areas in development practice.
- **Experiences with the ownership principle.** Austria can also provide practical lessons learned from countries in difficult situations (difficult partnerships), where ownership is not an easy approach, at least not as easy as some donors engaged in so-called good performers would expect it, e.g. in BIH the Peer Review team learned about difficulties in dealing with the government due to the multiplicity of levels of government as well as the difficult interactions between Serbian, Bosnian and Croatian interest groups.
- **Smaller donors’ choice of aid allocation.** There are two aspects of interest, especially for smaller donors: the choice of the number of partner countries and of aid modalities. Austria clearly distinguishes between its development partners in the South and in Eastern Europe. In order to increase impact as well as to avoid burdens for partner countries, smaller donors may consider focusing on those partner countries with which they have special relations. Austria could discuss its focus on the SEE region as for its geographical, economic, political, social, and developmental relations. Regarding aid modalities Austria’s aid is highly respected especially by its local partners and within the smaller projects undertaken mostly by NGOs. In terms of higher leverage the question of “scaling up” is to be considered. Moreover, the Peer Review has discussed the question of aid modalities with the Austrian Co-ordination Offices visited in Nicaragua and BIH. Questions were raised as to whether Austria should use its limited ODA more in the modalities of budget support or whether this would possibly undermine its comparative advantage in being well accepted as partner in local activities. Careful exploration of the issue will be necessary to develop an appropriate policy on aid modalities. For the DAC both aspects seem to be of interest for further discussion.
- **Promoting development co-operation by the new EU members.** Austria, together with Germany, Netherlands, Sweden and other EU members, has opened dialogues through seminars and conferences on development aid with its neighbouring countries, which are presently providing or will in future provide small programmes of development co-operation. In addition, on Austria’s request, this Peer Review was accompanied by an observer of the Ministry of Foreign Affairs of the Czech Republic, with the objective to learn from the DAC Peer Review system for future Czech development co-operation. The DAC might want to learn more about Austria’s and other DAC members’ experiences to support the EU accession members at an early stage.

Public awareness

Austrian public opinion is very supportive of development co-operation in general as shown by opinion polls conducted in 2001 and 2003.⁵ Both report that 83% of Austrians think that supporting developing countries is the right thing to do. In 2001, 48% of the Austrian public were in favour of increasing ODA. This high public support for development at a time of declining aid (see Table B-2) demonstrates that high public support does not transfer into increased finance for development co-operation. Not unlike its DAC co-members, most of Austrian public support stems from humanitarian concerns about natural disasters, famine and malnutrition and a perception that development co-operation helps in these situations.

The MFA and ADA both have a public relations department through which various campaigns and activities on relevant topics are supported (*e.g.* a series of television documentaries on priority countries of Austrian development co-operation, titled “Far-away Neighbours”, and an information initiative based on the Millennium Development Goals [MDGs] titled “Eight Aims for the World”). The MFA has outsourced responsibility for development information, public relations and education to the Society for Communication and Development (KommEnt), which has a working contract with ADA and by which it supports NGO development education and awareness raising initiatives. The MFA’s predominant methodology includes the publication of articles in newspapers, a newsletter, brochures, films and videos, and cultural events.

While the MFA concentrates on “macro-communication” (primary directed towards decision makers, public administration, the business sector, etc.), the NGOs are required to do “micro-communication” (aimed at specific target groups, *e.g.* young people, and concentrate on awareness raising and providing background information). Austrian NGOs constitute the main awareness raising and development education actors within this country.⁶

Future considerations

- The Austrian government is commended for having improved the legislative foundations for development co-operation by the adoption of the new Development Co-operation Act. The subsequent development of a Three-Year Programme 2004 – 2006 reflects the current international key issues in development co-operation. These policies and strategic lines will have to be further sharpened and operationalised by all actors of the Austrian aid system
- The reform of Austrian aid architecture and the setting up of ADA offers an opportunity to give development co-operation a sharper international profile. However, the MFA must be in the position to fulfil its system leadership in the area of development policy. A clear division of labour, especially between the MFA and ADA, has to be ensured.
- Austria is applauded for its firm commitment to reach the Barcelona target for 2006. This will require a 40% increase on the expected level of ODA in 2004. A consistent strategy for fulfilling the commitments and a multi-year predictable allocation path would also improve the efficiency and effectiveness of Austrian aid.

5 FESSEL-GfK Institut für Marktforschung GmbH: Austrian Lifestyle Opinion Poll 2001 (based on 4500 persons) and 2003 (based on 4000 persons).

6 OECD Development Centre (2003): Public Opinion and the Fight against Poverty, pp. 57-62.

- The parliamentary hearing on a national strategy to help achieve the MDGs planned to be held in the autumn of 2004 might serve as a valuable occasion for informing the public of international and national ODA goals. This could be also an effective opportunity for involving parliament in a longer-term debate on policy coherence for development.

CHAPTER 2

AID VOLUME, CHANNELS AND DISTRIBUTION

Overall aid volume prospects

Austria's ODA fell from USD 520 million, or 0.26% of GNI, in 2002 to USD 505 million or 0.20% of GNI in 2003. The fall, however, resulted from short-term factors, including the postponement of some bilateral debt forgiveness agreements and unusually large repayments of earlier ODA loans. Thus it is expected that 2003 will be a low point for ODA flows. However, ODA should rise to 0.25% of GNI in 2004, and further increases, particularly in debt relief will likely allow Austria to meet its **commitment at the 2002 Barcelona EU Summit** to raise ODA to 0.33% of GNI by 2006.

The planned aid increases assumed a relatively **benign fiscal and balance of payments outlook**. Austria succeeded in balancing its budget in 2001, and although the fiscal position deteriorated slightly in 2002 and 2003, deficits have been limited to under 2% of gross domestic product (GDP). Nevertheless, tax reductions being phased in from 2004 will trim available revenue, while concerns have been expressed that a continuation of the high external value of the Euro, especially against the dollar, may undermine the balance of payments over the medium term.

So far, fiscal and current account deficit concerns have had little impact on the policy momentum generated by the Barcelona Summit, and the ambitious reforms to the Austrian aid system in 2004 have consolidated the administration's resolve to stick to aid allocation targets. At the time of writing, a **biennial budget framework** was under preparation for 2005-06. The two-year time frame supports predictability as far as aid programming is concerned, and longer term financial planning would be a clear benefit. Based on findings from the field missions carried out for this Peer Review, it also appears that there are substantial delays in approving forward expenditure levels for individual country programmes. Efforts should be made to ensure that annual budget lines at country level are approved at the latest in autumn of the preceding year.

While it is likely that debt relief efforts will allow the 2006 ODA target to be met, it is also clear that a progressive expansion of the MFA/ADA core programme will be necessary to maintain aid at levels consistent with those of similarly prosperous EU members. Efficient use of these increased allocations will require a substantial expansion of the MFA/ADA budget and administrative capacity to ensure efficient use of increased funds.

One possibility for the Austrian authorities to consider would be to set a **medium-term expenditure framework** for the MFA/ADA component of the aid programme. This could build on the existing system of Three-Year Programmes for Austrian aid, where forecasts of expenditure are provided. At present, however, the forecasts are simply projections from existing expenditure rates. It would be desirable from the point of view of predictability of aid programming to convert these purely indicative figures into a firmer planning framework.

Aid expenditure outside the MFA/ADA envelope is, with the exception of multilateral aid, difficult to programme in advance. The timing of Paris Club debt relief agreements, the incidence of natural or man-made disasters or the emergence of new flows of asylum seekers cannot be reliably

predicted, so flexibility must be allowed for. Nevertheless, assuming that Austria meets its ODA commitment for 2006 of 0.33% of GNI, there may then be a possibility to make either a time-bound commitment to reach the United Nations (UN) target of 0.7%, or to set another medium-term target. Either measure would help to maintain consistent effort and help build public support and confidence in aid.

Programme and institutional structure of Austria's aid expenditures

A striking feature of the Austrian aid programme is the **small proportion of project aid or technical co-operation**. The long term causes are complex. As briefly mentioned in Chapter 1, a special feature of the Austrian situation is that the usual historical and intellectual stimuli to develop traditional aid programmes were lacking. From around 1960, France, Portugal, Spain and the UK developed aid programmes as part of their decolonisation policies; but Austria had no colonial inheritance. Aspects of the Austrian intellectual tradition were also not particularly favourable towards aid programmes. For example, the Nordic countries and the Netherlands built up their aid programmes on the basis of economic thinking (*e.g.* Myrdal, Tinbergen) that emphasised resource transfer as a key to achieving growth; by contrast, Austrian economists have as a rule placed more stress on the role of market mechanisms and the entrepreneur. This may have contributed to a certain lack of faith in Austria in the capacity of traditional aid instruments to promote development.

For many years the gap was filled by attempting to promote the development dimension of export-promotion schemes, particularly through subsidies of development-oriented export credits. A more progressive, internationalist spirit emerged under the long-running Socialist administration of Bruno Kreisky (1970-83), and Austria was one of a number of countries that aimed to meet the UN target for ODA (0.7% of national income) by the end of the 1980s. But budget pressures arising from Austria's large public sector, generous welfare provisions and an aging population inhibited progress, and achievement of the goal was postponed *sine die*. The fiscal consolidation programme implemented over the period 1999-2001 further intensified pressure on core developmental programmes.

Figure 1 shows the results. Compared to the average for DAC donors, Austria gives a far lower share of its grants in the form of project and programme aid, and a significantly lower share in the form of technical co-operation (within which student costs take up a high share). Emergency aid is close to the average, with Austria giving a much higher share of its aid in the form of debt relief.

Figure 1. ODA grants by type of aid in 2002

(excluding administrative costs)

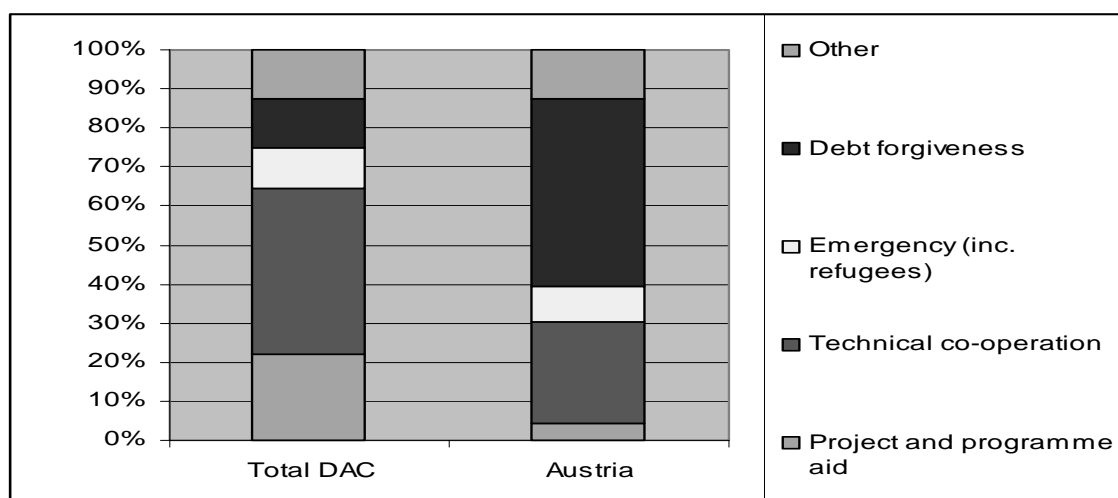
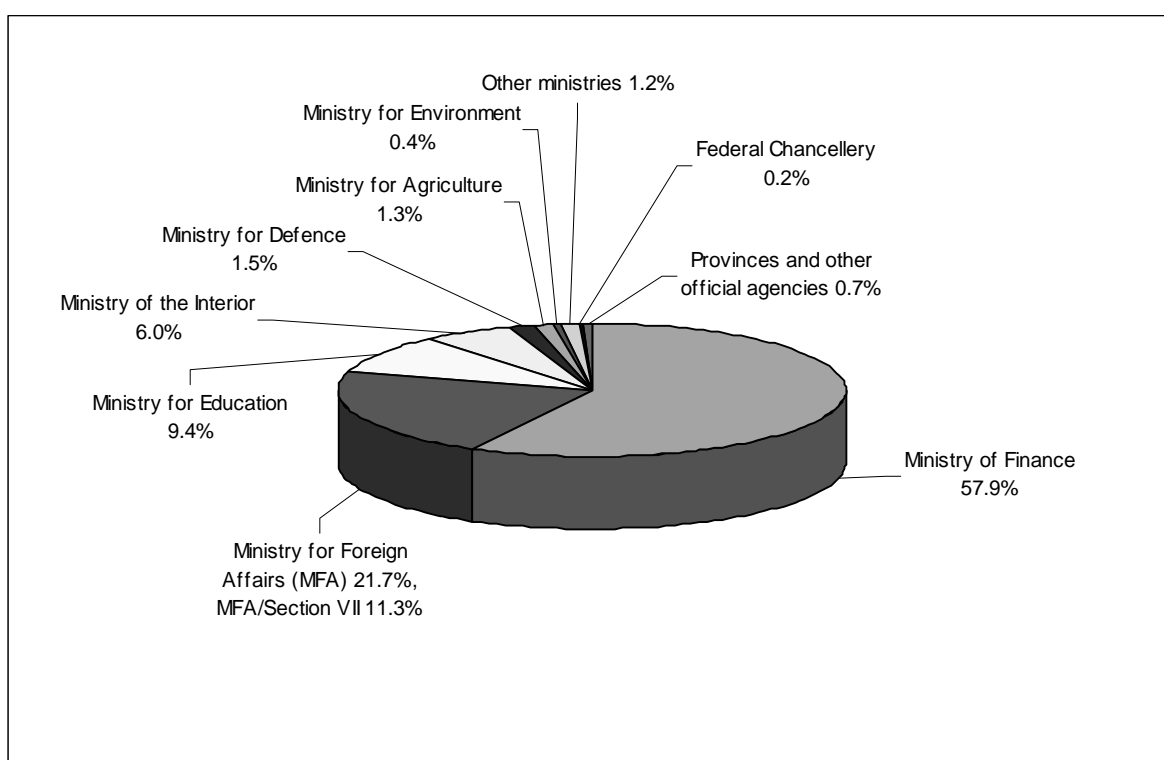


Figure 2 shows **ministerial responsibilities** for Austria's aid programme. It is true that an unusually low share of Austrian aid is administered by the central aid authorities in the MFA: in 2002, the MFA/Section VII-administrated bilateral programme amounted to 18% of bilateral aid and 11%⁷ of total aid. However, this is primarily due to the weight of those items – particularly debt relief and student costs – that are essentially outside federal government control. It does not reflect a lack of authority in the MFA over programmable aid activities, but rather the relatively small scale of these core activities within the Austrian aid effort. In fact, the MFA has considerable input into Austrian policy in regard to multilateral agencies, even when the payments (as in the case of contributions to development banks) are made by the Ministry of Finance.

The Ministry of Finance is also responsible for debt relief payments and for interest subsidies incorporated in associated financing packages. The major expenditure by the Ministry for Education is on subsidising the costs of developing country students in Austria, while the Ministry of the Interior is responsible for support to refugees in Austria.

Figure 2. Ministerial responsibilities for Austrian ODA, 2002



International comparisons of Austria's aid data

The unusually **small size of the core Austrian programme** complicates statistical analysis, especially comparisons with other donors. In considering the data presented in Table 5 of Annex B, readers should bear in mind that the data relate to the totality of Austria's reported ODA as shown above, and not to the core MFA programme, much of which has now been devolved to ADA. For example, the spike in ODA in 2001 was not due to any policy shift – indeed it occurred during a

⁷ The 11% do not include an additional 1.5% for Austrian co-operation with the East, as this programme did not fall under the responsibility of Section VII.

period of fiscal consolidation – but was rather the result of the timing of debt forgiveness decision in the Paris Club. In that year, pursuant to Paris Club decisions, Austria granted two of its major debtors, Cameroon and Bolivia, a total of almost USD 200 million in debt relief, representing about 40% of its total ODA in that year.

In other respects, the sectoral allocation of Austria's programme does not diverge radically from the average of smaller donors. Indeed it shows a fairly **typical small-donor pattern** of emphasis on the social sectors, with comparatively modest contributions to economic infrastructure and production.

Austria is to be congratulated on the effort it has made to reform its **statistical reporting** in line with DAC norms and guidelines (see Annex C). This will facilitate international comparability and benchmarking of its aid efforts.

Main recipient countries

Here again the standard suite of tables at the end of this volume is less useful than it might be, since the top recipients are dominated by countries receiving debt relief and by the largest source countries for refugees and privately financed students in Austria. Refugees from Serbia and Montenegro and BIH account for these countries' prominence among recipients over recent years, with Egypt and Turkey near the top of the list on account of students costs and, in the case of Egypt, debt relief. Debt relief has brought Tanzania and Mozambique among the top recipients in 2002-03.

It is more instructive, however, to look at the allocation pattern within the MFA core programme, which will be the nucleus for expansion of Austria's aid efforts over the medium term. Here we find efforts concentrated on a small number of **priority countries**. Eight of these were chosen in 1993, but efforts are now concentrated on seven developing countries, five of which are in Africa: Burkina Faso, Cape Verde, Ethiopia, Mozambique and Uganda. The other two are Nicaragua and Bhutan. The share of the priority and co-operation countries in the total MFA/ADA programme for the South fell from 67% in 2000 to 60% in 2002, mainly because of falls in this core programme aid to Bhutan, Mozambique, Tanzania and Zimbabwe. SEE forms a separate priority area, with BIH having been the leading recipient of core programme assistance in the past years. Out of the total budget for co-operation with Eastern Europe of the MFA around 90% are allocated to the priority region SEE.

The **selection** is built on contact of various kinds between Austria and the countries concerned. In Mozambique the initial impetus came from a Catholic priest in the country; in Bhutan from scientists and alpinists; in Nicaragua from a popular sympathy with the Sandinista regime during the 1970s. Building on personal contacts was a sensible approach for a small donor commencing a modest bilateral aid programme. However, while the Austrian programme continues to respond to initiatives from the public through its NGO support schemes, expanding the country programmes in existing priority countries will require a greater measure of planning, technical expertise and professional administrative supervision, as discussed in subsequent chapters.

The **challenge of scaling up** Austria's existing country programmes should not be underestimated. The core programme budgets for the priority countries have typically averaged only EUR 1 to 3 million in annual expenditure. Allocations actually fell in the period of fiscal consolidation from 1999-2002, so that programmes generally only continued existing projects, and were not concerned to identify substantial new activities. The MFA/ADA core ODA budget (including European ODA recipients) is already forecasted to rise from EUR 69 million in 2003 to EUR 82 million in 2004, and further increases are expected. In raising the level of its bilateral programme, Austria should sharpen its focus on priority countries. This would facilitate the initiation of larger and more efficient sectorally based programmes.

Beyond the priority countries is a penumbra of some 17 **co-operation countries** and special programme recipients, usually in the same region as the priority countries. Programmes here are very small – typically well under EUR 1 million annually – and several programmes have been curtailed because of Austrian budget shortfalls or concerns about the security or governance situations of recipients. Austria should consider phasing out activities on this scale, which are difficult to manage efficiently. One approach which it has already considered is to consolidate smaller programmes in consultation with one or other of its EU partners. The partner would take over Austria's role in one of Austria's smaller recipients in return for Austria taking over that EU countries' projects in another recipient.

Sectoral distribution of the core ODA programme

The current Three-Year Programme 2004-2006 continues the previous emphasis on water and sanitation, rural development, energy and the promotion of democratic development, with new initiatives planned in the area of the private sector and development (this new theme is discussed in Chapter 3).

The sectoral distribution responds to the availability of Austrian expertise, which partly accounts for Austria's relatively high tying ratio in recent years. Given the small scale of projects, there was little justification for elaborate international competitive bidding arrangements in the past, but as project size increases, more tenders are already being issued. In addition, Austria will be obliged by EU agreements to open more of its programme to world-wide procurement (see Chapter 6).

Aid through NGOs

NGOs play a major role in implementing the core programme, as discussed in detail in Chapter 5, with the exception of the programme with Eastern Europe. They also benefit from schemes designed to support their own programmes. The major co-financing scheme for NGOs disburses about EUR 10 million annually, mainly under framework agreements with nine of the larger NGOs. Preference is given to bodies with project proposals in Austria's priority countries.

A second, smaller co-financing window is open for individual project proposals, typically from small community groups. No special preference is given to proposals in priority countries, since in principle there will be no requirement for supervision by the MFA/ADA field offices.

The European Commission also offers co-financing opportunities to NGOs. The Austrian voluntary sector has shown considerable flexibility in adapting to the rapid evolution of these funding mechanisms in recent years. In some cases, the MFA tops up European Commission financing, but NGOs must still make a minimum contribution of 15%.

Multilateral aid

Austria contributes around 2.5% of the development expenditures of the **EC**, including those met from the EC budget, the European Development Fund and the European Humanitarian Office. Total contributions to EC agencies in 2003 were USD 169 million, or more than 60% of total multilateral aid of USD 276 million.

In general, the themes of EC aid harmonise well with the main sectors of Austria's programme, *e.g.* aid to water and sanitation, agriculture, energy, and democratic transition. However, the EC drive to decentralise responsibility for its country programmes to the field poses challenges for a small donor such as Austria that is not represented in many of the countries concerned. Ways need to be

found to bring the benefits of the lessons learnt by smaller donors such as Austria to bear on relevant EC country programming.

Austria is a member of all the major **international financial institutions (IFIs)**, including the World Bank (to which its contribution in 2003 was USD 42 million) and the International Monetary Fund (IMF), the African, Asian and InterAmerican Development Banks (total 2003 contributions USD 28 million), and the International Fund for Agricultural Development. It sees the World Bank and IMF as important contributors to macroeconomic stability, and aims to strengthen the focus of these institutions on the SEE region.

Austria is also a member of the major **UN organisations** (USD 21 million in total contributions in 2003). It seeks to strengthen the position of the United Nations Development Programme (UNDP) vis-à-vis the IFIs, and has increased its voluntary contribution to UNDP in 2004. It has also boosted its contribution to the United Nations Industrial Development Organisation (UNIDO), which like the UN Office on Drugs and Crime, is based in Vienna. As the host nation, Austria sees itself as having a special responsibility in increasing the effectiveness of UNIDO, especially in the fields of renewable energy and boosting agricultural output.

Future considerations

- An increased aid budget for 2004 restored the core bilateral development programme to approximately the levels applying before the cuts of 1999-2001. The current budgeting exercise will involve major increases in 2005-06 with the perspective of the Barcelona Summit target. However, a major challenge remains to consolidate the Austrian development programme at a considerably higher level than in the past, and to provide greater predictability in Austrian aid flows.
- One possibility for the Austrian authorities to consider would be to set a medium-term expenditure framework for the MFA/ADA component of the aid programme. It would be desirable from the point of view of predictability of aid programming to convert the purely indicative figures in the Three-Year Programme into a firmer planning framework.
- To ensure continuity and administrative efficiency of aid delivery, efforts should be made to ensure that annual budget lines at country level are approved at the latest in autumn of the preceding year.
- Even in the core programme, recipients remain numerous. Austria should continue its efforts to consolidate its range of recipients, including through collaboration with its EU partners, and taking account of its sectoral strengths and existing aid relationships including in SEE. Further geographic concentration of the aid programme would help achieve greater efficiency and effectiveness by creating a critical mass and allowing bigger sectorally-based programmes.

CHAPTER 3

MAIN SECTORS

Under the introduction of the Three-Year Programme 2004-2006, Austrian development co-operation concentrated on the sectors in which it sees itself as having a comparative advantage: water and sanitation; rural development; energy; investment and employment, small and medium-sized enterprise (SME) development; education, training, science and research; and democratisation, rule of law, human rights, conflict prevention and good governance. Austrian projects and programmes in these sectors seek to contribute to the three overarching aims of Austrian development co-operation. This chapter concentrates on the first two of these aims: combating poverty, and ensuring peace and human security. Also, special attention is given to the new focus of private sector and development.

Poverty reduction and the MDGs

Policy commitment to combat poverty

Although poverty reduction has long been a priority aim of Austrian development co-operation, since 2000 it has received new impetus. Two **main policy documents** highlight the increased importance given to poverty reduction on a policy level. In the new Development Co-operation Act (Section 1.3) and the Three-Year Programme 2004-2006 (p. 9), combating poverty in developing countries is firmly rooted as one of the three main objectives of Austrian development co-operation. This is to be achieved by promoting economic and social development aimed at a process of sustainable economic activity and economic growth combined with structural, institutional and social change. On a policy level, many characteristics of Austrian development co-operation are consistent with poverty reduction efforts as recommended in the DAC Guidelines on *Poverty Reduction*. Poverty is understood as a multidimensional problem: Austria's three main objectives cover the issues of peace and security and environment. The four principles stated in the Development Co-operation Act (Section 1.4) highlight the importance of partnership and responsibility, socio-cultural surroundings, gender equality, and support of especially disadvantaged target groups (children and the disabled); private sector and development has become a new focus especially of Austrian co-operation with Eastern Europe.

Programming and mainstreaming poverty reduction

In contrast to the clear policy commitment to combat poverty, there is still a lack of programming and implementation of this commitment although some efforts have been made. No overall **strategy for poverty reduction** exists (such as the two White Papers on "Eliminating World Poverty" in the United Kingdom or the Programme of Action 2015 "Towards Halving Poverty" in Germany). Austria is encouraged to assess its experiences made so far in a joint exercise within the administration (including the Co-ordination Offices) and then to follow the example of other donors in elaborating a strategy for poverty reduction. With regard to country strategies, since January 2004 the country strategy format has been revised (see Chapter 6), now strengthening the focus on poverty reduction. Although Austria has only given limited input to the development of Poverty Reduction Strategy

Papers (PRSPs) in its main partner countries, some efforts have been made to align its country strategies and priority sectors to PRSPs, *e.g.* in Mozambique, Ethiopia, Uganda and Burkina Faso. Also, sectoral strategies are being reviewed with the intention of systematically including poverty mainstreaming.

To strengthen the poverty focus of its aid programme, Austria has been working on **mainstreaming poverty reduction** during the last few years. Two workshops were organised together with the Co-ordination Offices in Nicaragua and Ethiopia, the outcome of which was a questionnaire intended to improve communication between headquarters and the Co-ordination Offices. The intention behind the questionnaire was to evaluate each programme's or project's relationship to the MDGs, the respective PRSP and identify the main target groups and the impact to be achieved. However, half-way through the exercise ground to a halt. Similarly, several analyses on poverty reduction in Austrian development co-operation were written but have neither been published nor put into practice. It appears that, despite the deep commitment of a few staff members, there is not sufficient political support for operationalising the commitment to poverty reduction. Furthermore, the disruptions caused by the reform process of Austrian development co-operation have hindered the poverty mainstreaming efforts. Before the workshops and questionnaire exercise can continue a clarification of roles between the MFA and ADA appears to be necessary. The DAC Peer Review team encourages Austria to continue with and to push forward this process of improved communication and assessing the programmes' and projects' relevance for poverty reduction.

The **lack of resources** (staff and financing) poses difficulties for the implementation of the poverty reduction commitment. Within the MFA/Section VII only one person works on poverty reduction while at the same time covering other topics. In ADA, there is also one person working on the issue of poverty reduction. Hence, there is no dedicated focal point for poverty reduction in the Austrian development co-operation system equipped with sufficient resources and authority to be able to effectively propel action, institutional change and learning. In order to develop **staff capacity**, training programmes dealing with poverty reduction issues and techniques are needed. So far, there have only been a few opportunities for exchange and discussion on poverty reduction, *e.g.* during the yearly meetings of the heads of Co-ordination Offices in Vienna.

Austrian development co-operation endeavours to focus its efforts on those **countries and regions that are most disadvantaged** (see also Box 3). A poverty focus is established at least with respect to the priority countries in the South since six out of seven are LDCs. Looking at co-operation countries in the South the picture is more mixed and many of the priority countries in Eastern Europe are LMICs. The challenge in Eastern Europe is to actually focus the Austrian co-operation efforts on poverty reduction. Out of the MFA/ADA core budget for programme and project aid (2002: EUR 62.3 million), LDCs accounted for 51%.⁸ When it comes to total ODA (2002: USD 520 million), Austria provides only 33% of ODA or 0.08% of GNI to LDCs (see Table B-6). In order to implement the commitment reconfirmed at the Third UN Conference on the LDCs, to provide at least 0.15% of GNI as ODA to LDCs, Austria needs to strengthen its poverty focus.

8 Ministry for Foreign Affairs (2003): Austrian Development Co-operation Report 2002, p. A5.

Box 3. Poverty reduction and Austrian development co-operation in Nicaragua and BIH

Nicaragua: Nicaragua has a GNI per capita of USD 710 (2002) and is characterized by a high degree of inequality with regard to income and consumption.⁹ In 2001, 46% of the population was living in poverty, most of them in rural areas.¹⁰ The DAC Peer Review team welcomes the overall aim of Austria's country strategy for Nicaragua to combat poverty by supporting a socially, economically and ecologically sustainable development. The programme is focused on three priority sectors (see Chapter 6) which are in line with the PRSP-I of Nicaragua. They were chosen because of Austria's experience and their relevance for poverty reduction.

With regard to geographical priorities, the Austrian Co-ordination Office in Nicaragua intends to concentrate its activities on the poorer regions, e.g. the North and South Atlantic Autonomous Regions (RAAN and RAAS). Even though some projects financed by Austria are located in these regions, there is a clear concentration of Austrian projects in West Nicaragua and around the capital city of Managua where the incidence of poverty is the lowest in the country. Hence, Austria is encouraged to revise its geographical priorities in order to actually set its own objective of focusing on the most disadvantaged regions into practice.

In Nicaragua, progress in achieving the MDGs has been generally satisfactory, but there are concerns for sustainable future performance relative to several goals. Given the current rate of progress, most goals and targets are unlikely or very unlikely to be reached. Only MDG 1 "eradicate extreme poverty and hunger", MDG 4 "reduce child mortality" and those parts of MDG 7 "ensure environmental sustainability" that concern access to water and sanitation are likely to be achieved.¹¹ According to the Co-ordination Office in Nicaragua, Austria's main contribution to reaching the MDGs in Nicaragua can be found in social sector activities, such as the improvement of health indicators in rural areas, the increase of gender equality or HIV/AIDS prevention. Moreover, Austrian development co-operation strives for a wide ecological sustainability in all its project and programme areas. No direct link to the MDG goals, targets and indicators is made in the Austrian country programme for Nicaragua.

BIH: In BIH, the scope and meaning of poverty reduction is different from the one in Austrian partner countries in the South. The war (1992-1995) has set back the country in its economic and social development by many years. BIH is classified as a LMIC with a GNI per capita of USD 1 310 (2002).¹² According to the PRSP of BIH, approximately 20% of the population lives below the poverty line and an additional 30% remain vulnerable to slipping into poverty.¹³ Austrian co-operation with Eastern Europe addresses the issue of poverty reduction on a macro-level in terms of supporting BIH in overcoming the vast damage of the war, economic development and employment generation. Furthermore, the issue of peace and security is of utmost importance for poverty reduction in SEE. As observed during the DAC mission to BIH, poverty reduction has not been the programme's leading goal as stated in the Three-Year Programme 2004-2006. This contradiction exists because the Three-Year Programme 2004-2006 does not adequately take into consideration the specific nature of this country and region and Austria's specific relations with it (see Chapter 6 and Annex G). Since the department responsible for the co-operation with Eastern Europe was only incorporated into the MFA in 2000, this region's perspective has not sufficiently been integrated in the discussions so far. A country strategy for BIH is currently being developed. It is planned to take into account the PRSP of BIH and the MDGs.

Austria has supported the process of developing PRSPs in SEE through financing two regional conferences. Austria provides financial assistance to the Bosnian government for the working group developing the PRSP. However, when the Co-ordination Office was asked to take part in the PRSP exercise, no substantial participation was possible due to a lack of capacities.

9 World Bank (2004): World Development Indicators, p. 15.

10 World Bank (2003): Nicaragua Poverty Assessment, Report No. 26128-NI, p. 1.

11 World Bank (2003): Nicaragua Poverty Assessment, Report No. 26128-NI, p. 15-17.

12 World Bank (2004): World Development Indicators, p. 14.

13 Mid-Term Development Strategy of Bosnia and Herzegovina (PRSP) 2004-2007, p. 1 (published in March 2004). These figures rely on data collected in the Living Standard Measurement Survey. The general poverty line, *i.e.* the total annual spending below which a person is considered poor, is BAM 2 198 (convertible marks) or EUR 1 099.

Working towards the MDGs

The Three-Year Programme 2004-2006 includes a **general commitment** to working towards the MDGs.¹⁴ However, Austrian action towards the achievements of these goals is not oriented by any more precise policy statement or strategic framework. Interlocutors stated that most Austrian projects contribute to the achievements of the MDGs in some way, and the development of resources for basic social services, which are considered an important tool to reach the MDGs, shows increased commitment: while the share of basic social services accounted for only 2.6% of sector-allocable ODA¹⁵ in 1995-96 (two-year average), the share rose to 14.7% in 2001-02. Yet, nowhere is Austria's contribution to the MDGs actually defined, *e.g.* on which of the eight goals it concentrates and which implementation strategies it pursues. Even with regard to the MDG 8 "develop a global partnership for development" on which the EU countries have agreed to monitor their contributions in preparation for the high level plenary meeting of the UN General Assembly to review the Millennium Declaration in 2005, Austria has not presented a specific plan or implementation strategy. It will thus be difficult for Austria to report on MDG commitments as EU donors had agreed upon. Austria is encouraged to include the MDGs into all policy and strategy documents and to spell out precisely how it intends to make a practical contribution to achieving the MDGs.

The **MDG targets and indicators** are not used to measure results and impact of Austrian development co-operation. The only exception to this is the education sector for which the sector strategy is currently being reviewed. All future activities in this sector will be linked to the MDG goals, targets and indicators. This could serve as a useful model for other sectors and themes. However, Austria's contribution to MDG 2, "achieve universal primary education", is very limited since Austria concentrates its efforts on higher education (*e.g.* in Nicaragua and BIH).¹⁶ Activities in this field have a long tradition and are supported by a strong lobby (Austrian universities and other scientific institutions). Austria argues that activities which fall under the education sector contribute to the MDGs (mainly to MDG 4-6 on health and MDG 7 "ensure environmental sustainability") through capacity building. Some Austrian interlocutors would be glad if Austria became active in the field of primary education through budget support/sector-wide approaches (SWAps). This is subject to a general discussion on Austria's position on joint financing arrangements (see Chapter 6). It is not only true with regard to the MDGs but also generally for Austrian development co-operation, that measurement of results and impact does not yet receive enough attention. Progress at this level is vital to a clearer assessment of whether the activities supported by Austria are making a real impact in terms of poverty reduction. Due to the high share of projects implemented by NGOs, this becomes a difficult but even more important task.

Peace and security

The second of the three main objectives of Austrian development co-operation is ensuring peace and human security, in particular by promoting democracy, rule of law, human rights and good

14 "... greater efforts are required if the MDGs set by the international community are to be achieved by 2015. ... Austria is making its contribution to the achievement of the MDGs through the restructuring of its development co-operation programme and the increase in funding (Three-Year Programme 2004-2006, p. 6).

15 About 65-70% of DAC member's bilateral ODA is sector allocable. Contributions not susceptible to allocations by sector (*e.g.* structural adjustments, balance of payments support, actions relating to debt, emergency assistance, internal transactions in the donor country) are excluded from the denominator to better reflect the sectoral focus of donors' programmes.

16 The share of post-secondary education (out of total ODA contributed by Austria to the education sector in 2003) accounted for 88%.

governance. Austria claims to have a **comparative advantage** in this field, building on Austria's lack of colonial past, neutral status, strong commitment to human rights and strengthening the rule of law, traditional strength in peacekeeping and conflict settlement, and prominence in the dialogue between cultures and civilisations.

On a **project basis**, Austria has been involved in the field of peace and security for several years. Concrete activities include supporting the security sector reform (Uganda, Namibia, partner countries in SEE), strengthening the rule of law and civil society (Uganda, Rwanda, Burundi, Mozambique, partner countries in SEE), developing human rights (Uganda, Rwanda, Burundi), supporting regional integration (Southern African Development Community, East African Community), building-up of good governance structures (Uganda, Namibia), etc. Priorities of Austria's work in this sector are the development of human rights, the protection of children in armed conflicts, minorities and internally displaced persons. During the Austrian chairmanship of the Human Security Network¹⁷ (July 2002 - May 2003), specific initiatives were devised, including a manual on human rights. For all activities in the field of peace and security, the DAC Guidelines *Helping Prevent Violent Conflict* have served as a substitute for their own sector policy so far.

Box 4. Humanitarian assistance

Responsibility for disaster assistance and emergency relief in the Austrian government rests with the Ministry of the Interior (Section II.4 "Bundesalarmzentrale"), given its mandate to respond to such events within the country and abroad. This response usually takes the form of the provision of technical personnel and equipment for short-term deployment at the time of the disaster. Concerning humanitarian assistance, the MFA/Section VII.3 is responsible for policy and planning whereas ADA (humanitarian assistance desk) administers the activities which are implemented by NGOs, international organisations, etc. The MFA also covers European and international humanitarian aid initiatives, such as the Good Humanitarian Donorship Initiative. There is no budget line in the MFA or the Ministry of the Interior to support Austrian participation with international partners and other donors in interventions for long-term emergencies and (conflict-related) complex situations. In each case the Council of Ministers must be asked to approve a specific allocation of funds. According to Austrian authorities, current expenditures on humanitarian assistance average EUR 4 million annually.¹⁸

While Austria did not attend the 2003 Stockholm meeting on Good Humanitarian Donorship, it is very interested in the initiative, and accepts its responsibility to assist in the global humanitarian effort. It does have some concerns, however, that the initiative may be raising expectations that could be difficult to meet, and that attention might be given to new structures rather than results. Austria's thinking is oriented toward identifying an appropriate niche for itself in humanitarian assistance, particularly with respect to its main partner countries. In this respect its experience in Kosovo and BIH has had significant impact, although it is recognised that this was a unique situation.

As Austria's reflection on humanitarian assistance proceeds, several points could be taken into consideration. There should be a specific budget line, within the budget of the MFA, for international humanitarian assistance; the definition of a qualifying situation could be drawn from the Good Humanitarian Donorship conclusions. Austria could identify a particular specialisation (geographic or thematic) within humanitarian assistance around which it could build its responses. Finally, Austria should not overlook the importance of providing support for the international humanitarian assistance co-ordination machinery, i.e. through support for UN Office for the Co-ordination of Humanitarian Affairs (OCHA).

17 The Human Security Network is a group of like-minded countries from all regions of the world that, at the level of foreign ministers, maintain dialogue on questions pertaining to human security. The Network includes Austria, Canada, Chile, Greece, Ireland, Jordan, Mali, the Netherlands, Norway, Switzerland, Slovenia, Thailand and South Africa as an observer.

18 Table B-5 in Annex B shows that Austria spent USD 33 million for emergency assistance in 2002-03. The largest share of these funds was spent for assistance to refugees in Austria.

At the end of last year, the need for a **peace and security strategy** was recognised. The MFA and ADA are currently developing such a strategy working in consultation with the Ministry of Defence. The development of the strategy is guided by the discussions in the DAC Network on Conflict, Peace and Development Co-operation (CPDC), the EU-security policy and the DAC Guidelines *Helping Prevent Violent Conflict*. It is based on a broad definition of human security encompassing political, legal, economical, social, ecological, and military aspect of security. The focus of the strategy will lie on conflict prevention and hence on an ex-ante approach whereas so far Austria has concentrated its efforts on ex-post activities, i.e. on conflict management.

It is planned that each country programme will include a country specific conflict analysis and that peace and security will be mainstreamed into all country programmes. In particular, peace building (e.g. security system reform) will play a central role in the **mainstreaming** exercise. During the field mission to BIH the DAC Peer Review team learned that, although the country strategy is being developed, almost all projects already include peace building aspects. As experienced by the Co-ordination Office in Sarajevo, addressing peace building in an indirect way (e.g. supporting co-operation between ethnic groups as part of a water project) has been proven to be most successful. Necessary resources and skills have to be made available for the mainstreaming exercise.

Private sector and development

Private sector and development has become a main focus of Austrian development co-operation. The new Development Co-operation Act (Section 1.3) includes the goal of strengthening economic development in partner countries in order to combat poverty. It states that the Austrian private sector is intended to be further integrated into Austrian development co-operation (Section 2.3). In line with the DAC Guidelines on *Poverty Reduction*, the Three-Year Programme 2004-2006 (p. 37) states that "...private sector and development is the basic prerequisite for the sustainable reduction of poverty, since investments create jobs, incomes and thus a stable basis for living". Austrian development co-operation has set itself two aims. Firstly, to improve the conditions for economic activity in partner countries and thus to facilitate investments and start-ups. By compensating for structural, institutional or legal deficits and improving educational standards, opportunities for economic development ought to be increased. Secondly, to make it easier for Austrian companies to invest in partner countries, all available financing and economic instruments such as investment guarantees, export loans and start-up assistance should be better co-ordinated with development co-operation.

The Private Sector and Development Platform

In 2003, the Private Sector and Development Platform was set up. It is co-ordinated by the MFA, the function of ADA is to provide substantive and administrative support to the Platform. Participants in the Platform meetings, which take place several times per year, include the Federal Chancellery, four Austrian ministries (Finance; Economic Affairs and Labour; Agriculture, Forestry, Environment and Water Management; Education, Science and Culture), Austrian Chamber of Commerce, Oesterreichische Kontrollbank, Vienna Institute for International Economic Studies, and Austria Wirtschaftsservice GmbH.

Through the Private Sector and Development Platform sustainable partnerships between Austrian companies and enterprises in transition and developing countries may be made possible. For the work of the Platform, the following actions are considered important: i) to start a comprehensive prioritisation process with all major actors in Austria and to establish an information network (including personnel in partner countries, multilateral organisations, IFIs, etc.); ii) to co-ordinate the further development of the financing instruments; and iii) to increase consideration of and involvement in programmes of the EC and the UN.

Sector strategy and geographical focus

According to the Three-Year Programme 2004-2006 (p. 37), the **main target region** of private sector and development is **SEE**. The Austrian private sector is clearly interested in this region and has been actively involved there for some time. For BIH, Croatia, Serbia and Montenegro a sector strategy for “investment and employment” (2004-2006) has been developed by a former expert of the Austrian co-operation with Eastern Europe. The strategy was discussed and approved by the different members of the Private Sector and Development Platform. It states that the promotion of sustainable, socially balanced economic development is the core focus of the Austrian co-operation in this region. Important components are the promotion of SMEs, support of innovative labour market policies and the encouragement of investment from Austrian businesses. As stated in this strategy, from 2004 to 2006 it is planned to apply the following four project lines in BIH, Croatia and Serbia and Montenegro: (i) public institutions as promoters of the investment climate, (ii) communities as modern partners for investors, (iii) SMEs as job creators, and (iv) modern labour market administration to combat unemployment.

As the DAC Peer Review team found out in **BIH**, the implementation of this strategy is still at a very early stage. The first initiative that is close to being signed is a multi-year contribution to land-registry reform in BIH. According to the Co-ordination Office in Sarajevo, the delay in the programme preparation and implementation is mainly due to limitations in resources and the short-term disruptions caused by the restructuring of Austrian development co-operation. Meanwhile, projects which fall under the three priority sectors of the Austrian programme in BIH have supported economic development, *e.g.* through educational projects with a direct impact on the labour market as well as providing financing opportunities for SMEs (see Box 5).

Box 5. Austria's contribution to the European Fund for Bosnia and Herzegovina - a concrete example of donor co-ordination in the sector credit lines for SMEs

The European Fund for Bosnia and Herzegovina (EFBH) is a revolving fund which provides long-term refinancing to local banks and micro-credit organisations and enables them to provide long-term loans to creditworthy citizens and companies in BIH. It is managed by the German Kreditanstalt für Wiederaufbau (KfW) on behalf of the European Commission and the governments of Austria, Germany, Switzerland and the Netherlands. In 1998, the European Commission mandated KfW to implement a housing construction loan programme, later co-financed by Germany and the Netherlands. Still in 1998, another loan programme for SMEs was created on the initiative of the governments of Austria, Germany and Switzerland, later joined by the European Commission. The two separate programmes were eventually brought together under the umbrella of the EFBH, which in 2002 incorporated a third programme providing rural loans.

With EUR 58.8 million in revolving funds and EUR 5 million in non-revolving funds, the EFBH is the largest refinancing structure for BIH financial institutions. Austria contributed EUR 2.55 million to the SME programme in 1998. From 1998 to 2003, the EFBH provided 4 000 loans for housing reconstruction, 2 700 loans for SMEs and 1 500 loans in the rural sector. In addition, the EFBH has contributed to strengthening the banking sector in BIH. The foreign donors plan to run the fund until 2012 and then to leave it to the local partners.¹⁹ The institutionalisation of the fund and the gradual transfer of ownership to local partners are currently under discussion.

The EFBH is a concrete example of donor co-ordination. Several donors have contributed to three loan programmes under a single umbrella structure, thus demonstrating their will to avoid duplication of efforts, reduce transaction costs on both the donor and partner sides, and seek a cost-effective management system. Such an approach is of particular interest to a small donor like Austria.

19 Kreditanstalt für Wiederaufbau (KfW) Office BIH (2003).

Other possible target regions of private sector and development include North Africa, the Middle East, Southeast Asia and Latin America. The Three-Year Programme 2004-2006 states that priority countries of Austrian development co-operation will also be involved. The countries will be selected in co-ordination with the members of the Private Sector and Development Platform. So far, it has been particularly difficult to encourage private sector involvement in the South, *e.g.* Nicaragua has not been of interest for the Austrian private sector. The MFA and ADA are now reviewing the instruments they have used in the past and intend to adopt a more proactive approach. Austrian export credits, for instance, did not meet their aim since no single Austrian firm continued exporting after these programmes were stopped. For developing countries no strategy for the field of private sector and development (such as the one developed for SEE) exists. However, there is a sector strategy for micro- small- and medium-enterprise (MSME) development which was already developed in 1996 (last up-date 2002). The stated overall goal is the sustainable improvement of the standard of living and the opportunities of the poor through increased income. Five strategies are pursued: (i) to strengthen the market position, (ii) to open access to financing, (iii) to broaden the information basis, (iv) to strengthen self-confidence, and (v) to improve framework conditions. From 1996 to 2000, under the strategy of MSME development 125 projects worth EUR 37 million were implemented, mainly in rural areas in Africa and Central America.

Responsibilities and activities in co-operation with the private sector

On the MFA's website it is stated that enterprises looking for information on the economic situation in a partner country as well as on opportunities for investment, tenders and subsidies can contact the following **actors**: the trade offices of the Austrian Chamber of Commerce, the Austrian Embassies, ADA country desks and the Co-ordination Offices in the field. The precise role of each of these actors has not been clearly defined yet and most of them do not have sufficient staff to fulfil additional tasks. For instance, trade representatives of the Austrian Chamber of Commerce have been reduced, especially in Africa. So far, in the Co-ordination Offices no staff are specifically employed in the private sector and development field (although in Nicaragua and Uganda a programme officer is responsible for the priority sector MSME development). Only in Vienna, when ADA was set up were two additional people (to one staff member in the MFA) employed to work on this topic. Regarding financial resources, the annual budget for private sector and development is EUR 1 million. However, only a few thousand euros have been spent so far which can mainly be attributed to the lack of interest of the Austrian private sector to invest in developing countries.

In the last DAC Peer Review, two activities in co-operation with the private sector were mentioned which have developed since then. The **first** activity is the Private Sector Partnership Programme under which financial aid has been provided in form of a non-reimbursable grant for a long-term partnership between an Austrian enterprise and a private company in a developing country. Since the beginning of this programme in 1999, 25 project proposals were submitted of which 10 have been approved. The total amount of foreign investment was almost EUR 2 million, the non-reimbursable grant (ODA) financed by the MFA accounted for about EUR 445 000. According to the MFA, the programme has been successful in stimulating interest in investing in difficult markets while cushioning the risks involved. Sustainability of the projects is given through the firms' own interest in longevity. The MFA admits that one deficit of the programme has been a lack of monitoring the firms during the course of the programme. The **second** programme mentioned in the last DAC Peer Review is the co-operation of the Austrian Chamber of Commerce with the Centre for the Development of Enterprise of the EU, aiming at establishing business partnerships between the Austrian private sector and companies in African, Caribbean and Pacific (ACP) countries. This programme has not been successful (*e.g.* due to the high bureaucracy) and is currently on hold. Still, it is planned to continue with the programme under a new contract that has yet to be negotiated by ADA.

As a new programme, Austrian development co-operation is currently considering setting up **Public Private Partnership (PPP)** schemes in its partner countries. In order to learn from experiences of other donors, staff of ADA met with representatives of the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ).

The Three-Year Programme 2004-2006 (p. 39) states that every enterprise is responsible for any results and consequences of its activities in a country, especially as many developing countries cannot set or enforce a reasonable level either in legislation or the application of standards. Austrian development co-operation is therefore in favour of a new partnership with the industry, which promotes mutual understanding for the particular economic conditions in partner countries. The MFA itself is not active yet in supporting **corporate social responsibility (CSR)**. However, it intends to support the “CSR Austria” initiative, run by the Austrian Federation of Industries, the Austrian Chamber of Commerce, and the Ministry for Economic Affairs and Labour, which developed a CSR Guiding Vision for the Austrian private sector and organises different events. The aim of the MFA is to raise awareness of development co-operation issues within this initiative.

Future considerations

- Austria has made an important commitment in policy statements to poverty reduction and the MDGs. The stated commitment needs to be made operational and be reflected in the allocation of resources. To mainstream poverty reduction into all projects and programmes, strong political support and staff capacity is needed. Measuring the results of Austrian activities and their impact in terms of poverty reduction and contribution to the MDGs should receive close attention.
- Austria has begun important work on the development of a peace and security policy. The DAC Peer Review team urges the timely completion of this policy and encourages Austria to continue its efforts to mainstream peace building into all activities where appropriate. The growing importance given to peace and security needs to be reflected in the resources (staff and financing) allocated.
- The MFA is encouraged to contribute to a conducive environment for local private sector activities and foreign investment by including private sector and development into its development programme strategies. In order that private sector and development actually becomes a focus of Austrian development co-operation, particularly in SEE, resources have to be increased. It will be important to distinguish clearly between development co-operation and support to Austrian business (*e.g.* export promotion).
- The Private Sector and Development Platform constitutes a good opportunity for increased dialogue and better co-ordination between the Austrian private sector and development co-operation. Austria is encouraged to analyse why the private sector has been reluctant to invest in developing countries, to draw consequences from it for development co-operation with the South and to share its analysis and experience with other DAC members in the relevant discussions of the POVNET. The precise role of the different actors (Austrian Chamber of Commerce, Austrian embassies, ADA country desks and Co-ordination Offices) needs to be defined.

CHAPTER 4

POLICY COHERENCE FOR DEVELOPMENT

Enhancing policy coherence for development: OECD consensus and approaches to implementation

The members of the OECD have repeatedly confirmed the need for policy coherence for development both in the Council, which is the supreme decision-making body of the OECD, and in the DAC. In the OECD communiqué “*Action for a Shared Development Agenda*”, adopted by the OECD Council at Ministerial Level in 2002, OECD members acknowledged that successful poverty reduction requires mutually supportive policies across a wide range of economic, social and environmental issues. According to the DAC Guidelines on *Poverty Reduction*, reducing poverty requires not only coherent policies for development co-operation but also coherence across OECD member government policies to avoid having the policies and actions of other parts of their governments undercut members' efforts to reduce poverty. In the last few years, the debate on policy coherence for development, which had long focused mainly on manifest cases of incoherence, has increasingly dealt with institutional approaches to promote coherence.²⁰

Efforts to enhance policy coherence for development are complicated by the fact that some policies, such as the foreign trade or agricultural policies, are the EU's responsibility, i.e. they cannot be adjusted by an individual EU Member State even though it may be well aware of incoherence of some kind. The call for greater coherence therefore means that the governments of the EU Member States must bear in mind both their own policies and EU policies for which they share responsibility. It should be recalled that the ministries of a member country when participating in EU negotiations in their respective areas act not on their own behalf but on their governments' behalf, *i.e.* on the basis of a consensus to be reached before at government level. This gives the departments in charge of development policy a particular chance and responsibility: if necessary, they can and should bring development concerns to bear in the definition of the governments' positions on all subjects debated at EU level.

20 Important groundwork was done by the OECD Public Management Service (PUMA). See OECD/PUMA: *Building Policy Coherence - Tools and Tensions*, Occasional Papers No. 12, Paris 1996. The DAC Guidelines on *Poverty Reduction* contain an illustrative checklist of measures to be considered for enhancing policy coherence (see also Box 7 of the present report). Findings and lessons from DAC Peer Reviews are now available on a larger scale and can be used for a comparative perspective and mutual learning.

Box 6. Policy coherence for development in the European Union

Within the EU, the principle of policy coherence is enshrined in Article 130V of the 1992 Treaty of Maastricht. It obliges the Community to take account of its developing objectives in the policies that it implements, which are likely to affect developing countries. Institutional mechanisms have subsequently been adapted for this purpose, including the grouping under the code name RELEX of the various directorates involved in the EU's external policies.

Given the size of the EU economic area, the capacity to access European markets is fundamental for developing countries. The "Everything but Arms" initiative adopted in 2001 removed all quantitative and tariff barriers to the EU market for LDC exports (except for weapons; for bananas, rice and sugar full liberalisation will take place gradually). However, LDCs as well as other developing countries may still face difficulties in overcoming non-tariff barriers, including rules of origin and sanitary and phyto-sanitary measures applied to agricultural trade for the protection of human, animal and plant health. These provisions become increasingly important obstacles, as other barriers to trade disappear.

Internal EU policies, such as the Common Agricultural Policy (CAP), can also impact substantially on developing countries. The CAP subsidises agricultural production within the EU. Export subsidies then allow overproduction to be sold in other markets at less than production cost, which depresses world prices. Evidence suggests that subsidised EU farm products can create unfair competition in some local markets, including in developing countries where agriculture may provide livelihoods for most of the population. EU Member States and the European Commission continue to negotiate reforms to the CAP so as to reduce its trade distorting aspects.

Austria's approach to policy coherence for development

The **legal, programmatic and institutional basis** for enhancing policy coherence for development has considerably improved in Austria in the last few years. The new Development Co-operation Act provides an explicit legal basis for efforts to improve policy coherence for development. It contains a coherence clause stating that "... the federal government, in the fields of policy it pursues that may have effects on developing countries, shall take into account the objectives and principles of development policy" (Section 1.5).²¹ (For the main objectives and principles of Austrian development co-operation see Chapters 1 and 3). While every minister is obliged to act accordingly, it is up to the MFA to monitor and ensure compliance since the responsibility for enforcing the Act and hence the coherence clause rests with the MFA (Section 28).

The objectives and principles that other policies shall take into account are elaborated somewhat further in the **Three-Year Programme 2004-2006**. In addition, the programme recognises that "the international financial and trade systems (...) must be guided to a greater extent by the development needs of poor countries in particular" (p. 10) and calls for coherent action, *e.g.* in upcoming World Trade Organisation (WTO) negotiations.²² It should be noted that the Three-Year Programme is not just an internal document of the MFA. According to the Development Co-operation Act (Section 23), the MFA shall draw up the Three-Year Programme in consent with the Minister of Finance and

21 The wording is similar to the coherence clause included in the Treaty of Maastricht concerning the policies of the EU.

22 "A satisfactory result in line with the needs of developing countries is to be sought particularly in the areas of significance to them such as agriculture and textiles. In accordance with the coherence principle of the Development Co-operation Act, the Federal Ministry of Foreign Affairs will include development policy in Austrian preparations for the sixth WTO Ministerial Conference in Hong Kong" (Three-Year Programme 2004-2006, p. 49).

annually submit it to the council of ministers and communicate it to the Austrian parliament for information. Hence the programme can be used as a reference document that has been approved or at least taken note of by the cabinet. On the other hand, there is no requirement as in some other OECD member countries to report to parliament on policy coherence work.

Austrian development co-operation has been integrated as an important policy area into Austria's **Strategy for Sustainable Development** approved by the federal government in 2002. In the chapter on Austria's international responsibility, the document states that "Austria supports the common objectives for a long-lasting sustainable economic, ecological and social development as adopted by the OECD Development Assistance Committee and in the UN Millennium Declaration".²³ The strategy defines four key objectives related to international development²⁴ under which a number of policies or measures are subsumed that are either currently implemented or planned and involve various ministries. The strategy contains several references to policy coherence for development, *e.g.* when confirming Austria's commitment to an international trade policy that improves the integration of developing countries into the world economy, or the commitment to elaborating a coherent national strategy to help achieve the MDGs.²⁵ Within the federal government, the responsibility for elaborating and co-ordinating the strategy rests with the Ministry of Agriculture, Forestry, Environment and Water Management.

The creation of ADA is meant, among other things, to further strengthen the MFA's leading role, already mentioned in the Development Co-operation Act, in enhancing policy coherence for development. In order to intensify current **inter-ministerial co-ordination** for the sake of greater policy coherence, it is planned to use additional co-ordination fora. In the area of private sector and development, the MFA/Section VII "will continue to manage the Private Sector and Development Platform and co-ordinate development policy instruments in accordance with the demand for coherence in the Development Co-operation Act".²⁶ As part of the implementation of Austria's Strategy for Sustainable Development, it is planned to use the Austrian Council for Sustainable Development (ÖRNE) as an instrument and informal "clearing house" to improve the coherence of the various Austrian policies by involving the responsible ministries as well as experts in an intensive dialogue on the interdependence of the environment, peace and development, the role of development co-operation and the meaning and putting into practice of global governance.²⁷

In practice, there is current **inter-ministerial co-ordination** on a large number of development-related subjects ranging from debt reduction to the international environment agenda or peace-conflict prevention issues. Co-ordination largely takes place below the level of the council of ministers by means of informal contacts between Section VII and other sections of the MFA or other government departments. The Private Sector and Development Platform set up early in 2003 has so far mainly

23 Austrian Strategy for Sustainable Development (2002), p. 82.

24 Key objective 16: "fighting poverty, creating a social and economic balance"; key objective 17: "a globally sustainable economy"; key objective 18: "our world as a living space"; key objective 19: "international co-operation and financing".

25 Programme of Action 2004 of Austria's Strategy for Sustainable Development (*Strategie zur Nachhaltigen Entwicklung. Arbeitsprogramm 2004*), p. 16. With a view to involving the members of parliament in the discussion and elaboration of such a strategy, it is planned to initiate a parliamentary hearing in the autumn of 2004.

26 See the Three-Year Programme 2004-2006, p. 36 and Chapter 3 of this Peer Review for further information on the Private Sector and Development Platform.

27 Programme of Action 2004 (*Strategie zur Nachhaltigen Entwicklung. Arbeitsprogramm 2004*), p. 15.

dealt with defining the common strategy to be pursued. In the EU context, the task of Section VII is to monitor the decision-making process in the EU Council from a development policy perspective and to bring developmental concerns to bear in the definition of Austria's position in EU negotiations. Austria's EU presidency in 2006 provides a particular opportunity for raising coherence issues at the EU level. Using this opportunity will require preparatory work by the MFA, which should involve other government departments in the elaboration of common positions on coherence themes. NGOs could equally contribute to raising awareness of the need to reform major EU policies for the sake of coherence for development.

On balance, it is fair to say that the ground has been prepared for **effective policy coherence work**. Compared with other OECD member countries, Austria appears to stand midfield as far as its approach to policy coherence is concerned. By the Development Co-operation Act of 2002, particularly the MFA, which drafted the law, but also the federal government, which approved the draft, and the parliament, which passed the Act, demonstrated a clear political commitment to poverty reduction as the overarching goal of Austrian development co-operation and the need for policy coherence.²⁸ The legal expression of this commitment is remarkable since many DAC member countries (currently twelve) do not have a specific development co-operation act. On the other hand, several DAC members have manifested high-level political commitment to poverty reduction and policy coherence. Their heads of state, government or parliaments have been involved in intensive debates on the development agenda, the role of development co-operation and the need for coherent contributions by other policies.

The Development Co-operation Act and the Three-Year Programme provide a programmatic point of reference that underpins the call for policy coherence. Some other DAC member countries went further by preparing comprehensive **strategic visions and policy frameworks** (such as White Papers, programmes of action, memoranda on coherence or government bills) which serve as conceptual reference documents for an intensive dialogue both within and outside the government on global development and poverty reduction. The process of elaborating the policy frameworks has sometimes been almost as important as the final documents themselves since the drafting involved detailed discussions with many actors such as officials of other government departments, members of parliament, experts, business associations, trade unions and NGOs.

The need for policy coherence has been brought to the attention of the Austrian **parliament** by including the coherence clause in the Development Co-operation Act. In some other DAC member countries, the involvement of parliament is stronger, *e.g.* when governments are required to annually report to parliament on the implementation of development co-operation acts or programmes. Parliaments can of course also initiate hearings or debates on coherence issues in their (sub-)committees for development co-operation, with other parliamentary committees and in plenary sessions.

The MFA acknowledges its lead and co-ordinating role in coherence work stipulated in the Development Co-operation Act, but admits that it lacks **staff and analytical capacity** to deal with coherence issues in a systematic rather than an ad hoc way. Some DAC members have a special unit within their systems responsible for analysing the impact of non-aid policies on developing countries and bringing these insights to the attention of their governments.

Austrian **NGOs** play a role not only in the implementation of projects and programmes of official development co-operation, but also in information and development education and in advocacy. NGOs

28 In the foreword to the Three-Year Programme 2004-2006, the Minister of Foreign Affairs stated that she personally had insisted upon the three goals specified in the Development Co-operation Act.

regularly give their point of view in the wake of major international conferences. Issues raised by NGOs in the last few years include the 0.7% target, debt relief, support to the Global Fund to Fight AIDS, Tuberculosis and Malaria and the agenda of the Johannesburg Summit. Yet representatives of NGOs admit, and the MFA observes, that Austrian NGOs have not taken the policy coherence clause included in the Development Co-operation Act as a point of reference and challenge. They need to thoroughly analyse and discuss the impact of other policies on developing countries and poverty reduction with a view to sensitising the government and the public. Comparative experience shows that skilled analyses, public relations work and advocacy by NGOs (and the media) can be important allies of development policy to improve policy coherence.

Box 7. Organisational and procedural measures to be considered for enhancing policy coherence for development

1. High level political commitment

- A clear official statement on the poverty reduction goal and its priority.
- Public information programmes explaining the importance of international poverty reduction.

2. Analytical capacity

- Providing government agencies with analytical capacity to evaluate poverty reduction linkages in their policy areas and to identify priority issues.
- Linking these capacities and priorities to the International Development Goals and the UN Millennium Declaration Development Goals.

3. Co-ordination mechanisms across government

Establishing inter-ministerial/inter-agency processes, to screen policies and decisions vis-à-vis poverty reduction goals, with a lead agency or "core" group capable of getting results. Such processes might include:

- Information exchange procedures between policy communities.
- Reporting systems, so that coherence failures within government and in the field become known to policy makers and are used to take corrective action.
- Training and awareness building throughout the government on poverty reduction and the adaptation of various policies to contribute to it.
- Appropriate, regular contacts with - and inputs from - private sector and civil society.

Source : OECD/DAC, Guidelines on Poverty Reduction, Paris, 2001, p. 106.

Issues requiring attention from the coherence perspective

According to both the MFA and NGOs, there is currently **no intense debate** in Austria on "sensitive" coherence issues. Yet there are a number of subjects that not only reveal manifest incoherence but require attention with a view to either avoiding possible incoherencies or developing a more pro-active role by development co-operation. At the European Council meeting held in Barcelona before the International Conference on Financing for Development in 2002, Austria committed itself to attaining an ODA/GNI-ratio of 0.33 % by 2006. Keeping the Barcelona commitment will require a coherent budget policy in the sense that the necessary provisions have to be made (see Chapter 2).

Austria, like all other DAC members, has implemented the 2001 DAC Recommendation on **Untying ODA** to the Least Developed Countries. However, the Austrian aid programme is not really affected by the Recommendation. In particular, the optional coverage of technical co-operation and the relatively high threshold for procurement-related projects mean that most Austrian aid activities,

which in general are rather small, are exempted from its requirements. In fact, Austria is one of the few DAC members that have never posted an *ex-ante* notification on the DAC Untied Aid Bulletin Board. More generally, Austria's reported share of tied aid (31% of relevant bilateral aid in 2002) is largely determined by the size of elements that are either tied (costs of refugees in Austria) or untied (debt relief) by definition. These items are essentially outside aid policy control of the MFA. Within the core MFA/ADA programme, efforts are being made to open tendering, especially to EU countries, in respect of project assistance. However, the modest scale of the activities in question limits potential efficiency gains from full untying through international competitive bidding. As the MFA/ADA programme expands, opportunities for cost-effective international procurement of goods and services should increase.

There are currently discussions between the Ministry of Education, Science and Culture and the MFA on the tuition **costs of students from developing countries**, who were formerly exempted from tuition fees. Following decentralisation in the higher education system, Austrian universities have been granted more autonomy and manage their own budgets. Fees are now levied also on students from developing countries who afterwards can apply for a refund. The Ministry of Education, Science and Culture has passed the issue on to the MFA, arguing that the imputed tuition costs of students from developing countries have always been reported as ODA to the DAC and that consequently the refunds have to be financed from the MFA's budget. There might arise a coherence issue if the decentralisation of universities and the introduction of tuition fees directly or indirectly entailed a change in the policy vis-à-vis students from developing countries.

The **CAP** of the EU has long been a major area of concern for policy coherence.²⁹ Although the EU has made progress in liberalising market access (*e.g.* through the "Everything but Arms Initiative", see Box 6) and reforming the CAP, there continue to be products where policy coherence for development would require further reforms of the CAP.³⁰ The EU Commission recently made proposals to reform the EU's sugar policy, which are meeting with strong criticism from sugar producers in EU member countries, including Austria. Indeed the interests of Austrian pressure groups (co-operatives of sugar beet growers and the sugar refining industry) are at stake. Mozambique is not only a developing country which has been particularly affected by the EU's sugar policy, it is also a priority country of Austrian development co-operation.

Trade in textiles and clothing is another case where Austrian business interests are at stake. There are currently pressures both from developed and some developing countries (*e.g.* Bangladesh) to postpone the expiry of the Multifibre Agreement scheduled for the end of 2004 until 2007 with a view to curbing imports from strong competitors such as China at least for a few more years.³¹ Austria's Clothing Business Association appears to support this idea.

29 See *e.g.* the Development Co-operation Review of the European Community undertaken by the DAC in 2002, *The DAC Journal*, 2002, Vol. 3, No. 3, Chapter 4.

30 It should be noted that reforms of the CAP would affect developing countries in quite different ways, depending on whether they have hitherto benefited from the CAP (*e.g.* ACP sugar producers under the Sugar Protocol of the Cotonou Agreement) or been adversely affected (*e.g.* Brazil). Therefore there will be winners and losers among developing countries as a result of the EU's reform of the CAP.

31 Here again developing countries' interests are not uniform so that the call for coherence from the point of view of development policy should involve a detailed analysis of the different interests at stake.

Future considerations

- The new Development Co-operation Act gives the MFA the legal basis and the responsibility to monitor other policies with regard to their impact on developing countries and their contribution to achieve the goals of development co-operation. For this function to be performed, the MFA will need (i) a detailed strategy or policy framework (*e.g.* for the MDGs and poverty reduction)³², (ii) the means to engage analytical capacity to study the impact and possible contributions of other policies, and (iii) the staff to initiate and organise effective coherence work (*e.g.* by establishing a small coherence unit composed of one or two professionals).
- The Three-Year Programme should include a chapter on policy coherence specifying the areas where the MFA (and within the MFA: Section VII) wants to achieve progress in the short and medium term (coherence agenda). Drafting such a chapter would involve discussions with other government departments and thus be a start to coherence work.
- The Federal Ministry of Agriculture, Forestry, Environment and Water Management could be a special partner for the MFA in coherence work because of its lead role in Austria's Strategy for Sustainable Development and its responsibility for agriculture as a major area for coherence concerns. Such a partnership could take the form of a common understanding of coherence issues and efforts to improve coherence.³³
- Coherence work requires public awareness building and Austrian NGOs could play a more pro-active role in drawing attention to coherence issues by providing skilled analyses, making use of analyses conducted by their counterparts in other DAC member countries and by engaging in information campaigns.

32 As for the detailed strategy or policy framework, much conceptual work has been done at the DAC level or by some DAC members which could serve as a reference. Likewise many analyses of incoherencies have been conducted by the OECD (DAC, Development Centre), other DAC members, international research institutes and NGOs.

33 For an example see the Memorandum on Coherence between Agriculture and Development Policy, signed by the Minister of Agriculture, Nature Management and Fisheries and the Minister for Development Co-operation in the Netherlands. The memorandum was approved at cabinet level and sent to parliament in December 2002.

CHAPTER 5

ORGANISATION, STAFF AND MANAGEMENT SYSTEMS

Rationale for organisation and management change

With the restructuring of its aid architecture, based on the new Development Co-operation Act, Austria is responding to the new challenges of development co-operation. In particular, these correspond to the MDGs for 2015, the Barcelona commitment for an increase in collective funding for ODA and the global problems such as HIV/AIDS, climate change and worldwide security aspects that go beyond traditional bilateral aid. With its structural reforms, Austria has become one of those DAC members with overall responsibility for aid policies in the MFA and at the same time a separate executing agency, ADA, which itself delegates the implementation of projects mainly to a broad spectrum of NGOs and private enterprises. The major changes in the Austrian aid architecture have mainly been initiated since the beginning of 2004 and are still ongoing.

The government authorities in the aid architecture

The MFA is the focal point for development strategy and policy leadership within the Austrian aid system. Its capacity to fulfil this role is expected to be strengthened by the foundation of ADA which takes over the operational part of the bilateral aid system. However, the MFA administers only 22% of all Austrian ODA (about half of which consists of the core MFA/ADA programme). As shown earlier, seven other federal ministries are involved to varying degrees in development co-operation spending or policy decisions (see Chapter 2, Figure 3 and Annex E).

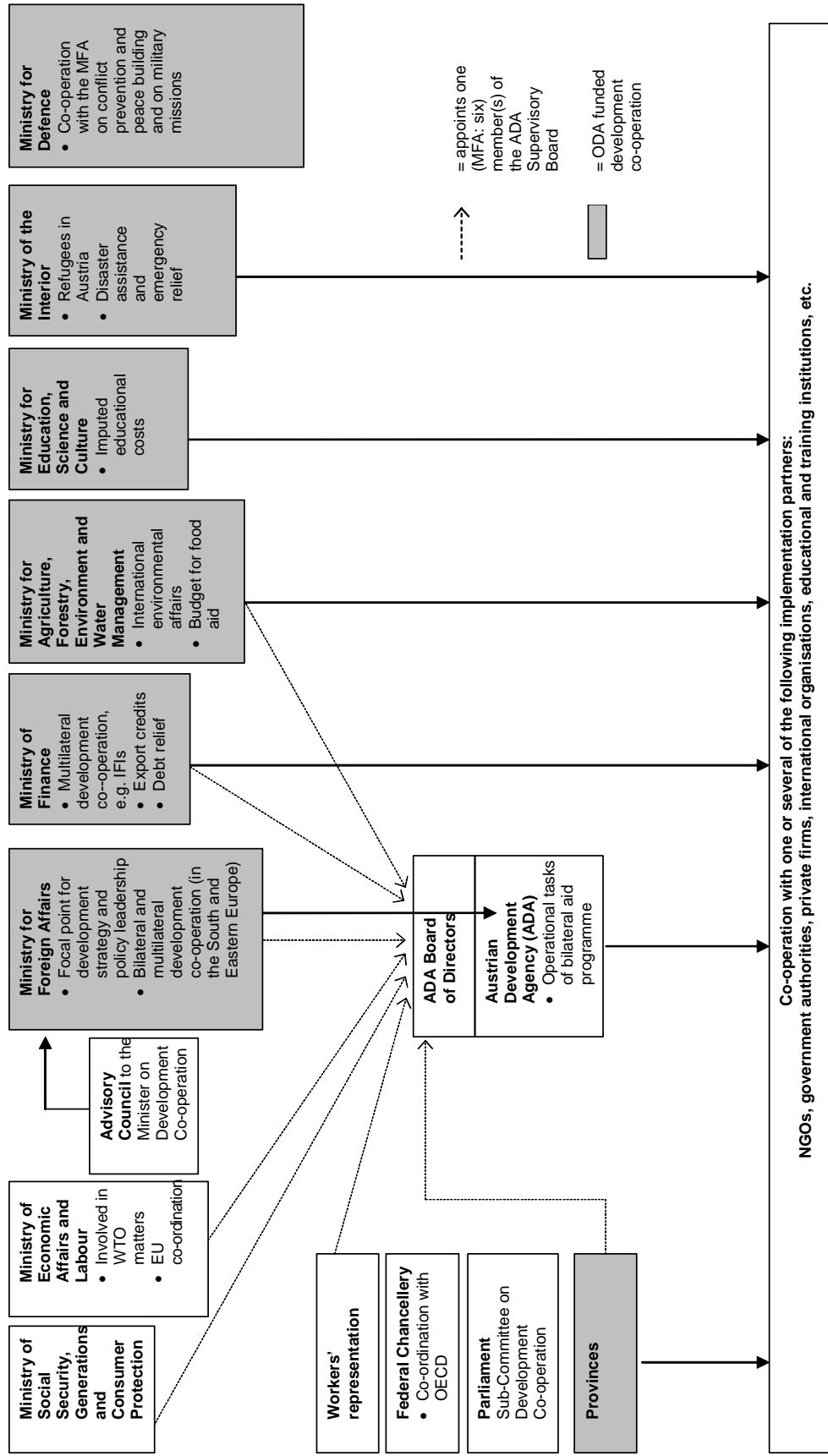
Responsibilities and organisational changes in the MFA

In the MFA, Section VII “Development Co-operation” is the main player in the aid system with regard to **policy formulation and overall strategic guidance** for Austria’s development co-operation. The MFA negotiates budgets, elaborates the Three-Year Programme, organises and approves country programming as well as policy development and it represents Austrian development co-operation officially. It is in charge of bilateral co-operation and parts of the multilateral activities (UN, EC).

Policy formulation tasks

Within the MFA, the restructuring is intended to give more room to the formulation of policies and strategies and more flexibility with respect to building capacities for operational issues within ADA. According to its policy formulation objective, the MFA has recently published the Three-Year Programme 2004–2006. While ADA is expected to implement these goals and principles, it will be a major task for the MFA and its now limited staff (see Chapter 5) to achieve the high expectations as policy leader and the focal point for all development co-operation. It remains to be seen whether the MFA will have sufficient capacity to continuously develop and update policies and strategies, to consult with other actors and to better align Austrian aid policies with those of the international aid community.

Figure 3. Actors in the Austrian development co-operation system



Consistency within the Austrian aid system

The MFA should ensure consistency between the various actors of Austrian development co-operation. In the newly-strengthened function of the MFA several layers have to be considered (the layers within the internal aid system are set out below as they are a precondition for the overall donor co-ordination, harmonisation and alignment efforts):

- **First level within Section VII and ADA:** in Section VII, several new departments have been created; in particular, the department VII.3 which is now also responsible for humanitarian aid (see Box 4). With the creation of ADA, there is an additional interface and player on the scene. The co-ordination with ADA has to be formalised through a set of guidelines and instructions being discussed and implemented at the moment. This process can be expected to last for some time yet.
- **Second level within MFA:** at this level the Section VII will have to establish close and continuous collaboration especially in its relation to the Political Section (MFA/Section II) responsible for strategic elements of foreign policy. Section VII might also have to give special attention to the Executive Secretariat in the Office of the Secretary General, which is to prepare, implement and evaluate the Austrian EU presidency in 2006.
- **Third level, the “whole of government”– approach:** the number of federal ministries involved shows that development co-operation is seen in a broader context and more actors are interested in being involved. As the MFA reiterates, policies are developed in close co-operation not only with several ministries, but also with institutions like the Austrian Chamber of Commerce and NGOs. Over the past few years, the MFA observes continuously improved consultation mechanisms between the various stakeholders. Given the federal system in Austria, state and local governments are free to develop and pass their own aid policies and programmes. In order to improve internal consultation and co-ordination of aid policies, Austria might consider developing some special agreements between the different actors. For instance, a donor with similar federal structures has introduced the instrument of “Rahmenvereinbarungen” between the federal level and the provinces. Such agreements would also reinforce the mandate of the MFA (see also Chapter 4). Also NGOs (in their role as contractors) and private firms should be included into a consistent development co-operation approach. Country strategies could be used as an orientation for all actors.

The Austrian Development Agency

The creation of ADA on 1 January 2004 holds considerable potential for improving administration of all fields of Austrian development co-operation as well as establishing strategies and elaborating programmes. ADA is a non-profit, limited liability company, owned by the Austrian government, represented by the Austrian MFA.

It is run by a managing director under the supervision of a Supervisory Board with twelve members of which six are appointed by the MFA (see Figure 3). ADA is responsible for administering and for contracting out all Austrian bilateral programmes and projects on behalf of the MFA. ADA is not an implementing agency; this operational side is mainly left to Austrian NGOs and private firms. In some cases this is also handled by public authorities and NGOs in partner countries as well as international organisations. ADA is responsible for preparing programmes and projects and for concluding and implementing development co-operation agreements, whereas the MFA concentrates on the formulation and steering of development policy positions and strategic frameworks. It remains

to be seen where the borderline between technical programme and project work and more political development co-operation will be drawn.

ADA has absorbed 17 of the 25 staff who left the MFA. Most of them are specialists in financial, accounting and public relations issues. For country, regional and sectoral issues staff were recruited from outside, many of them from NGOs. At present 55 members of staff are budgeted for and this figure may increase to as many as 70 within the next three years.

The setting up of ADA is seen as a response to mainly three challenges (see Three-Year Programme 2004-2006, p. 58):

- **More resources:** According to international agreements (Barcelona, 2002) Austria is expecting a large increase of ODA. Already the 2004 budget increased funds for the core Austrian bilateral development co-operation programme, including co-operation with Eastern Europe, by EUR 30 million. Therefore, the need exists for an adequate structure for effective and efficient management of increased volume and project aid.
- **Co-operation with the EU:** The new structure of Austrian development co-operation aims at enhanced co-operation with the EU. In particular, Austria is expecting the chance for tendering for national execution of EC-aid through ADA. It is planning to establish an office in Brussels.
- **Private sector and development:** This new approach in Austrian development co-operation envisages promoting and intensifying links and co-operation, through ADA, between the government on the one hand and the Austrian private sector on the other.

On the operational side, ADA is also expected to increase implementation capacity, to ensure timely reaction on partner countries' demands and better co-ordination in the field. ADA has taken over around 650 agreements (500 development co-operation projects with the South and 150 co-operation projects with East European countries). It is still developing a company concept (including balance sheets for administration) and a slim organisational structure. Furthermore, ADA is working on a strategy for communication between the field and headquarters and intends to develop standards for internal procedures. The introduction of a quality management scheme such as the European Foundation for Quality Management (EFQM) could be useful. According to field office staff in Nicaragua and BIH, it seems that the setting up of ADA has markedly speeded up administrative procedures between the Co-ordination Offices and headquarters.

ADA receives strong support for its work from its local structures, i.e. **Co-ordination Offices** are presently established in 13 priority countries. The Co-ordination Offices mostly deal with implementing and co-ordinating the Austrian bilateral programmes and projects in the partner countries. As NGOs execute a great share of projects financed by Austrian development co-operation, the co-ordination of these NGOs is a major task of the Co-ordination Offices. They are headed by an employee sent from headquarters and supported by mostly locally recruited staff whose number varies. Before the reform process, the Co-ordination Offices were not part of the MFA (except for those in Managua and Kampala) but run – and their staff employed – by a private consultancy (“Dr. Rudolf Holzer Unternehmensberatung GmbH”). According to Section 13 and 14 of the Development Co-operation Act, and Section 12 and 13 of the Agreement between the MFA and ADA from March 2004, the Co-ordination Offices also assume selected diplomatic functions. According to the Act and the Agreement mentioned above, in case of any disagreement between the Co-ordination Offices and the respective Austrian embassy, the final decision lies with the MFA (after consulting with ADA headquarters).

Field visits in **Nicaragua** and **BIH** have shown that, despite their great influence in preparing programmes and projects in partner countries, Co-ordination Offices have only limited power of decision making. In many cases their capacities are still too low to participate significantly in co-ordination with other donors and in co-ordinated donor-partner processes. Co-ordination Offices are not in a position to decisively influence the Austrian medium-term programme. Staffing and capacity formation is decided in Vienna. Austria might consider making best use of the new structures by further delegating authority from the MFA to ADA (including its Co-ordination Offices).

The creation of ADA is also meant to further strengthen the MFA's leading role, in enhancing **policy coherence for development**. Section VII of the MFA "will play a more pro-active role with respect to the formulation and management of positions on development policy and the pertinent strategic framework conditions. The sharing of work with ADA will enable the MFA to handle the overall co-ordination of the governmental activities launched in the field of development co-operation more efficiently and coherently both within Austria and internationally. The aim is to cover and deal with all areas of policy and administration which are directly or indirectly concerned with developing countries" (see Chapter 4).³⁴

Box 8. Outstanding issues

ADA is still in its infancy and some questions and challenges are already arising:

- Due to the decision-making power of the MFA an eventual conflict of interest between foreign policy and development co-operation could lean in favour of the former. A mechanism to solve this possible coherence issue could be developed (see also Chapter 4).
- A large part of Austrian ODA is not covered by the MFA, i.e. implemented by ADA. Nevertheless, ADA and its Co-ordination Offices hold considerable potential for co-ordinating all aspects concerning the implementation of Austrian development co-operation (except for debt relief, tuition costs in Austria and refugee costs). In addition, ADA and the Co-ordination Offices should be informed about all other activities of Austria within the respective partner country. Therefore, a strategy on how to benefit from ADA and its Co-ordination Offices in the field should be developed. This strategy could also deal with the question whether the centralised structure (with the final decision making power for every single programme and project at headquarters) is an appropriate answer to new realities given the way development co-operation is organised within countries, especially the continuous policy dialogue of country-led poverty strategies and the sector approaches. It would seem that ADA is not taking full advantage of its potential to tackle these new realities.
- Another question arises with regard to the different kind of co-operation with the countries in Eastern Europe. Austria could consider whether the need for different approaches in these countries is adequately taken into consideration since ADA staff are mostly experienced with co-operation with developing countries.
- ADA and its Co-ordination Offices are expected, among other tasks, to participate in tendering for EC-projects. However, this may be difficult to achieve due to the limited number of staff both at headquarters and Co-ordination Offices. Establishing an office in Brussels would possibly not be the only solution. According to ADA, its eligibility within the EC tendering system is still to be clarified.
- As far as co-operation between the private sector and development is concerned (one of the reasons for setting up ADA), Austria is encouraged to continue to develop incentives and partnership agreements on the basis that the main aim of ODA-supported private sector co-operation is to promote economic development and a better climate for investment in the developing countries. It should not simply promote Austrian private companies.

34 "The Austrian Development Agency", Room Document No. 1 distributed at the request of Austria to the participants of the DAC High Level Meeting of 15-16 April 2004, DCD/DAC/A(2004)5/RD1.

The special role of NGOs in Austrian development policy and practice

NGOs have always played a major role in Austrian development co-operation. Some 50% of the bilateral aid of the MFA is implemented through NGOs. Austrian NGOs mostly work at the local level in the partner countries, seeking direct access to the population, both in developing countries and in Austria. The MFA appreciates NGOs as an important multiplier for development co-operation efforts, for their special ability for raising awareness amongst the Austrian public of the needs in developing countries. NGOs can often communicate better than politicians how urgently help is required. In Austria, NGOs play a special role since they are contractors and development partners of the Austrian government (on a co-financing basis), and at the same time they play an advocacy role. This could lead to a conflict of interest.

The **umbrella organization AGEZ** (Working Association for Development Co-operation) embraces 29 Austrian NGOs. Founded in 1988 AGEZ defines itself as an independent forum vis-à-vis the government and wants to strengthen the position of NGOs within the development policy dialogue. It is financed by its members only.

NGOs are both supportive and critical of the reform of the Austrian aid system. Amongst the most critical points are:

- The new Development Co-operation Act does not contain much qualitative improvement in comparison to the old Act from 1974. On the contrary, NGOs complain that the new Act weakens their position instead of giving them an assured legal status within the new legislation.
- The division of labour between the MFA and ADA should be clarified and the advantage of ADA made apparent. During the reform process, the legal structure of budgeting of the Austrian bilateral development co-operation remained unchanged; this still lies with the Ministry of Finance. The situation has been aggravated by the fact that a lump sum is put at the disposal of ADA without further structuring it, which lacks transparency and the possibility of control.
- The new concept of private sector and development as well as the concept of co-operation with Eastern Europe seems unclear according to NGOs. Some fear that these new focuses could detract funds from traditional countries and issues of development co-operation in favour of subsidies to the Austrian economic community and to Eastern Europe.
- As for aid modalities, NGOs emphasise the continuous need for smaller and well adapted projects.

The Austrian comparative advantage may be seen in the local foundation of the support to civil society in partner countries, mainly through NGOs. In **Nicaragua** and **BIH**, Austrian support has a high degree of acceptance, mainly due to the Austrian ability to analyse local cultural and social circumstances and to support projects embedded in local structures (see Chapter 6). NGOs can also be useful for supporting dialogues between civil society, local and national authorities and promoting democratic decision-making processes. They can be critical observers of macro political issues such as policy coherence, which could be increased in Austria (see Chapter 4). But the reforms at higher policy (macro) level in many partner countries are not the typical working level of NGOs, concentrated at the level of smaller locally oriented projects. The NGO work can be seen as a component for enhancing reform processes and should also be oriented towards national poverty strategies. Austria's support to macro policies might, however, make different aid instruments

necessary, including capacity development of partner governments. In this context, Austria might consider developing a qualified concept for capacity development.

At present, dialogue between the MFA and civil society on policy issues takes place in the Advisory Board on Development Policy, through interaction with AGEZ, through yearly conferences with all NGOs and civil society groups and through other channels, *e.g.* ADA-financed discussion fora organised by NGOs. Some of the major NGOs, however, do not yet believe in the serious support of the Austrian aid system for the MDGs and poverty reduction as stated in the Three-Year Programme 2004-2006. The MFA, together with ADA should try to increase credibility in the new aid system and the implementation of the policies through dialogue and debate with civil society on strategy and policy.

The role of other actors

The role of parliamentarians in the Sub-Committee on Development Co-operation

The role of the Parliamentary Sub-Committee on Development Co-operation is rather limited. Decisions are made by the Committee for Foreign Affairs, and the Sub-Committee on Development Co-operation submits proposals to the Committee. The Sub-Committee meets two to three times a year, for one and a half hours only. Some members (Green party and the SPOE) claim that the parliament's discussions on development co-operation are insufficient. As they see it, a more substantive vision on development co-operation is needed. They also claim that most of the ODA funds do not flow to the priority countries. In view of the aid system reform and new substantial challenges ahead, the Parliamentary Sub-Committee might play a more pro-active role in development policy issues, with particular attention given to development results.

The Advisory Board on Development Policy

The MFA has an Advisory Board on Development Policy, which until 2000 was a large body composed of about 60 representatives of different ministries, political parties, trade unions, business associations, NGOs and experts in development policy. It was then decided to confine the Board's membership to experts in the fields of development policy or development co-operation to increase the Board's work efficiency and because political parties are already represented on the Parliamentary Sub-Committee on Development Co-operation. The new Advisory Board constituted in November 2000 is composed of nine national and international experts. According to the Development Co-operation Act of 2002 (Section 21), the members are nominated by the Federal Minister for Foreign Affairs, who chairs the Board and nominates a senior official of the MFA to act as an executive deputy heading and co-ordinating the activities of the Board. According to some members of the Board, its advisory function to the MFA has been rather limited to date for three reasons: (i) being chaired and co-ordinated by the MFA, the Board, despite being composed of very knowledgeable persons, can only react instead of taking initiatives on its own (*e.g.* by raising issues it considers relevant and preparing a critical analysis or memorandum); (ii) Board members feel seldom consulted and insufficiently informed by the MFA (*e.g.* about the plan to set up ADA); (iii) because of these circumstances, the Board appears to see itself more as a group of individuals being sporadically consulted and less as a body convinced of playing an influential advisory role. In some other DAC member countries, the advisory boards to the aid administration enjoy greater independence.

Management of staffing and human resources

The Austrian federal government's **policy to reform the civil service** is being *inter alia* pursued in such a way that all ministries have to cut personnel by a certain figure. In the case of development

co-operation the staff cuts in the MFA are being made at a time when the ODA is to rise dramatically. It seems that development co-operation has to make sacrifices even more than other policy areas. Due to the reform process, the number of staff in the MFA/Section VII was reduced from 56 (end of 2003) to 31 (June 2004). It thereby lost not only staff but also some of its 'institutional memory' in development co-operation.

A systematic **personnel policy** is crucial for the MFA to fulfil its tasks adequately and effectively. At the moment, however, the prospects of a balanced and strategic personnel structure seem to be unclear. Policies for staff training and career development are not yet established. Staff awareness in environmental and gender issues is seen as "satisfactory" by the Austrian officials, whereas it remains rudimentary in other areas like conflict prevention and peace, or children and handicapped. Expertise for new aid modalities (budget support and SWAps) barely exists.

As for the **composition of staff**, Section VII has a smaller number of diplomats as compared to all other MFA sections. The working culture between diplomats and other non-diplomatic civil servants needs to be carefully balanced in the course of the establishment of the new structure for development co-operation. In ADA the required skills will also have to be adapted to the needs in the partner countries, especially with regard to the partner countries in Eastern Europe (see Box 8).

Evaluation and measuring results

Prior to the creation of ADA, the overall responsibility for evaluation rested with a separate evaluation and control division, which was one of six divisions in the Section VII of the MFA and reported directly to the head of this section. The evaluation and control division was in charge of the general evaluation policy, the evaluation guidelines, quality control and co-ordination with other donors. In addition, it drew up an annual evaluation programme referring particularly to projects, cross-cutting activities and programmes considered to be of strategic interest (Type I evaluations, see Box 9). To implement the programme, the MFA had its own evaluation budget.

Now the **responsibility for evaluations** is shared by the MFA and ADA and its previous organisational independence from decisions on policies, programmes and projects, set as a standard by the DAC Guidelines on Evaluation, has been given up. MFA's former evaluation and control division has become an evaluation unit (staffed with one professional whose duties are not confined to evaluation only) within the new Division for Evaluation, Development Co-operation Policy and Strategy of Section VII. ADA has its own evaluation unit (consisting of one staff member and a consultant working on a part-time basis), which is part of the Programme and Project Department (P & P) and reports to the P & P director.

The **roles of the MFA and ADA** in evaluation have not yet been defined in a formalised way. The understanding is that the MFA is in charge of the general evaluation policy and quality control and, together with ADA, decides on the annual programme of Type I evaluations. ADA is responsible for implementing this programme, whose budget was transferred to it from the MFA, for contracting and supervising Type II project evaluations unless this is done by the Co-ordination Offices, and for feeding evaluation results back into the aid administration.

Within ADA the evaluation unit which is concerned with the implementation of the Type I evaluation programme, has to agree to the terms of reference, the selection of evaluators and the budget of Type II evaluations and provides assistance to the country and sector desks, whereas the latter are responsible for initiating, contracting and supervising project evaluations in their area of competence. Projects are generally monitored by the desks or Co-ordination Offices in charge on the basis of half-yearly project reports submitted by the implementing agencies. They are also

occasionally visited by staff of the Co-ordination Offices. However, in the case of **BIH**, most projects are monitored by externally contracted consultants. The Co-ordination Office in Sarajevo only assists in the process if required. The DAC Peer Review team recommends that monitoring lies within the responsibility of the Co-ordination Office and resources are made available accordingly.

Evaluation in Austrian development co-operation is governed by **Guidelines** introduced in 2001 and supplemented by a Manual on the Practice of Evaluation. The Guidelines are largely in line with the standards approved by the DAC. It is planned to update the Guidelines and the Manual to bring them into line with the new organisational setting of the aid administration. Evaluation is regarded as an integral part of the programme/project cycle. According to the Guidelines, the principle is "no project or programme without evaluation", leaving the form the evaluations take (external or internal evaluations, self-evaluations) up to the nature of the project or programme. With a view to coming closer to the principle, the Manual requires the project documentation to either outline the envisaged evaluation or to explain why no evaluation is planned.

Box 9. Types of evaluation in Austrian development co-operation

Type I: external evaluations (focus on strategic projects/programmes or projects carried out by partner countries or multilateral organisations)

Type I evaluations either focus on projects, cross-cutting activities and programmes seen as having strategic importance for Austrian development co-operation or relate to projects carried out on a direct/bilateral basis with a partner country ("national execution") or make a contribution to multilateral projects or programmes.

The annual programme of these evaluations is agreed on by the evaluation units of MFA and ADA, implemented by ADA and funded from ADA's (formerly MFA's) evaluation budget. The 2004 budget amounts to EUR 500 000 compared to roughly EUR 300 000 in 1999.

From 1999 to 2003, sixteen type I evaluations were conducted. Recent ones concerned the country programme Mozambique, the water sector programme, the Austrian mine action programme and the International Law Institute in Uganda.

Type II: external evaluations (focus on projects carried out by others)

Type II evaluations relate to bilateral projects carried out by implementing agencies or contractors. They are initiated, contracted and supervised by the country or sector desks of ADA or the Co-ordination Offices in consultation with the implementing agency or contractor and ADA's evaluation unit, which has to agree to the terms of reference, the selection of the evaluation team and the budget of the evaluation. Evaluations of this type are funded from the project budgets.

Internal evaluations

These evaluations of projects financed or co-financed by the Austrian government are initiated, contracted and carried out by the implementing agencies/contractors themselves. In the event that they are to be funded from the project budget, a manual requires the procedure to be agreed with the units in ADA responsible for the agency concerned and the country or sector desk in charge and to comply with the principles and methods laid down in the guidelines and the manual.

Unlike Type I evaluations, there is no complete list of Type II evaluations available in the evaluation units of the MFA and ADA, indicating the precise number, sector affiliation or thematic area of the evaluations carried out or planned in a given year. According to the MFA, about 25 to 30 Type II evaluations per year are brought to the attention of the evaluation units due to the requirement to have the terms of reference and selection of the evaluation team agreed on, but the MFA admits that there may be more Type II evaluations. In addition, there appears to be **no overview** of the internal evaluations carried out by the implementing organisation in relation to projects or programmes funded or co-funded by the government.

As part of the Type II evaluations and many internal evaluations seem to be carried out without the involvement or even the knowledge of the evaluations units in ADA and the MFA, it is hard to say to what extent the quality standards set in the guidelines and the manual are kept by the country/sector desks or Co-ordination Offices concerned or by the implementing agencies.

As a rule, evaluations are assigned to **independent external evaluators** including experts from the partner countries as far as possible. As a very high share of the MFA's bilateral development co-operation budget (in 2001/2002 almost 80%) is implemented by Austrian NGOs and enterprises, it sometimes turned out to be difficult, especially in the case of more complex programme evaluations, to find experts not involved in the planning or implementation of the project or programme to be evaluated. In order to overcome this bottleneck, evaluations have been increasingly tendered on a European scale.

The **results of evaluations** are shared and discussed both in the partner countries concerned with the Co-ordination Offices and the partners involved and at headquarters level with the country or sector desks in charge. Sometimes results are discussed in special workshops or during the annual meetings of the heads of Co-ordination Offices. The ADA and MFA evaluation units are normally involved in the discussion and approval of Type I evaluation reports since they agree on the corresponding programme whereas the ADA evaluation unit appears to be not in a position to take part in the discussion and approval of all Type II evaluation reports on a regular basis for lack of staff.

Box 10. Main recommendations for the Austrian evaluation system

- The MFA and ADA should ensure the organisational independence of their evaluation units from the divisions concerned with policies, programmes and projects, e.g. by having them report directly to the head of the MFA's Section VII and to ADA's managing director respectively.
- To the extent that project evaluations are initiated, contracted and supervised by country or sector desks or Co-ordination Offices, the principle of separating the evaluation function from the line management should be ensured by involving the ADA evaluation unit in the approval not only of the terms of reference, the selection of evaluators and the budget, but also of the evaluation reports. The reason for this is that as a rule, evaluations should also focus on the way the desks or offices in charge of managing a project or programme perform their planning and monitoring functions.
- In order to improve the collective learning and the systematic feedback from evaluations to policy-making, it would be helpful to distil relevant lessons learnt out of individual evaluations by compiling annual reports or commissioning more cross-section or topic-oriented analyses and by discussing the results at different levels. This would refer to both external and internal evaluations.
- ADA's evaluation unit will need more staff to be able to properly perform its functions related to the Type I evaluation programme, to the quality control of Type II evaluations, to managing the feedback from individual evaluations to higher-level discussions and policy-making and to monitoring the implementation of recommendations made by evaluation reports and approved by MFA/ADA.
- In order to assess the quality of internal evaluations carried out by implementing agencies and contractors, it would be helpful for the MFA and ADA to commission an independent evaluation of the evaluation systems, standards and practices of the NGOs and enterprises concerned.

The results and recommendations of evaluations seem to be fed into decision making on a case by case basis although the implementation of recommendations accepted is not monitored by the evaluation units. However, it is unclear to what extent there is a **systematic feedback** from the evaluation process to policy making. While some cross-sectional evaluations of projects in specific

sectors (*e.g.* micro-credit projects in different countries) were carried out as part of the Type I evaluation programme, there are no annual or periodic reports providing a synthesis of the main findings and lessons learnt of Type I evaluations, let alone of Type II evaluations. In addition, the results of internal evaluations conducted by the implementing agencies are not systematically shared with the official aid administration.

As for the **dissemination of evaluation reports**, the summary or the full text of some Type I evaluation reports can be found on the homepage of the MFA. The reports of Type I and II evaluations are supposed to be forwarded to, and made available to external readers, by the Austrian Foundation for Development Research (ÖFSE) which serves, among other things, as a reference library for official and private Austrian development co-operation.

To make full use of evaluations as an essential instrument for learning from experience and improving future aid policy, programmes and projects, the MFA and ADA should consider several recommendations listed in Box 10.

Donor co-ordination, harmonisation and alignment

At **international level**, Austria participates in the DAC Working Party on Aid Effectiveness and in the EC activities on harmonisation and alignment (H&A). The newly-established directorate for policy and evaluation in the MFA participates in the DAC Working Party on Aid Effectiveness (WP-EFF) and in some subgroups to share the new learning process. Members of the MFA and ADA participate in the ad-hoc Working Party on Harmonisation at EC level. Austria sees the need for better linkage and communication between DAC and EC harmonisation fora.

At **headquarters level**, aid effectiveness and harmonisation items are addressed by an internal work group. Feedback on the Rome Declaration and ongoing discussions at DAC and EC level took place for the field offices and will need to be continued. To improve the communication system on H&A, Austria has set up two focal points on H&A, one in the MFA and one in ADA. Both take care of the harmonisation agenda, promote a structured discussion process and integrate the field offices mainly via e-mail and phone contacts. In ADA several staff members are involved in the issue of H&A.

Austria has started to draft an **action plan on H&A** for the Austrian aid system which is due to be finalised during the second half of 2004. The draft action plan has three intermediate goals:

- To raise awareness of the agenda in the national (Austrian) system.
- To strengthen links with different actors (DAC/EC/UN).
- To enhance further co-ordination in the field and contribute to the implementation activities by providing support through the Co-ordination Offices.

A coherent common action plan will be developed, including NGOs and developmental activities of other ministries. As for **specific actions on H&A** the forthcoming discussion will include topics such as the selection of instruments (SWAps, budget support, etc.), the number of priority countries and priority sectors, or the question of procurement practices. However, there are some critical views on the present debate on H&A in headquarters. Austrian officials feel that the H&A should not be an end in itself. The question of transaction costs is seen more of an assumption, as Austrian officials put it. The discussion should not concentrate on modalities, especially budget support, when the instrument is not applicable in many less-advanced partner countries. Austria sees a special value in

joint evaluations. It is member of a new approach, an informal network on evaluation (members were initially Germany, Austria, Switzerland; recently attended also by the Netherlands and Belgium).

At the **field level**, the Co-ordination Offices are tasked to work closely with other donors. Information between headquarters and field level on H&A is in its initial stage. The Rome Declaration has been distributed to the country offices. Co-ordinators in the selected pilot countries for H&A were asked to fill in the DAC questionnaire and to consider how they could contribute to the different activities under H&A. Austria notes some first results of an improved dialogue on H&A in particular with the Co-ordination Offices in Albania, Burkina Faso, Ethiopia, Mozambique, Nicaragua, Senegal and Uganda, which have indicated that concrete results should be expected.

In **Nicaragua** the Austrian Co-operation Office has been informed about the Rome Declaration through the Nicaraguan Ministry of Foreign Affairs as well as Austrian headquarters. However, the number of papers, messages on H&A, and questionnaires coming from headquarters or even from the DAC are seen to be overwhelming. The government of Nicaragua shows a high degree of **ownership** in H&A. Nicaragua is one of the 14 partner countries attached to the DAC Task Team on H&A. The country participated in Rome and will prepare for the Second High Level Forum (Paris, March 2005) for which several mechanisms have been set up. Austria participates in the general "mesa" (round table) and in some of the sector "mesas" but does not take the lead in any of them. Results of sector "mesas" vary, *e.g.* social sector "mesas" meet regularly and show good results, whereas other sector "mesas" are confronted with difficulties such as too many participants, bad organisation, unclear objectives, etc. The budget support group, in which Austria participates as an observer, is presently developing a Joint Financial Agreement. With respect to **Alignment**, the government of Nicaragua is working on the National Development Plan - a second, more country-owned and economic growth oriented PRSP, and a "matrix" to increase transparency and accountability. As for all donors Austria would have to further align its project support to these national frameworks and to sectoral strategies. Furthermore, given that Austria's main experience stems from project approaches, the Co-ordination Office should give higher priority to bottom up approaches by bringing experiences from the "ground" or local level work to that at policy level, especially in the meetings to define sector strategies and donor co-ordination. Austria could also promote issues such as the development of joint remuneration system for local staff and take an active role in the debate on harmonised reporting systems at partner country level, while the Austrian reporting system is presently being revised by headquarters in Vienna. It also includes the possibility of joint donor missions and the increased predictability of funding.

In **BIH**, which is not a member of the Task Team on H&A, the issues of H&A have not been a major topic in the Austrian system. Since the end of the war in 1995, when donors came in rapidly with different sorts of humanitarian assistance and post conflict activities, some efforts in H&A have been made. More systematic co-ordination efforts are, however, limited by the difficult political and institutional situation in the country. **Ownership** by the government is low due to a great number of central, district and local authorities as well as ongoing problems between the three groups of Bosnians, Serbs and Croats. Therefore main efforts on harmonisation would have to be undertaken by the donor community. A PRSP has been drafted and could serve as the framework for Austrian aid to BIH. The Co-ordination Office in Sarajevo sees a major need for increased donor co-ordination in the country. Due to limited staffing it concentrates its efforts on policy dialogue groups in those sectors in which it is involved (higher education, hosted by the Council of Europe, and water, hosted by the Delegation of the EC). In both cases, results have been limited. Again the lack of effective administrative and political structures in BIH make the process of policy dialogue very difficult. One example of joint work is Austria's contribution to the European Fund for BIH (see Box 5). Overall, the Peer Review team could observe a noticeable difference with regard to H&A between one of the 14

partner countries associated with the DAC Task Team on H&A and other countries which are much less advanced in H&A.

Austria will have to reinforce its efforts in H&A in particular by finalising its plan of action on H&A, taking into account the main experience of other donors and implementing the efforts in the partner countries. This implies an increased communication on H&A between headquarters and the Co-ordination Offices as well as with NGOs.

Future considerations

- Following the restructuring, the MFA has an opportunity to play a more pro-active role with respect to the formulation and management of positions on development policy and the pertinent strategic framework conditions. For this to be achieved the MFA needs strong strategic policy formulation and co-ordinating capacity.
- ADA is still at an early stage and the full impact of its creation is not clear yet. It holds considerable potential for improved administration of Austrian development co-operation, although it is still unclear whether all opportunities of ADA are fully taken advantage of in particular with regard to its Co-ordination Offices.
- Personnel policies (including for the Co-ordination Offices and local staff) need to be updated to meet the requirements of a growing and increasingly professional bilateral aid programme. Specialist skills are needed given the priorities accorded to the objectives such as poverty reduction, ensuring peace and human security. Special skills may also be required in the area of co-operation with SEE countries. The MFA and ADA are encouraged to adopt a systematic approach to staff development including recruitment and training, and extend this to the Co-ordination Offices, including the systematic involvement of local professionals.
- Austrian NGOs have a very important role in the aid system, especially in the implementation of projects on behalf of the government. Austria could benefit from reflecting on the role of NGOs as contractors versus development partners (on a co-financing basis) versus advocacy partners, to address possible conflicts of interest issues that may exist under current arrangements. This should be reflected in the current deliberations of the MFA/ADA on policy towards NGOs.
- The Peer Review strongly emphasises the need (i) to ensure the organisational independence of the MFA's and ADA's evaluation units from the divisions concerned with policies, programmes and projects, (ii) to conduct more meta-evaluations on the basis of the large number of project evaluations to distil lessons learnt, (iii) to properly monitor the implementation of evaluation recommendations, and (iv) to establish a multi-annual work programme for strategic evaluations. For these tasks to be achieved, extra staff is needed.
- Austria's re-organisation will lay the foundations for increased H&A. The MFA and ADA are encouraged to reinforce initial approaches in H&A by (i) emphasising the need for H&A between the MFA, ADA and the Co-ordination Offices, (ii) reasserting the role of focal points for H&A throughout the system, (iii) developing an action plan on H&A, and (iv) increasing practical steps to harmonise and align all Austrian support (including NGOs) to partner country national strategies and systems.

CHAPTER 6

COUNTRY OPERATIONS

Country strategies and programming

Country strategies have to be considered in the context of **several layers of policy strategies** and programmes of Austrian development co-operation: (i) the new Development Co-operation Act and the Three-Year Programme 2004-2006, (ii) country strategies, (iii) overall sector strategies, and (iv) sector strategies on a country level. Since 1993, the first country strategies were drafted in parallel with the selection of priority countries and the setting up of Co-ordination Offices. Since the last DAC Peer Review of Austria in 1999, the four country strategies then existing have been up-dated (Ethiopia, Mozambique, Uganda, Cape Verde) and two new ones added (Nicaragua, Burkina Faso). Hence, country strategies have been developed for all priority countries in the South (except for Bhutan). Programming discussion for the priority countries in SEE have just started at the beginning of 2004. Concerning sector strategies, in addition to the three overall sector strategies (water, mobility and transport, MSME development) that were already published in 1999, three new overall sector strategies (education and training, tourism, rural development) and several sector strategies on a country level have been developed since then.

All country and sector strategies are based on the main objectives and principles of the Austrian development policy as stated in the Development Co-operation Act (Section 1.3 and 1.4). Guidelines for country strategy and programming do not exist, but an approximate **country programme format** has been developed. According to this format, a country programme is a management instrument for the planning and implementation of Austrian bilateral aid run by the MFA/ADA in a priority country. It defines the framework for co-operation with respect to the time scale, geographical and sectoral priorities, mid-term operationalisation, and financial and organisational arrangements. The programme cycle usually covers three years. Country strategies are drafted in German and then usually translated into English or the official language of the partner country. In **Nicaragua**, however, the Austrian strategy has not been shared with Nicaraguan authorities, other donors and the civil society because it is only available in German. The DAC Peer Review mission welcomes the intention of translating the document and sharing it with all actors involved. Originally, country strategies were classified as internal documents. However, recently they have become available on the website of the MFA which is to be commended.

Officially, the responsibility for country strategies and programming lies with the MFA/Section VII.5. Practically, developing a country strategy is a **shared exercise** between the MFA, ADA headquarters, the Co-ordination Offices as well as external consultants. The MFA leads the process although it depends on ADA headquarters and the Co-ordination Offices (“centres of knowledge”) for information on the partner countries and on sectors. As it was pointed out by several interlocutors, the new division of labour between the MFA, ADA headquarters and the Co-ordination Offices still needs clarification.

PRSPs or other locally owned strategies are considered important documents to base Austria’s strategies on. However, explicit alignment of Austrian support has only taken place in very few

countries (see Chapter 3). Austrian country programmes do not necessarily come out of a process of policy dialogue. Only some country strategies are discussed with the respective partner country and form the contextual basis for bilateral agreements, *e.g.* they may be used as a reference for the drawing-up of co-operation agreements with the partner country, *e.g.* Bhutan, Burkina Faso, Cape Verde. In other cases, bilateral co-operation is not based on systematically organised dialogue. For instance, in **Nicaragua** although civil society organisations were involved in the process of developing the country strategy, the Nicaraguan government was not included, as Austrian development co-operation did not work directly with the government under the Alemán presidency (1996-2001). Now, under the government of Bolaños (president since 2001) and given the increasing ownership, Austria is encouraged to intensify the policy dialogue for increased alignment of the co-operation. Austria's country strategy for **BIH** is in the process of being developed. It is intended to take full account of the host country strategies such as the PRSP as well as activities of other donors, especially the EC through the Stabilisation and Association Process, but also activities co-ordinated through the Stability Pact for South East Europe. As a first step of the country programming exercise, the Co-ordination Office organised a brainstorming workshop only two weeks after the DAC mission visited Sarajevo.

Since January 2004, the country strategy format has been revised with the intention of formalising and consolidating country strategies. It is foreseen that they include a chapter specifically looking at poverty reduction and policy coherence for development. In the course of this exercise, Austria should use the opportunity to improve the country strategies with regard to the following points. **Firstly**, the DAC Peer Review team encourages Austria to expand the coverage of the country strategies, including not only MFA/ADA activities but also ODA eligible activities which fall under the responsibility of other Austrian ministries. Thus, they could be used as an instrument to ensure consistency within Austrian development co-operation. **Secondly**, increased importance should be given to policy dialogue with the partner governments for further alignment of Austrian support. Close co-operation with other donors is encouraged, *e.g.* within the PRSP frameworks and EU co-ordination. Austria is currently thinking about possibilities of aligning its strategies to the EC country and sector strategies. This seems to be an attractive way of avoiding another extra country strategy. Ways of how to put this idea into practice are being elaborated, for which the Ad Hoc Working Party on Harmonisation of the EC offers a good opportunity. **Thirdly**, the question should be addressed whether the country strategy format, which was originally developed for the South, is also adequate for the East. And **finally**, the objectives of country and sector strategies should be specified in such a way that progress towards the intended outcome can be monitored (operationalised goals and targets).

Country implementation

In **Nicaragua**, the main aim of the aid programme run by the MFA/ADA is to contribute to the reduction of poverty by supporting a socially, economically and ecologically sustainable development. Projects are focused on three priority sectors, (i) rural development, (ii) MSME development and (iii) the social sector (including education and health) which are in line with the PRSP-I. Environment, gender, decentralisation and capacity building are taken into account as cross-cutting issues. For the implementation of this programme, Austria provides EUR 3.3 million (2003),³⁵ thus being one of the smaller donors of the 45 donors involved in this country. Although Austria's programme concentrates on three sectors and a manageable number of projects (about 21 in 2004), the number of contracts is still high (around 80) and should be reconsidered in terms of their administrative burden.

35 Total ODA given by Austria to Nicaragua amounts to EUR 6.3 million (2003). In addition to the MFA/ADA programme, this figure includes NGO co-financing, debt relief and ODA spent by other official agencies, *e.g.* Austrian provinces.

In **BIH**, Austria is one of 42 multilateral and bilateral donors. It can base its co-operation programme on a broad overall relationship with BIH and several comparative advantages, *e.g.* geographical and cultural proximity, strong involvement of the Austrian private sector (especially in the banking sector), huge BIH diaspora in Austria (see Annex G). The Austrian co-operation aims to support BIH in overcoming the vast damage caused by the war (1992-1995) by assisting the country to re-establish sustainable institutions and facilities that are crucial to make the country economically and politically self-sustainable. From 1998 onwards, capacity building and institution building have increasingly complemented and replaced mere reconstruction projects. Priority sectors of the bilateral programme (8 projects in 2004) are (i) education (with a particular focus on higher education), (ii) environment, water and waste water, and (iii) credit lines for SMEs. Under the regional programme for SEE (6 projects), supporting refugee return, human rights and democracy as well as public administration is an additional priority sector. Austria is encouraged to continue its efforts in mainstreaming conflict prevention into all activities (see Chapter 3).

From 1992 to 2001, overall Austrian support to BIH amounted to EUR 509.4 million.³⁶ Total disbursements of the Austrian co-operation programme in BIH of the MFA accounted for only about 11% of this sum. Over the last few years, annual disbursements of the MFA have strongly decreased, leaving only EUR 1.8 million for the implementation of the core programme in 2004.³⁷ An increase in funds for BIH is foreseen for the following years. It is planned to particularly expand activities within the field of economic development and employment. In the case of a budget increase, the DAC Peer Review team supports the intention to scale up existing projects and programmes in order to develop long-term sustainable partnerships, to economise on transaction costs and to achieve greater efficiency by creating a critical mass.

The role of the Co-ordination Offices in the field

The Co-ordination Offices are responsible for managing the activities of the development co-operation programme of the MFA in the respective country or region (see Chapter 5). As the Co-ordination Office in **Managua** is a regional office, it prepares, co-ordinates and monitors all projects which are financed from the Central American budget lines (Guatemala, El Salvador, Costa Rica) of the MFA. The Austrian Co-ordination Office in **Sarajevo** covers BIH, Croatia and regional projects in SEE. As already mentioned in Chapter 5, the level of decentralisation of decision-making authority from headquarters to the Co-ordination Offices is rather low. Generally, the activities financed by other Austrian ministries apart from the MFA do not fall under the responsibility of the Co-ordination Offices. In Sarajevo, the DAC Peer Review team was pleased to see that, on his own initiative, the head of office has tried to increase the exchange of information between the different activities financed by Austria. In addition to recommending a common country strategy (see above), the DAC Peer Review team encourages Austria to consider using the offices in the field for closer co-ordination of activities of the different Austrian ministries.

Co-ordination Offices are part of ADA and at the same time are considered as departments of the Austrian embassy in the respective country or region. As the Austrian embassy is not located in Nicaragua but in Guatemala, the head of the Co-ordination Office in **Managua** takes up political and diplomatic tasks (*e.g.* participation in EU co-ordination meetings). In **Sarajevo**, the relation between

36 This figure includes contributions of the Austrian federal government, the country governments, other state institutions and NGOs.

37 Austrian total ODA net disbursements are USD 15.2 million (2003). In addition to the MFA/ADA programme this figure includes mainly ODA spent by the Ministry for Education, Science and Culture for student costs.

the Co-ordination Office and the Austrian embassy is characterised by a close co-operation and intensive information exchange. The Co-ordination Office assists the embassy in maintaining relations with BIH and conducting policy dialogue. The head of the office also occasionally represents the ambassador in general matters as the Austrian embassy in Sarajevo does not have a deputy head of mission.

Field resources

Altogether, there are **13 Austrian Co-ordination Offices** in the field of which three of them have another outpost. Within these offices, 79 staff are employed, consisting of 19 expatriate staff, 25 technical staff (locally recruited) and 35 local administrative staff. In Vienna, the work of the Co-ordination Offices is supported by ADA desk officers, *e.g.* one being responsible for Central America and one for BIH, Croatia, and Serbia and Montenegro. Also other ADA staff such as sector specialists take-up a supporting role (with a focus on developing countries and little background on Eastern Europe as cited by the Co-ordination Office in Sarajevo). In the MFA/Section VII.5, one person is responsible for Latin America and Asia, one for all of Africa and one staff member covers the whole co-operation programme with Eastern Europe (19 countries).

With 13 staff members, the Co-ordination Office in **Managua** is one of the biggest offices in the field. Except for the head of office and a part-time consultant working on the cross-cutting issues environment and gender, all office staff (three sector programme officers, one project accountant, six administrative staff and a part time gardener) have been locally recruited which is commended by the DAC Peer Review team. The team of the Co-ordination Office in Managua finds staffing adequate in number and skill composition for the amount and type of work they have been doing.

In contrast to Managua, in the Co-ordination Office in **Sarajevo** there are only a head of office and one assistant. Thus, there is clearly a lack of staff particularly given the need for further planning due to an increase in ODA foreseen for the next years and the need for increased H&A with other donors. The office is supported by five Austrian sectoral/monitoring consultants who are hired on a part-time contract basis, covering all of SEE. Given this situation, the employment of additional permanent staff (particularly local staff) such as sector specialists is recommended. The DAC Peer Review team has been highly impressed by the deep commitment of the staff to the development of BIH and the region of SEE. Looking at the number of staff in relation to the country programme and the high number of authorities in BIH, the team functions very efficiently.

According to the Co-ordination Offices in Managua and Sarajevo, there has been no systematic **knowledge management** until now. The office staff expressed their strong interest in training, participation in meetings and international conferences, and exchange of information between projects, the Co-operation Offices and headquarters – all of which is considered of utmost importance by the DAC Peer Review team. Also included in the knowledge management should be a formal handing over of the office which did not take place in Managua when the current head of office took over in April 2004. Prior, the office did not have a head of office for 7 to 8 months.

Co-operation partners

Austrian NGOs are well represented in **Nicaragua**. This goes back to the initial phase of Austrian development co-operation, which took place in a spirit of solidarity with the Sandinist movement during the 1980s. In addition to the projects implemented by Austrian NGOs but financed by the MFA/ADA, Austrian NGOs provided a total of EUR 1.8 million of private funds (2002). The DAC mission to Nicaragua (and also to BIH) has shown that the high share of NGOs as implementing agencies is appreciated by all stakeholders. In line with the principles of ownership and partnership,

and the alignment of Austria's programme to the PRSR-I, Austria intends to increase the share of projects which are administrated and implemented by Nicaraguan partners (government and civil society). In 2003, the share of projects administered by Austrian organisations (NGOs and firms) was 70%. Apart from Austrian NGOs, Nicaraguan and international civil society organisations, local government institutions and international organisations are co-operation partners of Austrian development co-operation in Nicaragua. Several interlocutors whom the DAC Peer Review team met in Nicaragua stated that they see a comparative advantage of Austria in its direct co-operation with the civil society and local governments as well as its efforts in local capacity building and the promotion of local ownership (see Box 11).

In **BIH**, implementing partners of the Co-ordination Office are Austrian and Bosnian NGOs, international organisations as well as Austrian, Bosnian and international private enterprises based in BIH. Furthermore, the Co-ordination Office works together with the Bosnian government and other public institutions (*e.g.* universities), consultants, international development banks, commercial banks, and Bosnian SMEs. Also in BIH, efforts have recently been made to increase local involvement. On the one hand, this is not an easy task since corruption is still rampant and many authorities put short-term political objectives over mid- and long-term development objectives. On the other, there have recently been first signs of increasing ownership by the government (*e.g.* the PRSP was published in March 2004). Most co-operation partners whom the DAC team meet in Sarajevo perceived the work of the Austrians as pro-active, efficient, flexible, build on local investment and partnership, and avoiding overlap with other donors as much as possible.

Box 11. Promotion of participation and dialogue through Austrian development co-operation - for example: the health sector in Nicaragua

The government of Nicaragua is putting in place a new strategic framework in the health sector including a new health law and a sector programme which is planned to be finalised in October 2004. A health "mesa" (round table) for dialogue and co-ordination with donors has been established.

The social sector, including health, is one of the three focal sectors of Austrian development co-operation in Nicaragua. Support to the health sector is predominantly channeled through NGOs. All Nicaraguan partners consulted during the DAC Peer Review mission were pleased with the achievements of Austrian development co-operation in this sector. Projects are producing tangible results which are useful and relevant to the beneficiaries (*e.g.* Austrian support to the Institute of Traditional Medicine and the local university URACCAN, Universidad de las Regiones Autónomas de la Costa Caribe de Nicaragua, in the autonomous region RAAN). In RAAN, Austrian development co-operation has played an important role in facilitating co-operation between the regional government, the university and the civil society in health sector. The most impressive result of this co-operation is the demand-driven autonomous regional health model and its inclusion in the national health law. During the process of developing this model, Austria contributed to the ability of the regional stakeholders to negotiate with the central government. The Vice Minister of Health suggested that other regions in Nicaragua could learn from the positive experiences made in RAAN.

The implementation of health sector projects is a good example of how Austria applies participatory approaches and promotes dialogue – one of the main principles of Austrian development co-operation. Several Nicaraguan partners reported to the DAC Peer Review team that their views are genuinely listened to and taken into consideration in discussions and common decision-making processes. Through its increasing involvement in national level processes new opportunities arise: Austria is encouraged to link its valuable information and experiences made in projects to other levels of co-operation for the benefit of sectoral and national strategies.

Implementation modalities

Austrian development co-operation uses **projects** as implementation modality almost exclusively. Most of them have a relatively small size and are implemented by NGOs or firms. The share of Austrian programme-based co-operation is still small. Exact figures on aid flows through programmes are not available. Austria does participate in the financing of some SWAps, such as the basic education programme in Cape Verde, the agricultural programme PROAGRI in Mozambique and the legal sector programme in Uganda, and it is planned to increase support to SWAps in the future. Austria does not yet provide direct budget support to any partner country. Its position in relation to this implementation modality is ambiguous. The Three-Year Programme 2004-2006 (p. 60) highlights the importance of complementary capacity building as a condition to programme aid.

Programme-based co-operation and participation in joint financing arrangements (such as pooled funding, budget support) do provide important opportunities for a donor like Austria including (i) focusing aid on poverty reduction through a clear link to national PRSPs as well as provision of basic services, (ii) strengthening dialogue and consultation with partner governments, (iii) harmonising procedures and reducing transaction costs, (iv) and increased impact through combining resources with other donors. All modalities, including project support, should be well aligned to the PRSP and other national strategies. However, since Austrian aid is strongly characterised by a prominent role of NGOs and active involvement at local levels, shifting from project-mode to programme aid implies remarkable changes for Austria. It will be necessary to carefully study the pros and cons related to possible shifts based on an analysis of Austria's comparative advantages. One of the important implications to be considered is the impact on the skills and competence of staff both at the headquarters and in the field. The decision to move towards programme aid as well as defining the conditions for this is clearly an issue of development policy. The MFA should therefore take the lead in the dialogue and adopt a clear position on Austrian participation in programme aid. Close co-operation and consultation with ADA and its field offices as well as stakeholders outside the aid administration is important in this process.

Project management

Logical framework and project cycle management

To guide and support project preparation, basic tools are available. There is a standard format for the contents of a project document from 1999. This format follows the **logical framework approach** and the EC project document standard (1993). The Three-Year Programme 2004-2006 refers to the EC standard as a method to ensure results-orientation and transparency in programming. Austria has also developed checklists for assessing gender issues and environmental sustainability of projects during preparation. According to ADA staff, the quality of project documents varies, and particularly the development of appropriate indicators for projects requires further strengthening. Staff training (including local staff in partner countries) in the logical framework methodology and systematic application of the existing standards in all project preparation is still a challenge. For example, ADA staff in the Co-ordination Office in Sarajevo were not aware of the existence of a project preparation format.

Austria does not systematically use the **project cycle approach** to organise management of the different phases during the life cycle of projects. Adoption of such a model would facilitate a more systematic approach to project management as well as introduce some important quality assurance methods currently not used in the Austrian project management system. Reference is particularly made to systematic and independent appraisal of project proposals (*ex-ante evaluation*). A "second opinion"

on the projects before final decisions on financing are made would be particularly important in the Austrian situation in which a single NGO may have the responsibility for both project formulation and implementation.

Other changes in project management will also be necessary as programmes expand. First, as discussed in Chapter 5, Austria needs to improve feedback from evaluations to policy-making, and this should influence the choice of sectors of intervention. Second, as project size expands especially in economic sectors such as water supply, agricultural development and energy, there will need to be more focus on rates of return and benefit/cost ratios. Third, the project selection system will need to deepen its analyses of likely long-term sustainability in economic, social and environmental terms.

Procurement and tendering

According to the Three-Year Programme 2004-2006 (p. 61), the Advisory Board for Development Policy has made repeated recommendations that more attention should be paid to competitive tendering. The same document includes a commitment to improvement in this area. However, in SEE particularly the criteria for making a decision between direct procurement from NGOs and competitive tendering do not seem to be very clear except for projects with an emphasis on investment (*e.g.* in the water sector).

A guiding principle of the Co-ordination Offices in Managua and Sarajevo in the selection of implementing agencies has been to use local expertise as often as possible. The DAC Peer Review team finds this commendable. In practice, the principle often leads to "hand-picking" a NGO that operates locally without a need to compete for the assignment. It is important to ensure a balance between prioritising locally competent actors and efficient, objective and transparent procurement practices, also when NGOs are selected. Closer involvement of representatives of the partner institutions in the procurement processes might also be considered to further increase ownership and transparency.

Future considerations

- Austria's efforts to develop country strategies for its priority countries in the South as well as in SEE are welcomed. Increased importance should be given to the policy dialogue with the partner governments. Austria is encouraged to take an active role in the development and implementation of PRSPs and other national frameworks. The objectives of country and sector strategies should be specified in such a way that progress towards the intended outcome can be monitored.
- Austria should expand the coverage of the country strategies to include not only MFA/ADA activities but also ODA relevant activities which fall under the responsibility of other Austrian ministries. Thus, country strategies could be used as an instrument to ensure consistency within Austrian development co-operation. Austria should also consider using the offices in the field for closer co-ordination of activities of the different Austrian ministries.
- In line with the principles of ownership and partnership and the alignment of country programmes to locally owned strategies, Austria could increase the share of projects which are administered and implemented directly by local partners.
- The MFA should take the lead in forming a clear position on participation in programme aid and its conditions, including an analysis of the pros and cons to engage increasingly in

programmes. Considering implications for staffing and skills is an important part of the process.

- Logical Framework Approach (including formats for project preparation) and Project Cycle Management (including independent appraisal of project proposals) should be used systematically in all projects. Appraisals of projects in economic infrastructure and production should include assessments of rates of return and/or expected benefit/cost ratios.
- The criteria for selecting between direct financing and competitive tendering needs to be clarified. The principles of efficiency, objectivity and transparency should guide all procurement. Closer involvement of partner institutions in the procurement process (*e.g.* in tender evaluation committees) is recommended.

ANNEX A

THE 1999 DAC PEER REVIEW AND AUSTRIA'S ACHIEVEMENTS

Key issues	Concerns expressed in 1999	Progress achieved by 2004
Overall aid strategy	Austria should have an overall aid strategy that links all its components to a clear set of development objectives (p. 11).	The new legal framework, the Development Co-operation Act (2002 and amended in 2003), states 3 objectives and 4 principles (Section 1.3, 1.4). All development co-operation measures which are counted as ODA have to respect these objectives/principles as well as to the Three-Year Programme 2004-2006 (Section 22).
Co-ordination mechanisms and leadership	Mechanisms should be set up to co-ordinate ODA activities of all agencies concerned, share more information and mainstream DAC principles (p. 11).	The reform process has strengthened the MFAs role as the focal point for development strategy and policy leadership within the Austrian aid system. It is also responsible for co-ordinating all development co-operation measures taken by the different ministries and government authorities (Section 6, 8, 22, Three-Year Programme 2004-2006, p. 59). First efforts have been made to share more information and to mainstream DAC principles.
ODA volume and budget	Austria should increase ODA to reach a level that would appropriately reflect its economic performance and capacity. The share of MFA/Section VII budget should be increased (p. 11).	Austria's ODA fell from USD 520 million or 0.26% of GNI (2002) to USD 505 million or 0.20% of GNI (2003). Austria intends to increase ODA/GNI to 0.33% by 2006. The amount still required to achieve this aim is EUR 226 million (Three-Year Programme 2004-2006, p. 55, 70). The share of the MFA/Section VII in the total ODA budget decreased from 20% (1999) to 11% (2002).
Statistical reporting	Reporting on concessional export credits, imputed student costs and assistance to refugees in Austria should be brought in line with DAC reporting requirements and practices (p. 9, 11).	Reporting on these issues has been brought in line with DAC reporting requirements and practices. In particular, interest subsidies are now being reported as ODA grants, student costs reporting is limited to developmentally relevant courses, and refugees costs are estimated in respect of the first 12 months' stay only.
Concentration	Austria should concentrate its efforts more both country and sector wise, especially around poverty reduction (p. 12, 25).	Neither the number of partner countries nor the number of sectors of ODA has decreased. No further concentration on poverty reduction has taken place.
Poverty reduction	The priority objective of poverty reduction is not reflected in the geographical and sectoral distribution of total ODA. There is a need to mainstream poverty focus at all programme levels (p. 10, 14).	The Development Co-operation Act (Section 1.3) and the Three-Year Programme 2004-2006 (p. 9) highlight the increased importance given to poverty reduction on a policy level. The stated commitment needs to be made operational and be reflected in the poverty-specific allocation of resources. Poverty reduction is not yet sufficiently mainstreamed into all projects and programmes and parts of ODA.

Staffing and human resources management	The shortage of staff is compensated by employing consultants and by contracting out some activity areas to NGOs. This could lead to lack of continuity and loss of institutional memory. Human resources management should be improved. (p. 12).	The problem of staff shortage still persists, especially in the MFA and some Co-ordination Offices. Since January 2004, staff in Co-ordination Offices is employed by ADA and not by a private consultancy as before. The bilateral programme continues to be implemented largely by NGOs and private firms. Activities such as monitoring and drafting strategies are sometimes contracted out to consultants. Policies for staff training and career development are not yet established.
Evaluations	The way of conducting evaluations is too selective and limited. Evaluations should give more focus to impact and sustainability (p. 29).	The MFA and ADA do not have a complete list of evaluations of government-funded projects or programmes carried out or planned. The Evaluation Guidelines introduced in 2001 set out the criteria to be considered by evaluations, including the impact and sustainability. To what extent evaluations actually focus on the impact and sustainability should be assessed by a cross-sectional analysis of evaluation reports.
Co-operation with Eastern Europe	Sector priorities reflect Austria's strong economic and political interests. Austria is encouraged to incorporate good governance, peace and conflict prevention, etc. into co-operation activities (p. 21-22).	Co-operation with Eastern Europe has received increased attention, Austria's foreign policy and economic interests play a major role. Institutionally the responsibility has been shifted from the Federal Chancellery to the MFA/Section VII. Good governance, crisis prevention and reconciliation have become sector priorities (apart from investment and employment, education, environment, water and energy).
Country strategies and programming	The number of country strategies (4) and sector strategies (3) is still limited. Country strategies and co-operation agreements should not only cover MFA/Section VII activities but also include projects under other aid components (p. 26-27).	Country strategies have been developed for all priority countries in the South (except for Bhutan). In SEE programming discussions have just started. Three new overall sector strategies and several sub-programs for specific countries have been published. Austria should enhance policy dialogue with partner governments for further alignment of Austrian support. It is again encouraged to include not only MFA/Section VII activities but also other ministries' projects.
Harmonisation and alignment (H&A)	H&A has not been treated as such in earlier Peer Reviews. Since 2004 all Peer Reviews will report on this matter, based on the Rome Declaration and the ongoing process in the DAC Task Team on H&A.	Austria is beginning to be on track with other donor efforts. It has to speed up its efforts, especially in partner countries, to be part of the process of promoting ownership, aligning to national strategies and actively supporting donor harmonisation.

Note: Under column 'Concerns expressed in 1999' the references of pages refer to the DAC Peer Review of Austria 1999.

ANNEX B

OECD/DAC STANDARD SUITE OF TABLES

Table B-1. Total financial flows

USD million at current prices and exchange rates

Austria	<i>Net disbursements</i>						
	1987-88	1992-93 ^(b)	1999	2000	2001	2002	2003
Total official flows	281	916	810	699	712	680	793
Official development assistance	251	205	492	440	633	520	505
Bilateral	160	70	309	273	442	364	228
Multilateral	92	135	183	167	191	156	276
Official aid	n.a.	369	184	187	212	196	245
Bilateral		347	130	144	161	142	162
Multilateral		22	54	43	50	55	84
Other official flows	30	342	134	73	- 133	-36	43
Bilateral	30	342	134	73	- 133	-36	43
Multilateral	-	-	-	-	-	-	-
Grants by NGOs	25	80	85	72	63	66	84
Private flows at market terms	- 30	473	1 846	2 650	2 732	4 913	4 409
Bilateral: <i>of which</i>	- 30	473	1 846	2 650	2 732	4 913	4 409
Direct investment	24	485	1 344	2 511	2 730	4 618	4 350
Export credits	- 54	- 12	503	139	2	296	0
Multilateral	-	-	-	-	-	-	-
Total flows	275	1 469	2 742	3 421	3 507	5 659	5 286
<i>for reference:</i>							
ODA (at constant 2002 \$ million)	290	184	457	465	675	520	414
ODA (as a % of GNI)	0.21	0.11	0.24	0.23	0.34	0.26	0.20
Total flows (as a % of GNI) ^(a)	0.23	0.32	0.99	0.61	0.45	0.94	0.58

a. To countries eligible for ODA.

b. Includes exceptional deductions for repayment of export credits reported as ODA (see Annex C)

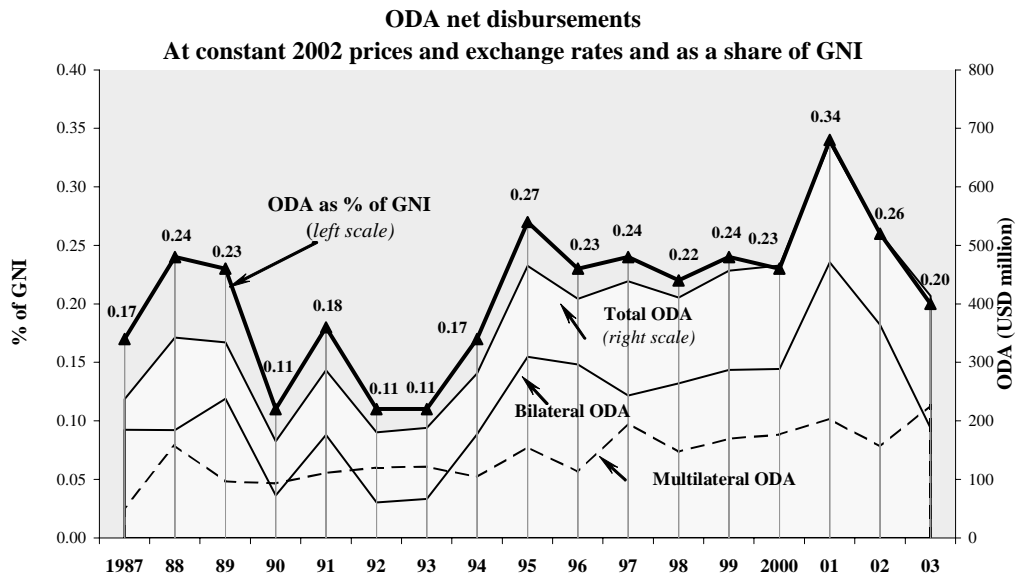
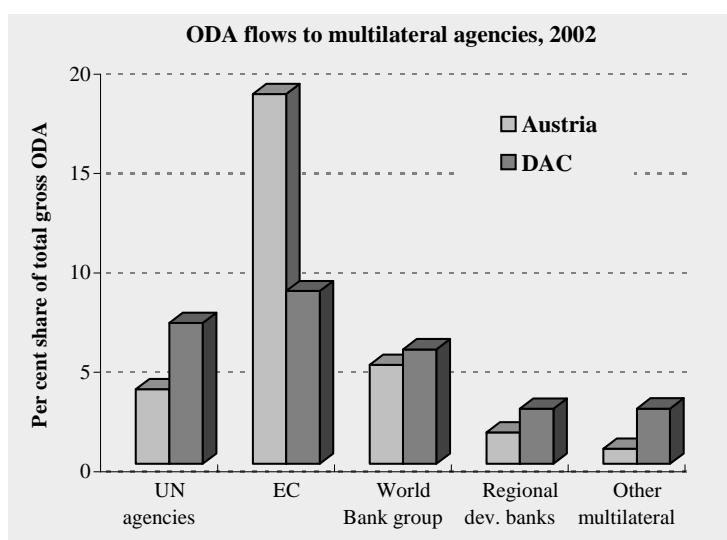


Table B-2. ODA by main categories

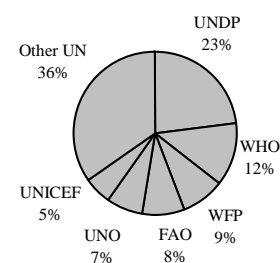
Austria	Constant 2002 USD million					Per cent share of gross disbursements					Total DAC 2002%
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
	Gross Bilateral ODA	368	291	480	369	220	68	62	70	70	
<i>Grants</i>	363	290	477	368	219	68	62	70	70	49	61
Project and programme aid	20	27	13	16	9	4	6	2	3	2	12
Technical co-operation	98	92	95	89	94	18	20	14	17	21	24
Developmental food aid	1	1	3	1	1	0	0	0	0	0	2
Emergency and distress relief	63	32	27	30	30	12	7	4	6	7	6
Action relating to debt	115	59	260	167	34	21	13	38	32	8	8
Administrative costs	18	19	17	22	21	3	4	2	4	5	5
Other grants	47	60	63	43	31	9	13	9	8	7	4
<i>Non-grant bilateral ODA</i>	5	1	3	1	1	1	0	0	0	0	12
New development lending	5	1	3	1	1	1	0	0	0	0	10
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	1
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	1
Gross Multilateral ODA	170	176	204	156	226	32	38	30	30	51	27
UN agencies	25	21	19	20	17	5	5	3	4	4	7
EC	111	92	100	98	138	21	20	15	19	31	9
World Bank group	3	28	28	26	35	1	6	4	5	8	6
Regional development banks (a)	14	24	15	8	22	3	5	2	2	5	3
Other multilateral	16	12	42	4	14	3	2	6	1	3	3
Total gross ODA	538	468	684	525	447	100	100	100	100	100	100
Repayments and debt cancellation	- 81	- 3	- 9	- 5	- 33						
Total net ODA	457	465	675	520	414						
<i>For reference:</i>											
<i>ODA to and channelled through NGOs</i>	50	44	43	41	34						
<i>Associated financing (b)</i>	9	14	15	2	-						

a. Excluding EBRD.

b. ODA grants and loans in associated financing packages.



Contributions to UN Agencies (2002-03 Average)



Contributions to Regional Development Banks (2002-03 Average)

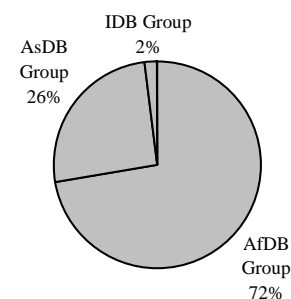


Table B-3. Bilateral ODA allocable by region and income group

Austria	Constant 2002 USD million					Gross disbursements					Total DAC 2002%
						Per cent share					
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
Africa	119	94	236	142	75	35	37	53	43	41	37
Sub-Saharan Africa	96	66	210	121	59	28	26	47	36	32	31
North Africa	23	28	26	21	16	7	11	6	6	9	6
Asia	37	44	50	39	30	11	17	11	12	16	35
South and Central Asia	21	20	25	30	22	6	8	6	9	12	17
Far East	15	24	25	9	8	5	9	6	3	4	19
America	56	19	85	15	14	17	8	19	5	8	13
North and Central America	49	12	13	11	11	14	5	3	3	6	5
South America	8	7	72	4	3	2	3	16	1	2	8
Middle East	19	17	9	12	12	6	7	2	4	6	4
Oceania	1	1	0	0	0	0	0	0	0	0	2
Europe	106	81	65	123	53	31	31	15	37	29	9
Total bilateral allocable by country	337	256	445	331	185	100	100	100	100	100	100
Least developed	91	69	82	127	57	27	27	18	38	31	30
Other low-income	73	39	173	32	34	22	15	39	10	19	25
Lower middle-income	161	137	180	162	89	48	53	41	49	48	41
Upper middle-income	8	9	7	6	5	2	3	2	2	3	5
High-income	-	-	-	-	-	-	-	-	-	-	0
More advanced developing countries	5	3	3	4	-	1	1	1	1	-	-
<i>For reference:</i>											
<i>Total bilateral</i>	367	290	478	368	218	100	100	100	100	100	100
<i>of which: Unallocated</i>	30	34	34	37	33	8	12	7	10	15	22

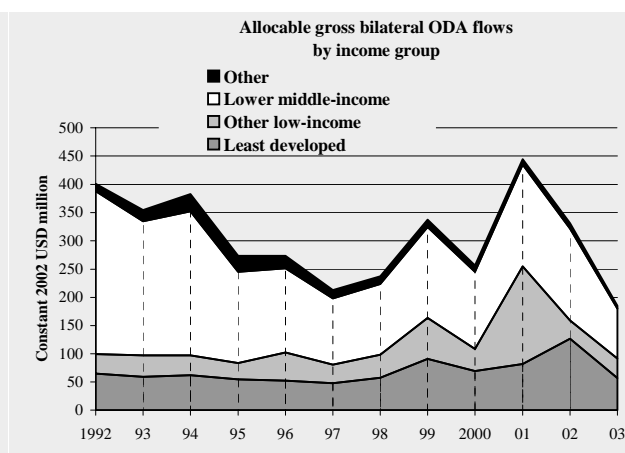
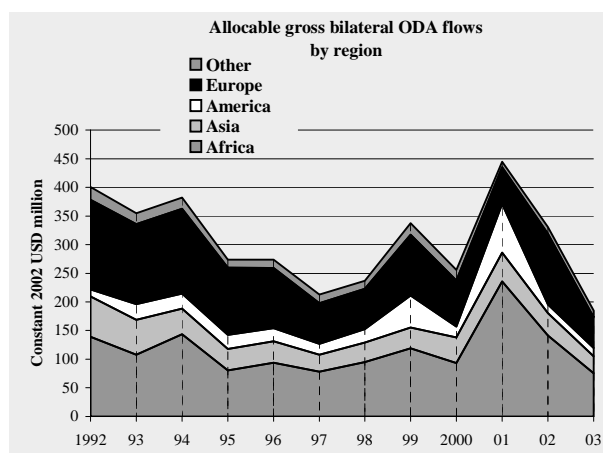


Table B-4. Main recipients of bilateral ODA

Austria	1992-93			1997-98			2002-03		
	Current USD million	Constant 2002 USD mn.	Per cent share	Current USD million	Constant 2002 USD mn.	Per cent share	Current USD million	Constant 2002 USD mn.	Per cent share
Sts Ex-Yugoslavia unsp.	142	127	34	42	37	17	53	51	19
Algeria	44	39	10	25	22	10	17	17	7
China	24	21	6	13	11	5	17	17	6
Egypt	22	20	5	12	11	5	16	14	6
Indonesia	21	19	5	11	10	4	13	12	5
Top 5 recipients	253	227	60	102	91	40	118	111	42
Turkey	17	16	4	10	9	4	12	12	4
Malawi	15	13	3	7	7	3	10	10	4
Iran	13	12	3	7	7	3	7	7	3
Tanzania	7	7	2	7	6	3	6	5	2
Thailand	6	6	2	7	6	3	6	5	2
Top 10 recipients	312	280	74	142	126	56	160	150	57
Rwanda	6	6	2	6	5	2	6	5	2
Uganda	6	6	1	6	5	2	6	5	2
Nicaragua	6	5	1	5	5	2	5	5	2
Albania	5	4	1	5	5	2	5	5	2
Korea	5	4	1	5	5	2	5	5	2
Top 15 recipients	340	304	81	169	151	67	186	175	67
Iraq	4	4	1	5	5	2	5	4	2
Chinese Taipei	3	3	1	5	5	2	5	4	2
Brazil	3	3	1	4	4	2	4	4	1
Mozambique	3	3	1	4	4	2	4	3	1
Cape Verde	3	3	1	4	4	2	4	3	1
Top 20 recipients	356	319	84	192	171	76	207	193	74
Total (116 recipients)	421	378	100	252	225	100	279	258	100
Unallocated	29	26		37	33		40	37	
Total bilateral gross	450	404		289	258		319	295	

Gross disbursements, two-year averages

Table B-5. Bilateral ODA by major purposes at current prices and exchange rates

Two-year averages

Austria	1992-93		1997-98		2002-03		2002
	USD million	Per cent	USD million	Per cent	USD million	Per cent	Total DAC per cent
Social infrastructure & services	152	16	199	46	144	40	35
Education	105	11	104	24	72	20	9
of which: basic education	-	-	2	1	2	1	2
Health	15	2	31	7	11	3	5
of which: basic health	-	-	6	1	5	1	3
Population programmes	-	-	0	0	1	0	4
Water supply & sanitation	19	2	38	9	16	5	3
Government & civil society	4	0	19	4	37	10	8
Other social infrastructure & services	9	1	7	2	7	2	7
Economic infrastructure & services	153	16	9	2	28	8	13
Transport & storage	44	5	4	1	14	4	6
Communications	35	4	0	0	4	1	0
Energy	73	8	2	0	9	3	4
Banking & financial services	0	0	2	1	0	0	1
Business & other services	1	0	0	0	1	0	1
Production sectors	73	8	26	6	13	4	7
Agriculture, forestry & fishing	15	2	16	4	5	1	5
Industry, mining & construction	55	6	9	2	6	2	1
Trade & tourism	3	0	2	0	2	1	1
Other	-	-	0	0	-	-	0
Multisector	3	0	9	2	14	4	8
Commodity and programme aid	9	1	2	0	2	0	5
Action relating to debt	414	43	131	30	98	27	13
Emergency assistance	136	14	36	8	33	9	8
Administrative costs of donors	9	1	20	5	23	6	6
Core support to NGOs	5	0	3	1	2	1	6
Total bilateral allocable	954	100	434	100	357	100	100
<i>For reference:</i>							
Total bilateral	957	88	448	66	368	61	76
of which: Unallocated	4	0	15	2	11	2	3
Total multilateral	134	12	235	34	232	39	24
Total ODA	1 091	100	683	100	599	100	100

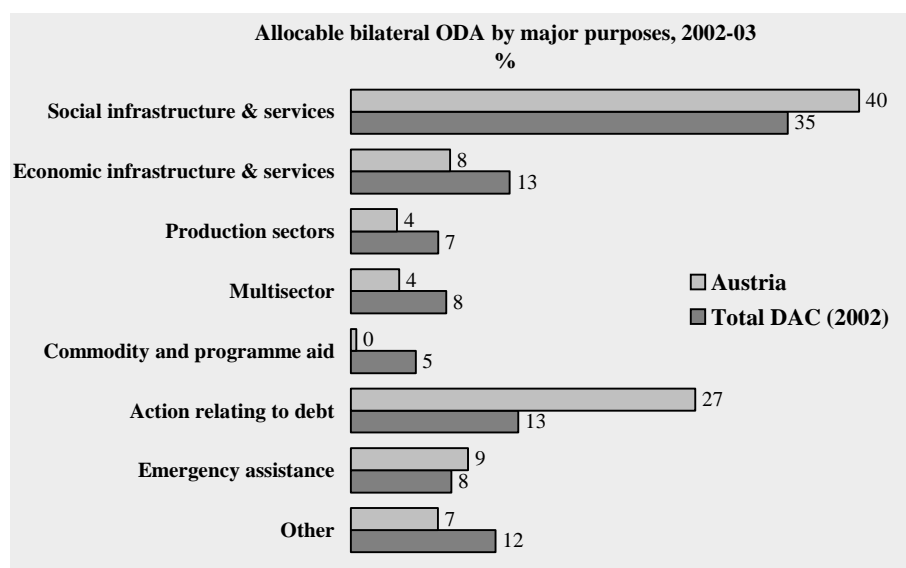


Table B-6. Comparative aid performance

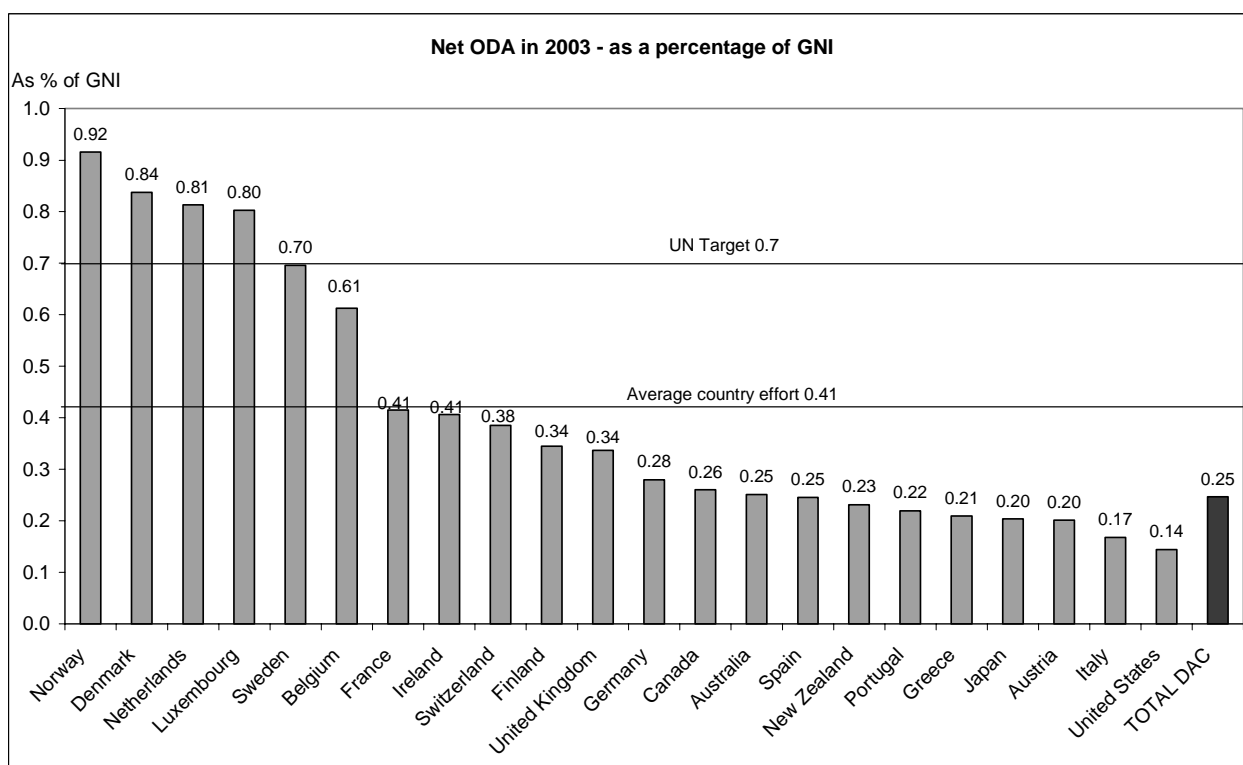
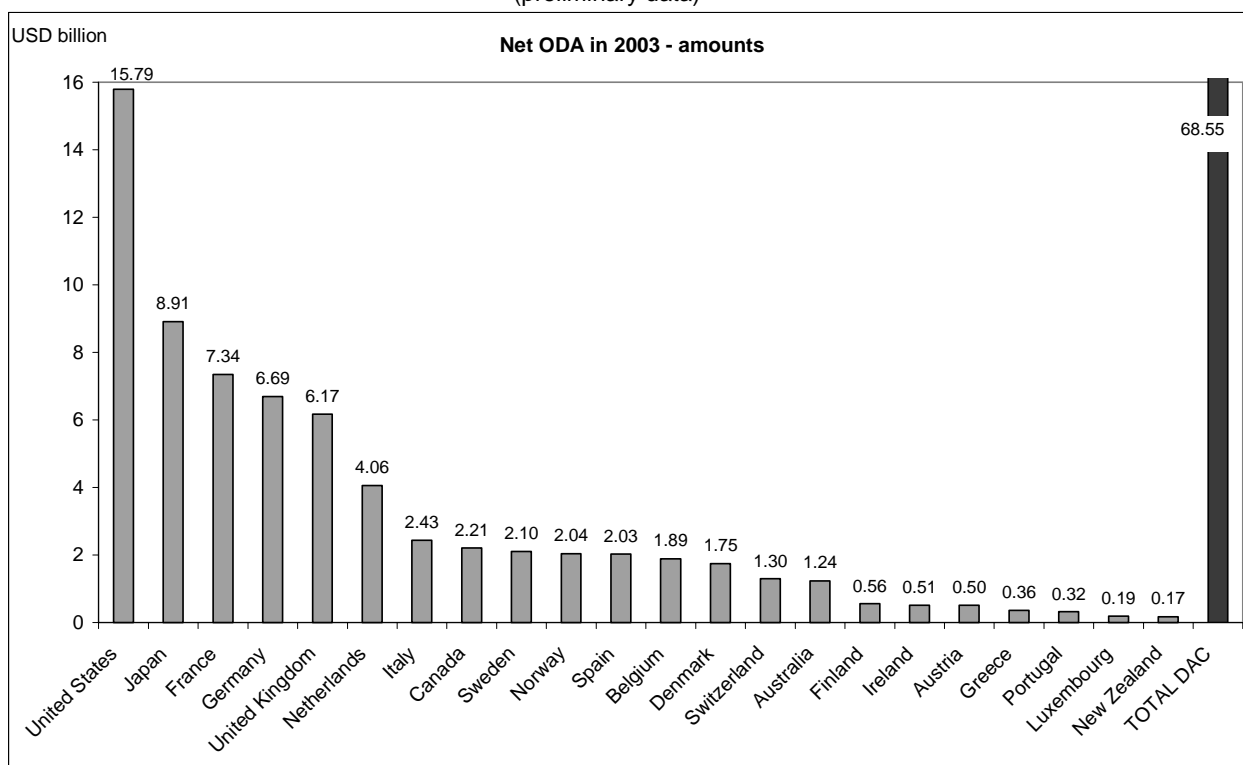
	Official development assistance		96-97 to 01-02		Grant element		Share of			ODA to LDCs		Official aid	
	2002		Ave. annual		of ODA		multilateral aid			Bilateral and through		2002	
	USD million	% of GNI	% change in		(commitments)		% of GNI			multilateral agencies		USD million	% of GNI
Australia	989	0.26	2.4		100.0	21.8	0.06	19.4	0.05	7	0.00		
Austria	520	0.26	7.1		96.1	30.0	11.2	32.6	0.08	196	0.10		
Belgium	1 072	0.43	7.2		100.0	33.6	14.1	32.9	0.14	97	0.04		
Canada	2 006	0.28	-0.6		99.9	25.1	0.07	17.4	0.05	104	0.01		
Denmark	1 643	0.96	2.8		100.0	36.8	30.2	33.3	0.32	167	0.10		
Finland	462	0.35	5.2		100.0	45.6	31.9	33.3	0.12	67	0.05		
France	5 486	0.38	-2.7		99.6	34.1	10.7	29.6	0.11	1 464	0.10		
Germany	5 324	0.27	-0.4		99.4	37.5	13.9	25.0	0.07	780	0.04		
Greece	276	0.21	9.6		..	61.3	15.8	13.4	0.03	16	0.01		
Ireland	398	0.40	14.4		100.0	32.8	17.0	52.8	0.21	26	0.03		
Italy	2 332	0.20	4.6		100.0	56.8	24.2	44.8	0.09		
Japan	9 283	0.23	3.0		87.7	27.9	0.06	19.5	0.04	99	0.00		
Luxembourg	147	0.77	13.3		100.0	21.2	11.5	39.6	0.30	10	0.05		
Netherlands	3 338	0.81	3.7		100.0	26.6	20.4	35.3	0.29	211	0.05		
New Zealand	122	0.22	3.5		100.0	24.7	0.06	25.0	0.06	1	0.00		
Norway	1 696	0.89	2.9		100.0	32.5	0.29	36.9	0.33	45	0.02		
Portugal	323	0.27	6.6		100.0	42.3	19.6	37.3	0.10	33	0.03		
Spain	1 712	0.26	9.5		100.0	41.7	17.4	14.7	0.04	11	0.00		
Sweden	2 012	0.84	5.4		100.0	36.8	32.7	31.3	0.26	107	0.04		
Switzerland	939	0.32	2.3		100.0	18.6	0.06	26.6	0.08	66	0.02		
United Kingdom	4 924	0.31	6.8		100.0	28.8	10.0	23.4	0.07	494	0.03		
United States	13 290	0.13	6.8		100.0	20.5	0.03	22.7	0.03	2 313	0.02		
Total DAC	58 294	0.23	3.5		97.8	30.1	20.3	26.0	0.06	(6317.2)	(0.03)		
Memo: Average country effort		0.41											

Notes:

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

Figure B-1. Net official development assistance in 2003

(preliminary data)



ANNEX C

REFORM OF AUSTRIA'S STATISTICAL REPORTING

The last Peer Review reiterated long-standing concerns about the transparency of Austria's ODA reporting practices and the inconsistency of these practices with agreed DAC statistical reporting directives. Following the Peer Review, the Secretariat discussed the issues with the Austrian authorities and agreed on a significant programme of reform in reporting practices. This has now been carried out in full, and Austria's statistical reporting is now in conformity with DAC norms. It is also of a high standard of accuracy.

Concessional export credits

As discussed in the text, the Austrian Kontrollbank has been administering a scheme known as Framework II for softening the terms of selected developmentally-relevant export credits by providing grants to subsidise the interest rate charged. While export credits extended by donor countries may have beneficial effects on development, their basic purpose is to facilitate trade, and so they do not meet the ODA criterion of having economic development and welfare as their "main objective". Thus as long ago as 1969 it was recorded that "most DAC members feel that all official export credit programmes are basically similar in character and that, in order to achieve consistency in DAC statistics, the Austrian Kontrollbank transactions...are more appropriately recorded as other official flows [than as ODA]".

Austria, however, preferred to report Framework II credits as ODA loans, on the basis that they were concessional and contributed to development. Indeed, until the mid-80s, this was the only way in which Austria could gain ODA credit for its effort in raising the concessionality of the funds extended. In 1987, however, the DAC agreed new rules allowing interest subsidy grants included in financing packages to be reported as ODA, with the face value of the package being reported as other official and/or private flows, depending on the source.

The 1987 methodology offered the opportunity to record the official effort in subsidising credits with a developmental orientation, while reflecting the basically commercial purpose of the credits themselves. However, with the passage of time it had become difficult to implement a new recording method without creating a major break in series that would blur trends in Austria's real aid effort. Efforts in the 1990s therefore concentrated more on improving aid quality by sharpening the developmental focus of the subsidies, especially through greater involvement of the aid authorities.

Nevertheless the issue was not forgotten. The 1996 DAC Peer Review of Austria reiterated doubts about the developmental focus of the credits themselves, and the 1999 Peer Review explicitly recommended that statistical methods be brought into line with DAC reporting requirements and practices. In subsequent discussions, the OECD Secretariat and the Austrian authorities agreed to change reporting practice in line with the 1987 methodology. This would record the subsidies as ODA grants, and the face value of the credits under "other official flows". The following treatment was agreed for previous years' data:

- 1969-1989: no change, as these data are no longer policy-relevant.
- 1990-94: reporting revised so that new credits are reported on the new basis, *i.e.* as other official flows, with the subsidy only reported as an ODA grant. Previous reporting on ODA loan disbursements deleted. Reporting on repayments of ODA loans retained. In addition, one fifth of the total outstanding balance of ODA loan principal in relation to the credits as at 31 December 1994 to be reported as a single block receipt against ODA loans in each of the five years 1990-94.³⁸
- 1995-present: new credits to be reported on the new basis. ODA reporting of disbursements and repayments of the credits to be deleted. This means that reporting from 1995 onward is as it would have been if the revised reporting procedure had been introduced from 1995.

Imputed student costs

Austria was among the first DAC members to record as ODA the cost to its taxpayers of providing education to developing country nationals. Reporting commenced in 1972, after a law was introduced exempting them from fees. In 1985, the DAC agreed guidelines on such reporting, which were designed to standardise practice among members and ensure that subsidies were only reported in respect of developmentally relevant expenditure.

The 1999 Peer Review noted that Austria used a retrospective calculation method that effectively counted the value of subsidised education for any student from a developing country, regardless of the developmental focus of the studies concerned. The Peer Review urged Austria to modify its procedures in this respect and make its methodology more transparent. Subsequent investigation by the OECD Secretariat showed that the Austrian method of calculating the subsidy was fairly conservative. Only running costs are taken into account, not expenditures on buildings, equipment and other capital works. Students following short-term ad hoc (*ausserordentlich*) programmes are also omitted from the calculation. The resulting average annual imputed cost per student in 1999 was about USD 6 000, which is low by international standards.

The main ground for objection to Austria's reporting was the lack of developmental focus in the selection of courses. The Austrian authorities therefore agreed to eliminate from their reporting a range of courses considered to have less developmental relevance, including historical, linguistic and artistic studies, as well as philosophical and theological subjects. The statistical impact has only been minor, reducing the item by a few per cent compared to the previous methodology.

A new fee amounting to about EUR 700 annually has recently been introduced for all students at Austrian universities. Developing country students are eligible for a refund. At the time of writing, the universities, which had recently been granted greater financial autonomy, were pressing for compensation from the government for the cost of the refunds. The full cost to Austrian taxpayers of developmentally relevant tuition will continue to qualify as ODA according to the guidelines in DAC directives, regardless of whether part of the subsidy is expressed in terms of a refunded fee. The

38 The combined effect of these measures is to remove the impact of the ODA reporting of the pre-1990 credits from the record, by reducing aggregate flows on these credits to zero by the end of 1994. Unfortunately, this artificially depresses the ODA data for 1990-94. However, this was considered preferable to the alternatives, which included leaving the old ODA loans showing as disbursed but not repaid (thus overstating flows over the long term), continuing to report actual repayments against the old loans as ODA (thus artificially depressing ODA flows into the indefinite future), or re-reporting on the new basis all the way back to 1969 (which was administratively infeasible).

Austrian authorities will, however, need to monitor the situation to ensure that they continue to receive the information necessary to calculate the subsidy in accordance with the directives.

Costs of refugees in Austria

Spending on refugees in developing countries has always been reportable as ODA. During the 1980s the DAC debated the extent to which spending on refugees outside developing countries should also be included. The solution agreed was a compromise, allowing ODA reporting of the costs of bringing refugees to donor countries, and later sending them home or to another developing country, as well as temporary sustenance in the donor country, limited to the first year of stay.³⁹

Austria had been reporting expenditure on two classes of persons under this item:

- Asylum seekers.
- *De facto* refugees from the former Yugoslavia who have not applied for asylum but who are offered temporary refuge in Austria until the situation in their home country improves sufficiently to allow them to return.

The last Peer Review noted that some costs were being recorded in excess of the twelve month limit. The Austrian authorities subsequently informed the OECD Secretariat that this related only to the second group of *de facto* refugees, and only to persons designated to return to their home countries. While the Austrian authorities believed that the ODA rules should be changed to allow expenditure on such persons to be counted, they accepted that until that were done, reporting of costs would thenceforward be limited to the first twelve months of stay.⁴⁰ This is reflected in a fall in the

39 In recent years, a large share of the reported expenditure on this item has been for refugee claimants (“asylum seekers”), who have not been recognised by the receiving country as meeting the definition of a refugee under the Geneva Convention of 1951. This category of persons is not specifically addressed in the DAC Statistical Reporting Directives, and although the matter was extensively discussed in DAC bodies in 2001, no agreement was reached on clarifications to the Directives on this point. The current Directives on this point are at paragraphs 1.16 to 1.18 of DCD/DAC(2000)10, available online at <http://www1.oecd.org/dac/htm/dacdir.htm>.

40 In view of the practical difficulties involved, no retrospective adjustment was made to data for 1998 and earlier years. During 1999 and 2000, the *de facto* refugees category consisted essentially of Bosnians (most of whom had arrived several years earlier) and Kosovars (who started to arrive in 1999). In the spirit of respecting the twelve-month limit on ODA reporting, specific measures were agreed in respect of these groups as follows:

- For 1999, ODA reporting on Bosnians to be restricted to costs of return and reintegration, including ancillary expenditures such as counselling. In the case of Kosovars, who started arriving in the spring of 1999, all costs would be counted.
- ODA reporting in 2000 to be limited to return and reintegration costs for Bosnians and Kosovars, and half the costs of accommodation and health expenditures for Kosovars only. This recognised the one-year limit by assuming that, on average, half the costs incurred for Kosovars in 2000 would still fall within their first twelve months of stay - a reasonable assumption given that most arrivals were in the spring and summer of 1999.
- The effect on net ODA was modest, since total expenditure on refugees in Austria had fallen from over USD 100 million per year in the first half of the 1990s to less than USD 30 million (6% of ODA) in 1998. Most of the expenditure on *de facto* refugees in 1999 and 2000 was on Kosovars, and most of this was still reportable; moreover there was no change to reporting of expenditures on asylum seekers.

scale of reporting against this item from around USD 40 million annually in the late 1990s, to an average of about USD 25 million over the past three years. This represents the cost for asylum seekers, practically all of whose cases are resolved within the 12-month limit.

Future trends in these expenditures are difficult to predict. A recent decision of the Austrian Supreme Court required that temporary sustenance be extended to all asylum seekers, whereas only about one-third had been covered previously. On the other hand, the accession of new EU members in May 2004 may sharply reduce future inflows of asylum seekers. Since the new member countries are regarded as safe, asylum seekers attempting to enter Austria from them are being refused entry. The main ultimate source countries of asylum seekers at present are in South and South-west Asia: Afghanistan, Chechnya (Russia), India, Iran, Iraq and Pakistan.

ANNEX D

PARTNER COUNTRIES OF AUSTRIAN DEVELOPMENT CO-OPERATION

Austrian development co-operation with the South: 20 partner countries + 4 special programme recipients		
Regions (5)	Priority countries (7)	Co-operation countries (13)
Central America	Nicaragua	Guatemala, El Salvador, Costa Rica
West Africa	Cape Verde, Burkina Faso	Senegal
East Africa/Great Lakes	Ethiopia, Uganda	Kenya, Burundi, Tanzania, Rwanda
Southern Africa	Mozambique	Zimbabwe, Namibia, Republic of South Africa
Himalaya-Hindukush	Bhutan	Nepal, Pakistan
Special programmes	Palestine, Afghanistan, Iraq, Western Sahara	
Austrian co-operation with Eastern Europe: 19 partner countries		
Regions (2)	Priority countries (5+3)	Small local activities (in 11 countries)
South East Europe	Albania, Macedonia, Croatia, Serbia and Montenegro, BIH, Bulgaria, Romania (the latter two being phased out)	
Eastern Europe and Central Asia	Moldova (planned)	Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan

Note: According to the DAC List of Aid Recipients (January 2003), all Austrian partner countries are Part I countries (eligible for ODA) except for the following Part II countries (eligible for OA): Bulgaria, Romania, Belarus, Russia and Ukraine.

ANNEX E

MAIN GOVERNMENT ACTORS OF AUSTRIA'S DEVELOPMENT CO-OPERATION SYSTEM

(Share of total ODA is based on 2002 data)

The **Ministry of Finance** controls approximately 58% of the total ODA budget. Section III.3 “Economic Policy and Financial Markets/International Financial Institutions” is responsible for Austria’s contribution to the IFIs. The ministry also funds interest subsidies incorporated in associated financing packages and debt relief, and is represented in the ADA Supervisory Board by one staff member.

The **Ministry for Foreign Affairs** (MFA), Section VII “Development Co-operation”, is the focal point for development strategy and policy leadership within the Austrian aid system. It is responsible for the bilateral development co-operation programme with the South and Eastern Europe (since 2000, formerly in the Federal Chancellery). Furthermore, it is in charge of the multilateral development policy with the EC and the UN group even though for some specialised UN organisations other ministries are responsible, *e.g.* the Ministry for Agriculture, Forestry, Environment and Water Management covers the FAO and the Ministry for Education, Science and Culture is responsible for the UNESCO. Since 2003, Section VII also covers humanitarian assistance (see Box 4). The ministry is represented in the ADA Supervisory Board by six staff members, one of them being appointed as the chairman of the Board. Although the MFA/Section VII is the focal point for development policy in the Austrian government, its share in total ODA is only 11%. Other MFA sections (*e.g.* the Political Section II) co-ordinate with and support the work of Section VII.

The Austrian Development Agency (ADA): see Chapter 5.

The **Ministry for Education, Science and Culture** handles the imputed educational costs of developing country students in Austria. Mainly Section I “General School System, Education Planning and International Affairs“, Section VI “Scientific Research; International Affairs – Science” and Section VII “Universities, Vocational Training” cover those questions which are related to development co-operation. The ministry’s share in total ODA is 9.4%.

The **Ministry of the Interior**, Section III.5.b “Asylum and Support/Integration”, administers programmes for refugees arriving in Austria. Responsibility for disaster assistance and emergency relief (in Austria and abroad) also rests with this ministry (Section II.4 “Bundesalarmzentrale”). Its share in total ODA is 6%.

Within the **Ministry for Defence**, the Section “Military Policy” works together with the MFA on questions concerning conflict prevention and peace building as well as missions of the Austrian military. Its share in total ODA is 1.5%.

The **Ministry for Agriculture, Forestry, Environment and Water Management** (“Lebensministerium”) is linked to development co-operation through its Section V.9 which is responsible for “International Environmental Affairs”. Furthermore, the ministry administers the budget for food aid (about EUR 1.3 million per annum) although it is the MFA which proposes the

target countries. The ministry is represented in the ADA Supervisory Board by one staff member. Its share in total ODA is 1.3% (the 2002 data does not include environment as this was an own ministry at the time having a share in total ODA of 0.4%).

The **Ministry of Economic Affairs and Labour** is mainly involved in WTO matters with high impact on partner countries. Within the ministry the so-called Centre 2/4 is responsible for “EU Co-ordination”, also in the field of development co-operation. The ministry is represented in the ADA Supervisory Board by one staff member. Data on ODA is not available.

The **Ministry of Social Security, Generations and Consumer Protection** is represented in the ADA Supervisory Board by one staff member and is thereby involved in development co-operation questions. Data on ODA is not available.

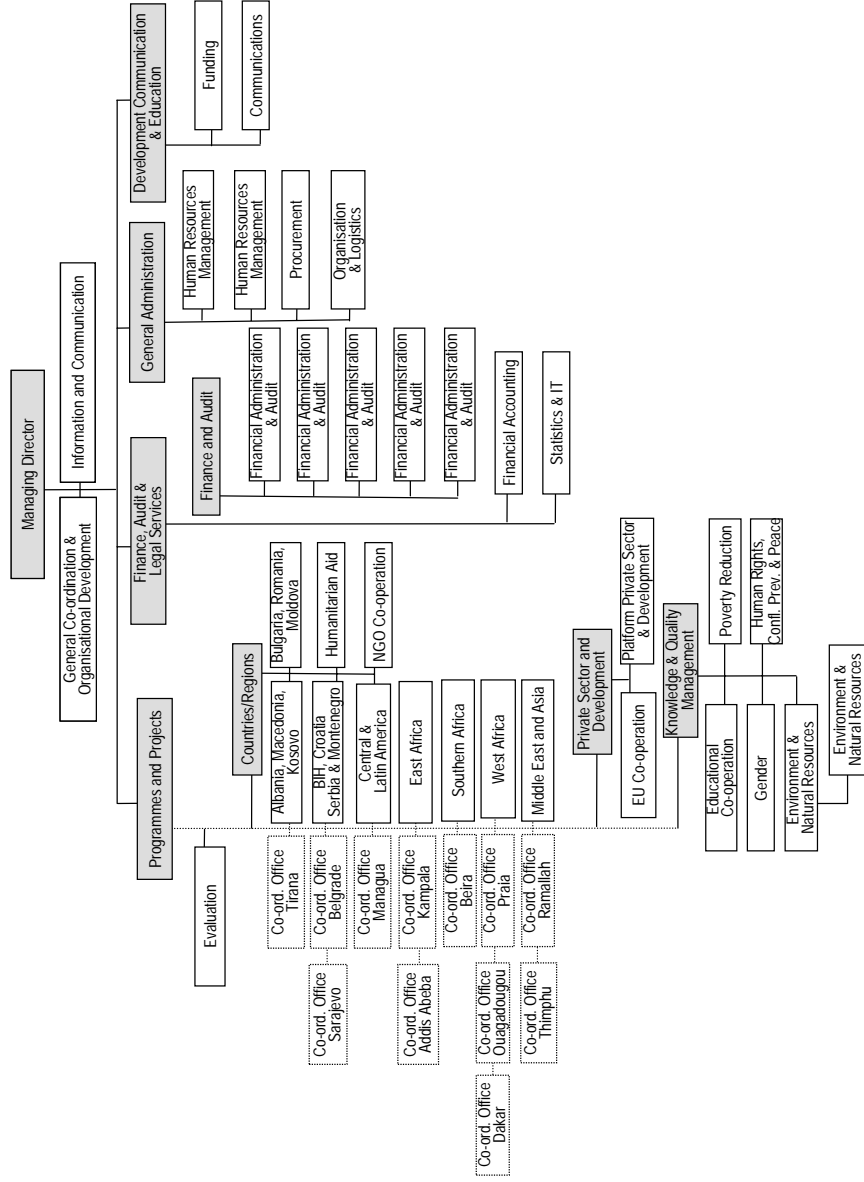
The **Austrian Federal Chancellery**: one of the general roles of the Federal Chancellery is to develop new policies or strategies and then hand them over to other ministries. As for development co-operation, two former responsibilities were moved from the Federal Chancellery to different ministries. In 2000, Austrian co-operation with Eastern Europe was moved to the MFA. In 2003, the responsibility for disaster assistance and emergency relief was shifted to the Ministry of the Interior and humanitarian aid to the MFA (see Box 4). As a result, the Chancellery is hardly involved in development co-operation anymore. The only exception to this is its responsibility for the co-ordination with the OECD (Section IV.7 “Macroeconomic and OECD-Affairs”).

The **Bundeslaender (provinces) and some communities** fund their own ODA projects. Also some ODA funds from the Ministry of the Interior are channelled through to the provinces for refugee assistance. The provinces are represented in the ADA Supervisory Board by one staff member. Altogether, the share of these actors of total ODA is 0.7%.

ANNEX F

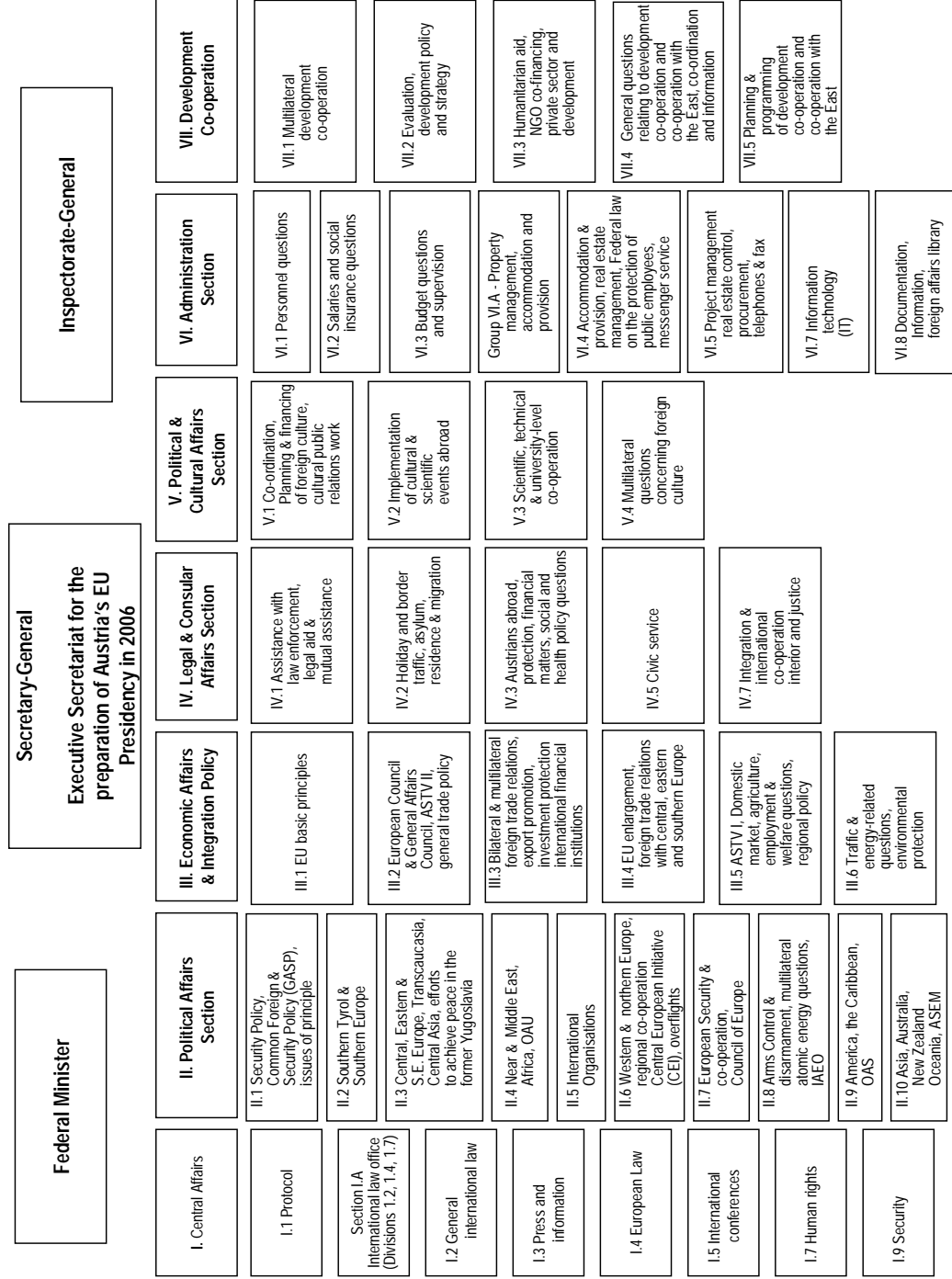
ORGANISATION CHARTS

Chart F-1. Austrian Development Agency



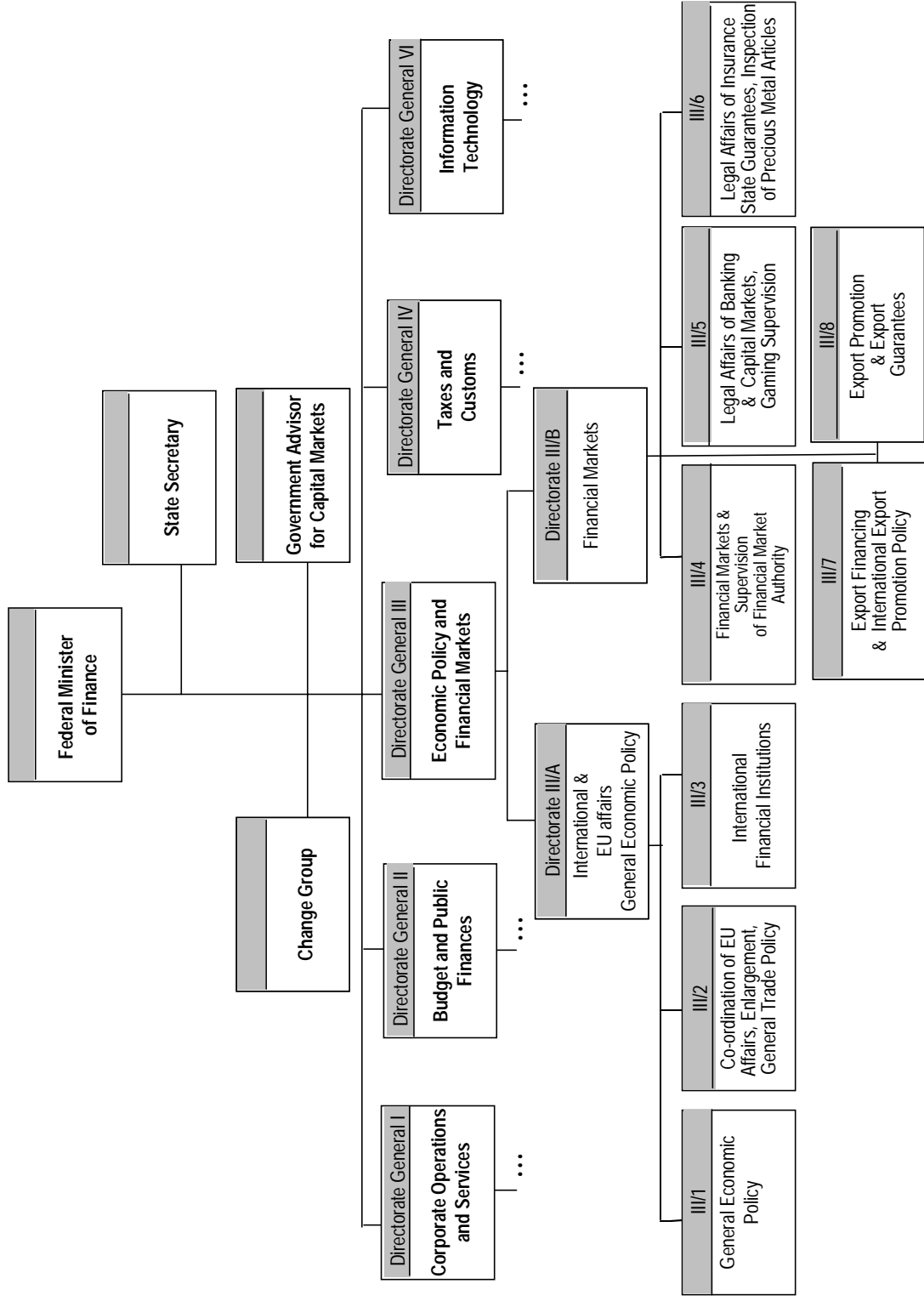
Source: Austrian Government/OECD

Chart F-2 Ministry for Foreign Affairs



Source: Austrian Government/OECD

Chart F-3 Ministry of Finance



Source: Austrian Government/OECD

ANNEX G

BRIEF BACKGROUND ON NICARAGUA AND BIH AND THE DEVELOPMENT OF AUSTRIA'S AID PROGRAMME IN THESE COUNTRIES

Nicaragua

Since 1990, Nicaragua has been in transition from a centrally-planned to a market economy and from civil war to socio-economic reconstruction. Even though the structural reforms of the 1990s set Nicaragua on a path of fiscal discipline and economic growth, poverty, unemployment and the enormous external debt persist. With a per capita GDP of only one-third of the regional average (USD 710), Nicaragua continues to be the second poorest country after Haiti in the region.⁴¹ In 2001, 46% of the population were living in poverty, most of them in rural areas.⁴² Despite a relative decrease in poverty, the absolute number of poor people has remained constant. Like many other Latin American countries, Nicaragua is characterised by a high degree of inequality with regard to income and consumption.

The Nicaraguan government under the presidency of Alemán (1996 – 2001) prepared a PRSP-I which did not have a climate that was favourable for its development during its two first years of implementation (*e.g.* low economic growth). Now, Bolaños' government (the president since 2001) is working on a National Development Plan which is equivalent to a PRSP-II including an operational plan. Particular attention is given to broad-based economic growth and structural reform, the first pillar of the PRSP-I.

In September 1999, Nicaragua was declared eligible to receive assistance under the enhanced framework of the Heavily Indebted Poor Countries (HIPC) Initiative. It reached the decision point in December 2000 and from then on Nicaragua received interim foreign debt relief at an annual average of USD 78.3 million. In January 2004, the World Bank and the IMF declared that Nicaragua had taken the necessary steps to reach the completion point. In total, Nicaragua can expect a debt relief of nearly USD 4.5 billion. This amount is equivalent to 73% of total outstanding debt and the largest debt relief package so far under the HIPC Initiative.⁴³ Between 1995 and 2002, Austria spent USD 36 million on debt forgiveness grants to Nicaragua.

Nicaragua's dependence on foreign aid is high, ranging between 15% and 25% of GDP per annum (depending on the source). Altogether, 45 bilateral and multilateral donors are active in Nicaragua, Austria being one of them.

Austrian development co-operation in Nicaragua started to develop during the 1980s. In its initial phase it was mainly individuals and independent groups that travelled to Nicaragua in a spirit of

41 World Bank (2004): World Development Indicators, p. 15.

42 World Bank (2003): Nicaragua Poverty Assessment, Report No. 26128-NI, p. 1.

43 World Bank (2004): World Bank and IMF Support USD 4.5 Billion in Debt Service Relief for Nicaragua. News Release No: 213 2004/LAC, <http://web.worldbank.org>.

solidarity with the Sandinist movement. In 1986, a bilateral Co-ordination Office was set up in Managua and in 1992, Nicaragua was defined as a priority country in Austrian development co-operation. In 1993, the Co-ordination Office was transferred into a regional office being also responsible for projects in Guatemala, El Salvador and Costa Rica. Bilateral co-operation agreements between Austria and Nicaragua were signed in 1986 and 1994. A regional programme for Central America is planned for the future.

Austrian ODA net disbursements in Nicaragua reached their peak in 1999 (EUR 10.6 million) after the Hurricane Mitch. Since then, ODA has fluctuated between EUR 4.6 and 6.3 million. Budget lines (ODA disbursements excluding co-financing) for Guatemala, El Salvador and Costa Rica range from EUR 0.1 to 1.3 million in 2002. Austria's contribution accounts for 1.5% of all donors' bilateral aid to Nicaragua and less than 1% of total ODA to this country. Private funds of Austrian NGOs are comparatively high, *e.g.* in 2002 Austrian NGOs provided a total of EUR 1.8 million.

Bosnia and Herzegovina (BIH)

After almost four years of war in BIH, in 1995 the Dayton peace agreement created a joint multi-ethnic and democratic government as well as a new constitution. It laid down conditions for international involvement in the implementation of the agreement, stipulated the appointment of a High Representative, and provided for a NATO-led international peacekeeping force. Internally, BIH was divided into two entities, the Republika Srpska (RS) and the Federation (FBIH), which were again further divided into cantons (FBIH) and municipalities (RS and FBIH). The three nationalist parties that led BIH to the war have remained the dominant political forces for most of the late 1990s and into the current decade. Today, they form the central state and the entity governments. The compromise peace agreement left BIH with up to six layers of authority and fourteen different governments, all these governments devouring more than 64% of the GDP in BIH.⁴⁴ On top of these structures, the Office of the High Representative has been established, with the High Representative having the so-called "Bonn powers" at his disposal which, on the one hand have helped to impose necessary legislation, but on the other limited the development of a robust political process in BIH.

The war in BIH has thrown back the country in its economic and social development by many years. The country has not only been struggling with the physical destruction of the war, but also with a traumatised population and a loss of millions of human beings through death, displacement and immigration. The process of rebuilding political, economic, institutional and social structures is difficult and the situation in the country is still fragile. BIH is classified as a LMIC with a GDI per capita of USD 1 310 (2002).⁴⁵ Unemployment poses a severe problem. Next to the Former Yugoslav Republic of Macedonia, BIH is ranked as the poorest republic in the old Yugoslav federation. According to the PRSP of BIH, approximately 20% of the population live below the poverty line and an additional 30% remain vulnerable to slipping into poverty.⁴⁶

Given the situation as described above, BIH has to be considered as a special case for development co-operation: the country is moving from an emergency through rehabilitation phase to the building of a state with a parallel process of European integration. The Stabilisation and

44 International Crisis Group (2003): Building Bridges in Mostar, p. 1.

45 World Bank (2004): World Development Indicators, p. 14.

46 Mid-Term Development Strategy of Bosnia and Herzegovina (PRSP) 2004-2007, p. 1 (published in March 2004). These figures rely on data collected in the Living Standard Measurement Survey. The general poverty line, *i.e.* the total annual spending below which a person is considered poor, is BAM 2 198 (convertible marks) or EUR 1 099.

Association Process of the EU and the Stability Pact for South East Europe are the guiding regional frameworks. Only recently, there are first signs of increasing ownership by the government (*e.g.* the PRSP for BIH was published in March 2004). In view of declining international aid (26.1% of GNI in 1997, 10% of GNI in 2002⁴⁷), in the coming period BIH will have to rely on foreign investment as the most important source of financing future development.

Austria is one of 42 multilateral and bilateral donors in BIH. Its contribution accounts for 3.5% of bilateral aid to BIH and 1.9% of total ODA to this country. However, the Austrian co-operation programme is only a small piece of the overall Austrian relationship with BIH. Due to its broad involvement, Austria has several comparative advantages in co-operation with BIH: geographical and cultural proximity and a good understanding of the political and social situation in BIH; shared “institutional history” in some areas as many Austrian institutions were introduced in BIH during the Austro-Hungarian monarchy and some of them still exist today; strong involvement of the Austrian private sector, especially in the banking sector (Austria has invested between EUR 450 and 500 million since the end of the war which makes it the first or second biggest investor in BIH); huge BIH diaspora in Austria (over 160 000 Bosnians live in Austria today) from which Austrian NGOs profit when it comes to the recruitment of local (Bosnian) staff in Austria.

From 1992 to 2001, overall Austrian support to BIH amounted to EUR 509.4 million (total disbursements), including contributions of the Federal Chancellery and several ministries (MFA; Finance; Education, Science and Culture; Interior; Defence), country governments, other state institutions and NGOs. Out of this sum, total disbursements of the co-operation programme in BIH of the MFA accounted for only EUR 56 million (1992–2003). Severe budgetary cuts have led to a decrease in annual disbursements from EUR 7.5 million in 1999 to EUR 1.8 million in 2004. The reason was primarily a general austerity programme launched by the then new Austrian government. Also the transfer of competency for co-operation with Eastern Europe from the Federal Chancellery to the MFA – the MFA having acted only as a lobbyist for the development co-operation (with the South) until then – led to a cut in resources. The effects were severe. With the small funds available the office tried to ensure the sustainability of the ongoing projects as much as possible. Only now is Austria in a position to base its work on strategic considerations again. An increase in funds for BIH is planned for the following years. However, no figures are available yet. It is planned, in particular, to expand activities within the field of economic development and employment.

47 World Bank (2004): World Development Indicators, p. 334.

PRESS RELEASE OF THE DAC PEER REVIEW OF AUSTRIA

AUSTRIA MOVES FORWARD ON MAJOR REFORMS FOR MORE EFFECTIVE AID

The OECD Development Assistance Committee (DAC) welcomed the significant reforms in the Austrian aid system since the last Peer Review in 1999, including the Development Co-operation Act, adopted in 2002 and amended in 2003, and the Three-Year Programme 2004-2006 to guide Austria's aid priorities. The DAC commends Austria's commitments to poverty reduction and the achievement of the Millennium Development Goals (MDGs) and hopes that they will be fully operationalised and reflected in the allocation of resources. This will require strong political support and staff capacity.

The creation of the Austrian Development Agency (ADA) in January 2004 to address the issues of effectively delivering an increased aid programme, presents new opportunities and challenges. ADA is responsible for administering the Ministry of Foreign Affairs' (MFA's) bilateral aid programme. The foundation of ADA will strengthen the MFA's role as the focal point for development strategy and policy leadership within the Austrian aid system, though there is still a need to operationalise the division of labour between the MFA and ADA.

Austria's net official development assistance (ODA) was USD 505 million or 0.20% of Austria's gross national income (GNI) in 2003, the third lowest among the 22 member states of the OECD Development Assistance Committee (DAC). The Committee welcomed Austria's plans to achieve its 2002 Barcelona Summit commitment of 0.33% of GNI by 2006, which will require it to raise the currently projected 2004 expenditure of €573 million by €222 million, or about 40%. This will have to be matched by mobilising public support.

The DAC recommends that Austria set out a clear strategy, including a growth path, as it prepares for increases of its development assistance funding. This is particularly important since the Austrian aid programme is characterised by a high share of debt relief, which is expected to diminish over the medium term. Long-term financial planning is needed to make Austrian aid more predictable. The Committee welcomed Austria's intention to move towards further country and sectoral concentration, building on its comparative advantage, particularly in South East Europe.

The MFA directly administers 22% of Austrian ODA; seven other federal ministries are also involved in development co-operation spending. Austria's Three-Year Programme helps the MFA to co-ordinate those activities not in its direct responsibility. The Committee felt that over time a more formal system of inter-ministerial co-ordination might be needed. With respect to policy coherence for development, the new Development Co-operation Act provides an explicit legal basis for improvement. The MFA, which is responsible for enforcing the Act, needs a prioritised coherence agenda and sufficient resources to pursue this task. The DAC urges Austria to continue its efforts to support private sector and development activities that maintain a clear focus on the economic development and welfare of recipient countries. Furthermore, the Austrian parliament and non-governmental organisations (NGOs) can play an important role in raising public awareness of the need for policy coherence for development.

Austria's support to local civil society is appreciated by partner countries. New instruments have been developed for support to NGOs – important in Austria's aid delivery - which should permit

greater alignment to partner country strategies and systems while respecting NGO roles, for example in advocacy. The DAC encourages the Austrian authorities to strengthen dialogue and consultation with partner governments including on issues of harmonisation and alignment.

The Committee recommends that the MFA takes the lead in forming a clear position on programme aid and its conditions. Personnel and procurement policies need to be updated to meet the requirements of a growing and increasingly professional bilateral aid programme. It is important to ensure the organisational independence of the Austrian aid system's evaluation function and to maintain the high standard of Austria's statistical reporting, which since the 1999 Peer Review has been brought fully into line with DAC norms.

The DAC Peer Review of Austria's development co-operation policies and programmes took place on 27 October 2004. The discussion was led by the DAC Chair Mr. Richard Manning. The Austrian Delegation was headed by Dr. Georg Lennkh, Director-General for Development Co-operation, Ministry for Foreign Affairs. The examiners for the Peer Review were Finland and Germany. The Czech Republic participated in the Peer Review as an observer.

The main findings and recommendations of the DAC regarding this review will be published on the OECD web site, at www.oecd.org/dac, during the week of 2 November 2004. For further information journalists are invited to contact Helen Fisher, OECD Media Relations Division, (<mailto:helen.fisher@oecd.org> or tel. [0033 1] 45 24 80 97).

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.

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with other official or private funding to form finance packages.

AVERAGE COUNTRY EFFORT: The unweighted average ODA/GNI ratio of DAC members, *i.e.* the average of the ratios themselves, not the ratio of total ODA to total GNI (*cf.* ODA/GNI ratio).

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

DAC LIST OF AID RECIPIENTS: The DAC uses a two-part List of Aid Recipients which it revises from time to time. Part I of the List comprises developing countries (eligible to receive official development assistance). It is presented in the following categories (the word "countries" includes territories):

LDCs: Least Developed Countries. Group established by the United Nations. To be classified as an LDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LDC group.

Other LICs: Other Low-Income Countries. Includes all non-LDC countries with per capita GNP less than USD 760 in 1998 (World Bank Atlas basis).

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

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

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

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

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

DIRECT INVESTMENT: Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of Aid Recipients. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

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

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable financial instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

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

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

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

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

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a loan, having a grant element of at least 25%).

ODA/GNI RATIO: To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, *i.e.* the weighted ODA/GNI ratio of DAC members (*cf.* Average country effort).

OTHER OFFICIAL FLOWS (OOF): Developmentally relevant transactions by the official sector with countries on the DAC List of Aid Recipients which do not meet the conditions for eligibility as official development assistance or official aid.

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

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

VOLUME (real terms): Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. These data show the value of aid in terms of the domestic purchasing power of a US dollar in the year specified.

THE DEVELOPMENT ASSISTANCE COMMITTEE



PEER REVIEW SERIES

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