

**The Head of Division**

DEVELOPMENT CO-OPERATION DIRECTORATE  
Senior Counsellor & Head of Division  
Financing for Sustainable Development

22 December 2020

To: DAC Delegates and Observers

**Luxembourg Mid-term Review, 24-27 November 2020, Luxembourg – Paris**

Dear Colleagues,

On behalf of the DAC Secretariat, I conducted the mid-term review of Luxembourg virtually, together with Santhosh Persaud of DCD. We would like to thank Christophe Schiltz, General Coordinator for Development Cooperation and Humanitarian Affairs, Director General Manuel Tonnar of the Directorate for Development Cooperation and Humanitarian Affairs, Director General Gaston Schwartz of LuxDev, and all staff for the very constructive meetings and close co-operation in the lead up to the review.

Over 24-27 November, we had rich discussions with senior officials from the Luxembourg Ministry of Foreign and European Affairs; the Ministry of Finance; the Luxembourg Development Cooperation Agency (LuxDev); and representatives of civil society organisations and the Luxembourg Stock Exchange.

The mid-term review focused on implementation of the recommendations of the Development Assistance Committee's (DAC) 2017 peer review in the context of developments that have taken place since then. In particular, Luxembourg adopted a new strategy for development co-operation "The Road to 2030" in 2018, and in 2019 agreed to move towards a whole-of-government approach for its co-operation. Its third national plan for sustainable development, adopted in 2019, integrates global poverty reduction and policy coherence for development as one of 10 policy priorities.

As a particularly generous donor, Luxembourg is maintaining its commitment to 1% of GNI as ODA in the COVID-19 pandemic (climate finance and in-donor refugee costs are additional), and is starting to waive tax and customs duties exemptions for its bilateral development co-operation in a selected number of its partner countries. In 2019, total ODA stood at USD 472 million. Building on this leadership, we encouraged Luxembourg to consider counter-cyclical development financing to proactively advocate for the importance of ODA in response to the current crisis.

We were pleased to note that Luxembourg has already taken steps to address 12 of the 13 recommendations the DAC made in 2017, in particular those related to:

- Whole of government partner country strategies and efforts to implement the Busan principles
- Advancing dialogue and decision-making on policy coherence issues
- Continuing to build on its leadership in sustainable and inclusive finance
- Investments in a new information and knowledge management system.

**A commitment to increase effectiveness in bilateral co-operation, advance gender equality and address fragility**

New whole of government country strategies enhance how Luxembourg implements development effectiveness principles. This is particularly important as bilateral ODA constitutes the bulk of total ODA (73% in 2019), and Luxembourg provides a high share of country programmable aid (63% of gross bilateral ODA in 2018). Ministers from Luxembourg and Cabo Verde jointly adopted the first such strategy in June 2020. By integrating the substantial co-operation efforts of other ministries, the strategy helps

increase transparency and creates synergies between different strands of Luxembourg's co-operation. The draft results framework for the Cabo Verde strategy translates Luxembourg's commitment to align its results management to partner country frameworks. In rolling out the new approach to other countries, we encouraged Luxembourg to continue drawing in all stakeholders and their views to make the most of increased co-ordination. Luxembourg is also making efforts to use country systems where feasible, including in fragile contexts, distilling learning from its 'budgeted aid' model in Senegal and investing in capacity strengthening. It is also committed to pursuing joint approaches with other donors, as lead donor, contributor and implementer. To share its experiences and engage with other stakeholders, we encouraged Luxembourg to continue actively engaging in the Global Partnership for Effective Development Co-operation and discussions on future monitoring.

In "The Road to 2030", Luxembourg maintains its concentration on least developed countries, with five of seven partner countries falling into this category (ODA to LDCs was 0.46% of GNI in 2018). The strategy concretises its approach to poverty reduction, making gender equality and youth an explicit priority alongside access to social services, inclusive governance and inclusive growth. In Cabo Verde, a middle-income country, the new country strategy sets as an overall objective the eradication of extreme poverty. The strategy explicitly targets social inclusion as a result and integrates gender equality across its objectives. In 2018, Luxembourg adopted its first action plan on Women, Peace and Security and recently integrated the prevention of sexual exploitation, abuse and harassment in a charter for CSO partnerships and the work of LuxDev. Mid-term reviews of Luxembourg's country programmes, however, suggest room for improvement in integrating cross-cutting issues, as do findings from the DAC policy markers, which track development activities that target specific issues such as gender equality and environment. We were therefore pleased to learn that Luxembourg's Development Cooperation is developing new strategic and operational guidance and has increased staff dedicated to working on gender equality, plans training and will integrate an objective for targeting gender equality in LuxDev's Vision 2030. Considering the importance of gender equality for its strategic objectives, we encouraged Luxembourg to pursue these efforts. We also recommended to similarly invest in environment, another of its cross-cutting priorities.

Luxembourg is advancing the humanitarian-development-peace nexus in its engagement in the Sahel and in its partnerships. It is increasing the budgetary flexibility for humanitarian funding and allocates around half of gross bilateral ODA to fragile contexts. We were pleased to learn that Luxembourg is contemplating options for a regional approach to enhance its engagement in the Sahel, which could help further integrate diplomatic efforts and prevent fragility and fully draw on its presence on the ground. As Luxembourg engages in other fragile contexts beyond the Sahel, including its partner countries Lao PDR and Nicaragua, we also encouraged an overall approach to fragility. We were pleased to hear that Luxembourg plans to engage more closely with INCAF, where it could exchange with DAC members on prevention and the integration of the nexus in work to update its humanitarian strategy. Luxembourg has made significant efforts to increase the security of its operations, and LuxDev has updated its risk management processes. To ensure more comprehensive risk management, in particular for engagement in fragile contexts, we encouraged Luxembourg to exchange with DAC members on how it manages risk at the level of ministry and embassies to complement risk management of LuxDev and implementing partners.

### **Significant opportunities in sustainable finance and on-going efforts towards greater policy coherence for development**

A network of institutions, partnerships and initiatives make Luxembourg a hub for exchange and learning on inclusive finance, building on its longstanding experience in the sector. Luxembourg has also launched or partnered in a number of innovative blended finance instruments with a focus on poor populations such as the pilot Forestry and Climate Change Fund for sustainable timber production and its contribution with other donors to the SDG 500, a multi-stakeholder platform that aims to mobilise investments of USD 500 million for reaching the SDGs in developing countries. We were pleased to learn that Luxembourg is currently preparing an "Inclusive and Innovative Finance and Private Sector Development Strategy". The strategy provides a useful opportunity to follow up on recent evaluations, which recommended articulating expected results and interaction of initiatives more clearly. We also encouraged Luxembourg to include in the strategy its international efforts promoting knowledge and good practice in inclusive finance.

As a leading centre for sustainable finance, Luxembourg has great potential to mobilise sustainable finance for developing countries. This matches well with Luxembourg's development co-operation objective to leverage its comparative advantage in the financial, information, and communication technology sector. Building on the successful launch of the Luxembourg Green Exchange in 2016, Luxembourg published a Sustainable Finance Roadmap, regularly holds a Sustainable Finance Forum, recently issued a Sustainability Bond, and builds capacity in Luxembourg for research and certified training for the private sector.

The Green Exchange promotes green bonds in a number of emerging economies, and a government partnership with IFC pursues the same objective. The government is currently preparing the Luxembourg Sustainable Finance Initiative, which aims to further harmonize its various efforts, provide strategic direction and communicate the country's efforts. We strongly encouraged Luxembourg to seize the significant opportunity of integrating developing countries more strongly in its sustainable finance efforts, drawing on its expertise in inclusive finance and the good collaboration between the Ministry of Foreign and European Affairs and the Ministry of Finance. In follow-up to the 2020 OECD Environmental Performance Review and evaluation findings, we also encouraged Luxembourg to invest in defining objectives and monitoring the impact of sustainable finance, in particular for developing countries. These efforts would put Luxembourg in an excellent position to promote sustainable finance in the DAC.

We welcomed Luxembourg's efforts to improve its policy coherence for development (PCD) to take into account the objectives of development co-operation in its external and domestic policies. Its 2019 sustainable development strategy includes PCD as an explicit priority alongside other domestic policy objectives and a new regulatory impact assessment ("sustainability check") will assess planned regulation against this priority. In the Cabo Verde country strategy, both countries have agreed to raise coherence issues in their dialogue. Luxembourg also collaborates with the OECD on putting policy coherence for sustainable development into practice. We encouraged Luxembourg to seize the opportunities for enhanced debate on policy coherence issues, and in particular engage across government to ensure that the "sustainability check" and other mechanisms inform policy-making. We also encouraged reflections on how Luxembourg could enable civil society to contribute more to topical debates, beyond the useful exchanges in the inter-ministerial committee. Responsible business conduct is a policy coherence priority and Luxembourg is making progress. Beyond its efforts on sustainable finance, it has updated its action plan on business and human rights in 2020, building on public reporting and recommendations issued in 2019. It has launched a study to contemplate due diligence legislation and is committed to a peer review of its national contact point. Another PCD priority for Luxembourg is climate change and environment. We therefore encouraged Luxembourg to follow-up on the findings of the recent OECD Environmental Performance Review, which outlined a number of steps to improve its environmental record.

### **Development education and public awareness remain a priority for Luxembourg**

Support for development co-operation is high across parties and the public, providing strong backing for Luxembourg's efforts. However, 2019 Eurobarometer data show a decrease in the extent to which the Luxembourg public consider tackling global poverty should be a priority, although it remains at high levels. The COVID-19 pandemic risks affecting public support and private donations. Public awareness will also be critical to advance Luxembourg's policy coherence priorities. This underlines the need for continued efforts to sustain public support. Government and CSO development education stakeholders are co-ordinating through the platform Bildung fir Nohalteg Entwécklung (BNE) and promote behaviour change for greater sustainability, including through concrete tips on how citizens can contribute to the SDGs. We were also pleased to learn that Luxembourg is increasing its communication efforts and drawing lessons from the pandemic to modernise its outreach. To build on these efforts, we encouraged close collaboration with the Ministry of Education, Children and Youth and CSOs to ensure effective communication on both development co-operation and global development.

Luxembourg continues its good multilateral donorship with significant core and softly earmarked contributions (75% of all earmarked contributions in 2018), multi-annual funding and partnership agreements. For its tightly earmarked contributions, it is decreasing the number of projects while increasing their respective budgets. Luxembourg collaborates closely with the EU, is committed to the Team Europe approach, and engages actively in MOPAN, including as institutional lead for the WHO assessment launched in 2019. To enhance the added value of its multilateral partnerships, we encouraged Luxembourg's plans to set strategic priorities, including in the process of renewing its partnership agreements, and reflecting how its partnerships with multilateral development banks relate to other multi- and bilateral co-operation.

### **Investments in information management and transparency, and opportunities to exchange even more with the DAC**

Luxembourg is taking significant steps to improve transparency as well as internal and external reporting. It has started a large project to improve its information management system, which will facilitate monitoring and analysing development co-operation efforts across government and can thus also underpin the new whole-of-government approach. We were very pleased to learn that Luxembourg's new IT system will make it easier in the future to report TOSSD data. Moreover, Luxembourg joined IATI in June 2020. We encouraged Luxembourg to identify and plan for the necessary resources to make the adoption of the new system a success, and, building on the close and trusting collaboration with civil society, to discuss how to best meet information needs.

To learn from and share experiences with other DAC members, Luxembourg participated in the recent statistical peer review of Iceland, and we were pleased to hear that Luxembourg is considering to undergo a statistical peer review itself in 2022,.

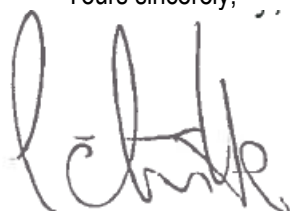
Luxembourg has stepped up evaluation efforts: the ministry has undertaken country programme mid-term reviews jointly with LuxDev, commissioned evaluations of inclusive finance instruments and increased its staffing. As Luxembourg is keen to maximise the value of evaluations for its learning and decision-making, we encouraged exchange with other DAC members, bilaterally and through EvalNet, on the planning of strategic and thematic evaluations, and dissemination of and institutional learning from evaluation findings.

Luxembourg is increasing staffing on its priorities and key functions in both the ministry and LuxDev, including civil society partnerships, evaluation, digitalisation, sustainable finance and private sector engagement, gender equality, and capacity strengthening. LuxDev has also progressed decentralisation to offices in partner countries. We welcomed the focus on staff capacity in LuxDev's forthcoming Vision 2030 and encouraged plans to train staff on its priorities. To use available resources most efficiently, we encouraged the continuation of joint efforts between the ministry and LuxDev, whose technical capacity is also appreciated by other donors. We were very pleased to hear that Luxembourg intends to use increased resources also to engage more closely with DAC networks and communities.

## Conclusion

In conclusion, we were very encouraged by the progress made by Luxembourg to address the DAC's 2017 recommendations. Luxembourg's actions on sustainable finance are impressive and discussing their potential for global sustainable development in the DAC would be most valuable. We were very pleased to hear that Luxembourg intends to discuss the findings of this mid-term review as part of a broader consultation with stakeholders. The next peer review will be an opportunity to discuss if Luxembourg has been able to push forward and reap the benefits of its efforts, in particular its whole-of-government approach and policy coherence tools, the on-going development and dissemination of guidance on its priorities, and the new information management system. The peer review will also allow a more in-depth assessment of progress on how Luxembourg engages in fragile contexts.

Yours sincerely,



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