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Development Assistance Committee (DAC)
PEER REVIEW



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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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 programmes of each member are critically examined approximately once every four or five years. Five members 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.

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 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 examiners from Japan and Sweden for the Peer Review on 12 September 2006.

*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.

Acronyms

AfDB	African Development Bank
AsDB	Asian Development Bank
CFS	Co-financing system
DAC	Development Assistance Committee (OECD)
DEK*	Effectiveness and Quality Department
DFID	The United Kingdom's Department for International Development
DGIS*	Directorate General for International Cooperation
EC	European Community
EU	European Union
FMO*	Netherlands Development Finance Company
GBS	General budget support
GDP	Gross domestic product
GNI	Gross national income
GNP	Gross national product
HGIS*	Homogeneous Budget for International Cooperation
HIPC	Heavily indebted poor country
ICRC	International Committee for the Red Cross
IDA	International Development Association
IFI	International financial institution
IOB*	Policy and Operations Evaluation Department
JAS	Joint Assistance Strategy
LDC	Least developed country
MASP	Multi annual strategic plan
MDGs	Millennium Development Goals
MFA	Ministry of Foreign Affairs
MfDR	Managing for development results
NCDO*	National Committee for International Co-operation and Sustainable Development
NGO	Non-governmental organisation
ODA	Official development assistance
ORET*	Development-Related Export Transactions Programme
PCU	Policy Coherence Unit
PEAP	Poverty Eradication Action Plan
PFM	Public Finance Management
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit (World Bank)
PRSP	Poverty Reduction Strategy Paper

SNV*	Netherlands Development Organisation
SRHR	Sexual and reproductive health and rights
SWAp	Sector-wide approach
UN	United Nations
UN-CAP	United Nations Consolidated Appeals Process
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
UN-OCHA	United Nations office for the Coordination of Humanitarian Affairs
WFP	World Food Programme
WTO	World Trade Organisation

* Acronym in original language

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

Slight discrepancies in totals are due to rounding

Annual average exchange rate (EUR per USD)

2001	2002	2003	2004
1.1166	1.0611	0.8851	0.8049

The Netherlands' Aid at a glance

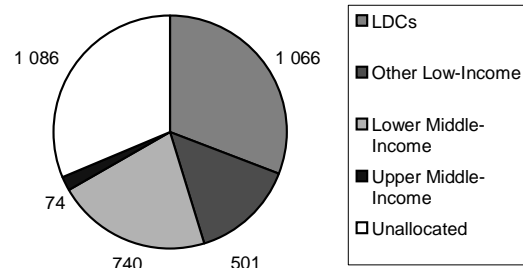
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Gross Bilateral ODA, 2004-05 average, unless otherwise shown

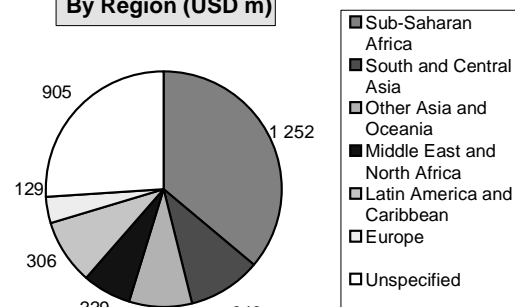
Net ODA	2004	2005	Change 2004/05
Current (USD m)	4 204	5 115	21.7%
Constant (2004 USD m)	4 204	5 036	19.8%
In Euro (million)	3 384	4 115	21.6%
ODA/GNI	0.73%	0.82%	
Bilateral share	64%	72%	
Net Official Aid (OA)			
Current (USD m)	222	-	-

Top Ten Recipients of Gross ODA/OA (USD million)	
1 Iraq	131
2 Indonesia	128
3 Sudan	126
4 Ghana	112
5 Tanzania	104
6 Nigeria	103
7 Afghanistan	85
8 Uganda	76
9 India	76
10 Mali	65

By Income Group (USD m)



By Region (USD m)



By Sector

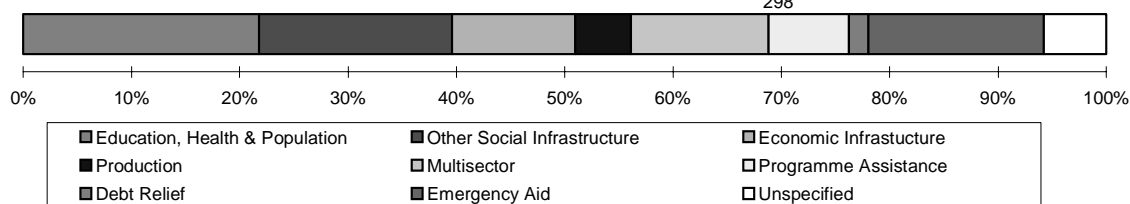


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THE DAC'S MAIN FINDINGS AND RECOMMENDATIONS

Overall framework and new orientations

A tradition of leadership and commitment to performance

The Netherlands is viewed within the international donor community as a front runner with regard to its ability to adapt to new challenges and to test innovative operational approaches. Since the early 1990s, the Netherlands has been a leading player in consistently promoting poverty reduction, with a particular focus on the quality of aid and the international aid effectiveness agenda as now contained in the 2005 Paris Declaration on Aid Effectiveness. The Netherlands has also been a major source of influence on the growing international consensus on the importance of policy coherence for development. With a target for Official development assistance (ODA) of 0.8% of Gross national income (GNI), the Netherlands is among the most generous donors within the Development Assistance Committee (DAC).

The Netherlands should be commended for its work to address the recommendations of the 2001 DAC Peer Review. The review identified as key issues the relationship between the headquarters of the Ministry of Foreign Affairs (MFA) and embassies, and the adequacy of human resources. The Netherlands has addressed the DAC recommendations related to these and other issues by: i) developing a strategic planning and monitoring system for bilateral aid; ii) improving communications between headquarters and embassies; iii) strengthening the ministry's capacity through additional posts and expertise; iv) reducing the number of priority partner countries; v) reforming the non-governmental organisation (NGO) cofinancing system; and vi) establishing a dedicated policy coherence unit.

Some areas, however, merit further attention. For example, the planning and monitoring system may need further adjustments and ensuring that embassies have the appropriate delegation of authority and the right human resource skills and capacity to fulfil the ambitious Dutch policy agenda at the country level is a continuing challenge. This DAC Peer Review explores progress achieved and highlights new issues.

The current vision of Dutch development policy

The Netherlands' development policy is formulated in "Mutual interests, mutual responsibilities - Dutch development cooperation en route to 2015". This policy framework, adopted in 2003, reaffirms sustainable poverty reduction as the main objective of Dutch development cooperation and the Millennium Development Goals (MDGs) as the basic reference point. A key principle of the new policy is that Dutch aid should be concentrated in 36 partner countries and in two to three sectors, at most, within each country. The policy framework introduced a number of new spending targets associated with the thematic priorities and emphasised the importance of improving the quality of aid and ensuring a results-driven approach. It also called for increased partnerships with civil society and the private sector. "Mutual interests, mutual responsibilities" emphasised the need for

an integrated and coherent policy framework for development, combining diplomacy, political dialogue, security, trade, market access and development co-operation.

The value of introducing thematic spending targets is debatable. Such targets can play a useful role for keeping the focus on the MDGs and in facilitating communication with the general public. But they risk compromising partner country ownership and a managing for development results approach. Targets may lead to a supply driven approach where embassies feel pressure to focus on headquarters' policy priorities rather than partner countries' own priorities and local efforts towards a better division of sector responsibilities among donors.

Maintaining strong public support

Dutch development co-operation is underpinned by strong public support. At the same time, opinion surveys indicate that Dutch citizens want to be better informed about progress in development co-operation. They have also become more critical on how aid is delivered because of concerns over corruption and war in developing countries and a perceived lack of measurable impact. To meet the growing demand for results, the MFA released in 2005 a report entitled *Results in Development* which details country-level results measured by performance against the MDGs. The report focuses on showing the relevance of Dutch inputs where progress is being made, which is a good example of attempting to capture the contribution of a donor to development results, without attempting the more difficult task of attributing results to inputs.

In comparison with some other DAC member countries, the MFA does not have a systematic and strategic approach to domestic policy dialogue beyond the cofinancing and contractual arrangements with various civil society organisations. The MFA has delegated the task of promoting public support for development to the National Committee for International Cooperation and Sustainable Development (NCDO) while the MFA's own communication and reporting targets parliament. The MFA is encouraged to pursue broader public communication efforts showing both the complexity of development and the results being achieved. This will require building on initiatives such as the Results in Development report to communicate the policy objectives and achievements of Dutch development co-operation.

Recommendations

- The current policy framework gives the MFA a clear mandate and provides geographic and sector focus. The MFA should ensure that spending targets do not jeopardise the principles of aid effectiveness and are balanced with a strong focus on results.
- The MFA should consider a more structured domestic policy dialogue with the full range of Dutch stakeholders, including civil society organisations, private sector and the development research community.

Aid volume and distribution

The Netherlands should be commended for being among the few DAC member countries to exceed the United Nations (UN) ODA/GNI target of 0.7%. This target has been surpassed every year since 1975. In terms of ODA volume, the Netherlands was the sixth largest DAC donor in 2005 and net ODA disbursements amounted to USD 5.11 billion.

The MFA is responsible for 80% of Dutch ODA and relies on several aid delivery channels. Embassies have the primary responsibility for managing bilateral country programmes, which represent about 20% of ODA. NGOs also receive 20% of Dutch ODA funds and the business sector a further 5%. Multilateral aid accounts for 28% of ODA.

Increased country and sector focus

In comparison with many other DAC members, the Netherlands has made progress in increasing the strategic focus of its bilateral co-operation. In 2003, it decided to reduce the number of partner countries from 51 to 36. Consistent with the poverty reduction objective of Dutch development policy, Dutch ODA is largely allocated to countries with low levels of per capita income. In 2005, least developed and other low income countries received some 60% of the Netherlands bilateral aid, half of which was assigned to sub-Saharan Africa. The priority partner countries include 15 least developed countries, 10 other low income countries and 11 lower-middle income countries. Despite concentration efforts, some dispersion of resources remains. While 62% of bilateral allocable ODA was disbursed in the 36 partner countries in 2005, there were disbursements in 125 countries in total. This can be explained by the fact that the concentration policy concerns bilateral development co-operation programmes in the 36 partner countries and excludes humanitarian aid, debt relief, NGO co-financing and private sector development.

In each of the 36 partner countries, the Netherlands policy is to focus on two to three sectors out of an overall range of five sector priorities (education, environment, water, HIV/AIDS, and sexual and reproductive health and rights). In practice, cross cutting themes such as governance and private sector constitute two areas of focus in addition to the sector priorities, and lead to additional management and capacity demands on embassies.

The question is also being debated internally as to whether productive sectors should figure more prominently as a priority for the Dutch programme. The Netherlands is committed to private sector development but needs to adjust its approach to address more strategically the challenge of promoting its stated objective of pro-poor growth. There remain a number of instruments providing direct support to businesses despite some potential risks of market distortion and crowding out of local private sector development and unclear contribution to the poverty reduction objective of Dutch development policy. Emerging DAC guidance on pro-poor growth could be helpful in this regard.

New focus on results in NGO co-financing

The Dutch government has a long-standing commitment to involve civil society in development co-operation. In 2004/05, the NGO cofinancing system was restructured. All Dutch NGOs are now eligible to apply for funding provided at least 25% of their funding is secured from other sources. While the new “25%” requirement is in principle a positive step towards a more competitive system with incentives for improved performance, some NGOs are concerned that fundraising will divert scarce resources and management effort away from core development activities. NGOs are now also required to include, within their funding applications, more detailed information on results planning, monitoring and reporting. This should give a strong impetus to strategic management in the Dutch NGO sector. At the same time, the MFA should consider how to manage potential risks identified by the NGOs, for example in ensuring that NGOs are not discouraged from innovating and risk taking and remain able to adapt to changing country circumstances. An additional ongoing challenge is to ensure complementarity between bilateral development programmes implemented by Dutch embassies and Dutch NGO activities funded by the MFA.

Increased focus on multilateral performance

The Netherlands is a strong supporter of the multilateral system. It is the biggest contributor to several UN agencies and has increased its contribution to the International Development Association. It is also committed to increase its focus on European co-operation and is supportive of efforts towards a more unified aid policy among European Union Member States. The multilateral share of Dutch ODA was 28% in 2005 but approximately four to five percentage points higher if bilateral funds channelled through multilateral agencies in the form of earmarked contributions are taken into account.

The 2003 policy framework marks a shift in the Dutch multilateral policy towards an approach “more results driven and based on relevance to Dutch policy objectives”. This has resulted in a shift from un-earmarked contributions towards theme-based earmarked contributions with the intention of meeting targets in Dutch priority areas. This approach poses some challenges. First, the resulting fragmentation in Dutch funding of multilateral agencies can make it difficult for the MFA to have an overall consistent approach to multilateral assistance. Second, this *à la carte* practice could hinder multilateral agencies’ management improvement efforts and corporate focus, as individual agencies have to deal with competing demands from members.

In order to increase the overall consistency of its approach, the MFA has been working on a new strategy for managing its multilateral aid portfolio. The key proposal emerging from this work is to focus on about a dozen multilateral agencies and to co-ordinate Dutch contributions to these agencies (at this point this approach has yet to be endorsed). In reviewing its overall multilateral approach, the Netherlands should make efforts to strike a balance between bilateral considerations and implications for multilateral agencies in order to avoid the risk of “bilateralising” multilateral agency programmes. It should also reinforce co-operation with other DAC members on collective approaches to improving the effectiveness of the multilateral aid system to ensure complementarity among various multilateral assessment initiatives.

Recommendations

- The Netherlands is encouraged to build on its efforts towards geographic concentration by increasing the share of its aid provided to the 36 partner countries. The Netherlands is also encouraged to pursue, in collaboration with other donors, its efforts towards stronger sector focus in its bilateral country programmes.
- The Netherlands could develop a more coherent strategy with respect to private sector development and pro-poor economic growth.
- The MFA is encouraged to pursue its efforts to improve the effectiveness of its programmes with NGOs while ensuring complementarity with its bilateral programmes and considering how to manage potential risks identified by the NGOs in moving to a stronger results focus.
- Given its objective of promoting greater multilateral effectiveness, the Netherlands is encouraged to elaborate its multilateral strategy and to strike a balance between bilateral objectives and implications for the management of multilateral agencies, taking account of on-going reform efforts.

Policy coherence for development

A conducive institutional setting for policy coherence for development

The Netherlands has a long-standing political commitment to policy coherence and has played a proactive role in international debates on a number of policy coherence issues, particularly within the European Union as well as the OECD and World Trade Organisation. The MFA established policy coherence as one of the main priorities of the Dutch development policy in *Mutual interests, mutual responsibilities*. The Netherlands now has a “winning combination” of political commitment, a clear policy framework and the capacity to deliver through a dedicated Policy Coherence Unit (PCU) located within the MFA.

The MFA has adopted a three-pronged strategy for policy coherence:

- Promoting coherence at the European Union level.
- Proactive targeting of specific coherence dossiers.
- Building partnerships and promoting awareness of the importance of coherence.

A key strength of the Dutch approach to promoting coherence at the European level is that the MFA systematically screens all new Commission proposals and Council agendas for their development impact and the PCU represents the development perspective on the relevant inter-ministerial committees. The PCU is also taking specific policy coherence dossiers forward proactively and working with relevant players from the MFA and other ministries. The PCU is aware that it cannot achieve policy coherence on its own and needs to prioritise structured working with embassies and coalition building nationally and internationally. For example, memoranda have been agreed to clarify joint positions with the Ministries of Agriculture, Economic Affairs and Defence. In building international partnerships, the PCU is aware that it needs to reach beyond traditional like-minded donors and to work with partner countries and civil society organisations.

Moving ahead in enhancing policy coherence

The MFA has taken initial steps towards a managing for results approach to its work on coherence by ensuring a strong focus on results delivery and clear reporting on progress to parliament, including the regular MDG-8 report. However, the PCU could undertake further work in ensuring a systematic approach to performance assessment, both in tracking progress against objectives and in assessing the “real-world” effects of specific policy coherence successes. The PCU is also considering the question of how to broaden the coherence agenda while ensuring that it remains able to focus intensively and delivers tangible results on specific coherence issues.

A policy of gradual and constructive engagement with other ministries should not discourage the MFA from addressing the more difficult outstanding issues. For example, alongside steps towards further untying and supporting new untying initiatives, the Netherlands maintains the partially tied Development-Related Export Transactions Programme (ORET). An additional step would be to follow the example of other DAC member countries which have decided to untie their aid entirely.

Recommendations

- The Netherlands is encouraged to pursue its efforts in enhancing policy coherence for development domestically and internationally. It could now build on achievements to date to ensure a more systematic approach to performance assessment in this area, both in tracking progress against objectives and in assessing the “real-world” effects of specific policy coherence successes.

Aid management and implementation

Addressing organisational challenges

Within the MFA, the Directorate General for International Cooperation (DGIS) is the organisational heart of much of Dutch development co-operation. The main recent organisational change is the establishment, in 2005, of the Effectiveness and Quality Department (DEK). The MFA estimates that approximately 1 000 of the foreign service staff work specifically on development co-operation with about 50% of these based in the Hague and about 50% overseas. The Director General for International Co-operation directly oversees a staff of 157 persons while sharing management responsibility for an additional 162 staff with other directors generals.

A continued challenge for the Netherlands is how to deploy and use existing resources to ensure that embassies in particular have the right skills mix and capacity levels to deliver on the policy agenda. Since 2001 a number of steps have been taken to bring staffing levels and personnel policy more in line with the management needs of the development assistance programme. This includes the creation of an additional 80 posts, a new policy on careers at the MFA and a reform of the system by which staff are transferred to new positions. Nevertheless, the DAC Peer Review field visits indicated ongoing problems in filling posts in both Bangladesh and Uganda and suggested that MFA has not yet solved the challenge of filling all posts with the right people. The MFA is also aware that the capacities demanded of its staff will continue to evolve and has developed innovative support and learning programmes for existing staff with a particular focus on higher-level policy dialogue, for example around public financial management and capacity development.

The Netherlands relies on a “decentralised” system in which embassies are responsible for policy dialogue with partner country governments and other donors, formulation of Dutch country and sector policy, and assessment, approval and monitoring of implementation activities within the limits of the “delegated funds”. In line with the increased emphasis on partner country-led approaches, and as suggested by the DAC Peer Review team, the Netherlands has decided to move further in increasing the resources for which financial authority is decentralised. General budget support funds are no longer authorised centrally and have been delegated to embassies in the 15 partner countries where the MFA is currently using this modality.

The introduction of an integrated planning, monitoring and knowledge management system has greatly contributed to improve communication between the MFA’s headquarters and embassies. In this context, DGIS could usefully undertake further work on clarifying the role and value added of Country Teams (composed of representatives from across the DGIS thematic departments) which, according to some MFA staff members, vary in their quality and performance. The MFA also needs to ensure incentives for both Country Teams and regional departments to provide demand-driven support services to embassies.

Integrated planning, monitoring and knowledge management

The Netherlands should be commended for its proactive efforts to develop an integrated planning, monitoring and knowledge management system. A key step forward has been the introduction of a new system of country-level Multi Annual Strategic Plans across the 36 partner countries and the updating of associated assessment tools, including the annual Track Record. The new strategic plans enable a more explicit linking between the country context and the Netherlands’ central policy framework and are a very significant step towards a more strategic, contextualised and long-term approach to embassy planning. However, the strategic plans are considered to be internal planning documents and the Netherlands could move towards a more collaborative approach involving partner

country governments and other key stakeholders in their development. It would also be useful to make the strategic plans public once they are agreed. In addition, they could be produced and amended on a rolling basis, to better enable amendments in view of changes in the country context.

Since the number of planning and monitoring mechanisms now being used constitutes a somewhat complex system, this risks being perceived by some embassies as a management burden rather than a learning tool. The Netherlands is encouraged to consider options to simplify and rationalise the various new monitoring and information management systems. The MFA also recognises the need to make a greater and more systematic use of information generated through joint donor and partner country monitoring and reporting systems, to avoid duplication of analysis and reporting and to help strengthen those joint systems. The locus of accountability needs to be in providing results information to both the Netherlands public and parliament and also to partner country public and parliament.

Commitment to increase aid effectiveness: strong focus on programme-based approaches

The Netherlands is committed to implementing the principles of the 2005 Paris Declaration on Aid Effectiveness. The Netherlands' commitment to alignment and harmonisation is an important component of its policy framework and Paris Declaration targets are embedded in the annual budget process. The MFA has a strong preference for programme-based approaches and the sector-wide approach has been the organising principle for Dutch bilateral development co-operation since 1999.

Alongside concrete action on the ground to implement the Paris Declaration, the Netherlands is now moving to develop an aid effectiveness action plan, which will build on the outcome of the 2006 survey launched by the DAC to establish a baseline for monitoring the Paris Declaration. As the Paris Declaration and its five pillars – ownership, alignment, harmonisation, managing for results and mutual accountability – call for a degree of commitment going beyond previous initiatives focusing on harmonisation, a more explicit and detailed policy statement (or “action plan”) could help the MFA to guide actions and support consistency in implementation and monitoring of progress at the country level. This action plan could also link to a strategy for what can be achieved in fragile states where there is a less conducive environment for making progress on the aid effectiveness agenda. Following internal discussions based on the consultations with the DAC Peer Review team, the MFA has indicated that it is now starting work on developing an overall policy for its engagement in fragile states, building on its active engagement in the DAC Fragile States Group.

The Netherlands has a long-standing commitment to partner country-led approaches to poverty reduction going back to the mid-1990s. This translates operationally into “on-budget where possible, off-budget where necessary”. The MFA considers budget support as the most effective form of aid since it ensures that recipient countries assume responsibility for implementing their own development agenda and contributes to a better alignment of aid with policy and systems of partner countries. The MFA estimates that about 37% of its bilateral country programmes was channelled through programme-based approaches in 2004 (20% for budget support alone). The Netherlands has demonstrated its leadership in successfully promoting sector-wide approaches in partner countries and is among the driving forces within the DAC promoting budget support. The Netherlands has also demonstrated leadership in how to effectively implement gender strategies in the context of changing aid modalities.

The Netherlands considers that adequate partner country capacity is crucial for effective poverty reduction and contributes to capacity development through sector-wide approaches. The Netherlands is aware of the need for a more comprehensive approach to capacity development with more attention to organisational strengthening in addition to human resources. Findings from several recent

evaluations also raise the challenge of monitoring grass roots developments and trends while engaging fully in macro policy dialogue. The Netherlands is willing to fund supplementary capacity development activities and partnerships with civil society aimed at strengthening partner country monitoring systems in order to address this challenge. Because a more effective approach to capacity development involves a different role for donors, the MFA launched in 2006 a support programme for institutional and capacity development in order to enhance the capacity of embassy staff.

In conjunction with other donors, the Netherlands needs to clarify the approach to conditionality in order to ensure that general budget support contributes effectively to both ownership and predictability as well as poverty reduction objectives. This may require strengthening the analysis of political governance in the “Track Record”, which is the MFA’s key assessment tool in selecting the most appropriate choice of aid modalities in partner countries. In this context, the Netherlands is encouraged to continue its efforts on the basis of transparent dialogue with partner countries and in co-ordination with other donors, to promote convergence of different performance assessment frameworks for general budget support.

Ensuring the relevance and quality of evaluation

The independence of the evaluation function has been a long-term strength within the Dutch system in which the Policy and Operations Evaluation Department (IOB) is responsible for evaluating broad policy and cross cutting themes in addition to decentralised evaluations undertaken by the MFA’s policy departments and embassies. In 2006, the MFA decided to move the responsibility for the evaluation planning process from IOB to policy departments so as to address the challenge of the extent and timeliness with which evaluation findings and recommendations are feeding back to policy makers. In this context, the MFA is encouraged to ensure that, to safeguard evaluation quality, IOB retains its independence for managing the evaluation once the subject has been determined and for reporting and making public the findings. Mechanisms could also be developed to create more of a joint planning process, enabling IOB to continue to play a challenge function in more difficult policy areas while also adapting to the more systematic demand-driven relationship with the policy community.

Recommendations

- In order to fulfil its ambitious policy agenda the MFA should continue its efforts to ensure that embassies have the right human resources (skills mix and capacity levels).
- The MFA is encouraged to consider options to simplify the planning and monitoring system, potentially by combining certain of its components. In developing the new strategic plans, the Netherlands could move towards a more collaborative approach involving partner country governments and other key stakeholders.
- The Netherlands is encouraged to move forward with its plan to develop an overall aid effectiveness strategy to better communicate how the Paris Declaration agenda is to be implemented at headquarters and in different partner country circumstances.
- In conjunction with other donors, the Netherlands needs to clarify the approach to conditionality in order to ensure that general budget support contributes effectively to both ownership and predictability as well as poverty reduction objectives, while paying due attention to governance issues.

- The MFA is encouraged to ensure that, to safeguard evaluation quality, IOB retains its independence for managing the evaluation process and for reporting and making public the findings.

Humanitarian aid

A key supporter of international humanitarian good practice

The Netherlands has been a consistent and strong participant in global efforts to respond to humanitarian crises, whether natural disasters or conflict-related. In 2005, Dutch expenditure on emergency and distress relief amounted to USD 495 million (or 10% of its total ODA). The Netherlands provides needs-based, flexible and predictable humanitarian support. Humanitarian aid funding tends to be distributed to UN agencies and the Red Cross movement (75%) and civil society organisations (25%). The Netherlands has paid increased attention to the challenges in moving, in post-crisis contexts, from emergency response to reconstruction, rehabilitation, reconciliation and restoration of affected populations' livelihoods. Inter-ministry work led to the 2005 Memorandum on post-conflict reconstruction, published jointly by the ministries of Foreign Affairs, Defence and Economic Affairs. A Stability Fund has been created to facilitate the transition in such contexts with a budget allocation of EUR 82 million in 2005.

The Netherlands is one of the countries which initiated the formulation of the Principles and Good Practice of Humanitarian Donorship (GHD). It has adopted a GHD action plan which translates commitments into policy and programming actions. The Dutch efforts for improved humanitarian response also include establishing and strengthening the UN Central Emergency Response Fund (CERF) and strengthening the UN Common Humanitarian Action Plans, the UN Consolidated Appeal Process, and the role of UN Humanitarian Coordinators. In this context, the Netherlands is willing to consider different funding arrangements, such as the pooled funding approaches being tested in the Democratic Republic of Congo and Sudan. Apart from these efforts to address systemic issues, the Netherlands has engaged in a dialogue with humanitarian aid agencies on humanitarian policy issues such as the right to protection and curbing illegal trade in small arms.

Scope for further improvements

Notwithstanding Dutch commitment to greater humanitarian aid effectiveness, the Netherlands has as yet no overall humanitarian aid policy framework which could serve as a vehicle for stimulating discussion around priority issues and inform operational partners of its policy principles.

Management of humanitarian aid is centralised within a dedicated division of the Human Rights and Peacebuilding Department of the MFA. There are very few dedicated humanitarian aid staff in embassies. Where local co-ordination needs or headquarters expectations require a more active role by embassies, the MFA should consider allocating resources to enable embassies to avoid pulling staff away from other priority tasks and to benefit from specialist expertise.

Projections of humanitarian aid expenditures are contained in the annual ODA budget message to parliament. Initial budget levels set at the start of the year are usually topped up via reallocations and overall increases in line with demand and at the direction of the ministers for foreign affairs and development co-operation. A distinct budget line for mine clearance has been created. The Netherlands is committed to provide timely, un-earmarked, needs-based funding to its operational partners, including in support of the UN consolidated appeals process. There is nevertheless scope for a consolidation of the budget structure, so as to reinforce efforts to protect a minimum level of humanitarian financing in the annual ODA budget. With a view to improve the predictability of Dutch

humanitarian assistance and help reduce transaction costs for operational partners, the Netherlands could usefully review its funding arrangements for protracted complex emergencies.

Recommendations

- The development and publication of a comprehensive humanitarian aid policy framework could be useful in drawing together the various elements of the Netherlands' involvement in this area and in identifying those issues where further work needs to be done.
- The funding arrangements for protracted complex emergencies could be reviewed in the light of experience with existing instruments, including CERF, in order to improve the predictability of Dutch humanitarian assistance and help reduce transaction costs for operational partners.

SECRETARIAT REPORT

Chapter 1

Overall Framework and New Orientations

Strategic context of Dutch development co-operation

A tradition of leadership and commitment to performance

The Netherlands is viewed within the international community as a “front runner” in the field of development co-operation. With Official development assistance (ODA) averaging 0.8% of Gross national income (GNI) for more than a decade, the Netherlands is among the most generous DAC member countries maintaining ODA/GNI ratios above the United Nations (UN) target of 0.7%. Since the early 1990s, the Netherlands has been a leading player in consistently promoting poverty reduction, with a particular focus on the quality of aid and the international aid effectiveness agenda as now contained in the 2005 Paris Declaration on Aid Effectiveness. In this context, efforts by the Netherlands to adapt aid delivery modalities to changing circumstances and test new operational approaches are widely recognised. The Netherlands is also a strong supporter of multilateral institutions and has been instrumental in encouraging them to better fulfil their mandate and carry through major reforms. The Netherlands has been a major source of influence on the growing consensus within the Development Assistance Committee (DAC) on the importance of policy coherence for development.

Over the past decade several dedicated development co-operation ministers have, each in their own way, played a strong role in shaping Dutch development policy and in defining specific strategies for enhancing the impact of aid. There has been a large degree of continuity in the Netherlands’ commitment to achieve development results in line with the evolving international development thinking. Strong ministerial support has undoubtedly helped to keep development co-operation high on the political agenda and to maintain political and public support for high aid levels. At the same time, it is important that strong political involvement leaves space for ministry and embassy officials to accommodate local ownership and to adjust to circumstances prevailing in developing country partners.

An integrated development co-operation system

The Ministry of Foreign Affairs (MFA) plays a central role for all Dutch development co-operation and is responsible for both development policy and delivery. Following a major realignment of foreign policy in the mid-1990s, the Netherlands was among the first DAC members to decentralise, to a large extent, responsibility for management of bilateral assistance to embassies in

partner countries. This decision was motivated by the belief that partner countries' ownership would be better promoted through interaction with embassies and shorter decision-making lines.

Although the MFA is responsible for most of Dutch ODA, it relies on several aid delivery channels. Embassies in partner countries are responsible for implementation of less than a fifth of total ODA. Dutch development co-operation has a long tradition of strong civil society involvement and non-governmental organisations (NGOs) receive a fifth of the development co-operation budget and private companies receive a further 5%. A more detailed description and analysis of the organisation and management of the Dutch development co-operation system is provided in Chapter 5.

New orientations since the 2001 DAC Peer Review

The current vision of Dutch development co-operation

The major policy development since the previous DAC Peer Review is the 2003 policy memorandum "Mutual interests, mutual responsibilities: Dutch development co-operation *en route* to 2015". The policy builds on the recommendations from an inter-ministerial working group established by the government in 2002 to review Dutch development policy in terms of effectiveness and coherence. It should be read in conjunction with the 2003 "Africa Memorandum". Additional formal policy statements are found in the explanatory memorandums to the annual budget and ministerial letters to parliament on specific themes.

As stated in "Mutual interests, mutual responsibilities", sustainable poverty reduction remains the main objective of Dutch development co-operation and the Millennium Development Goals (MDGs) are the key reference point. To achieve the MDGs, the government plans to: "i) get everyone involved in meeting them by 2015; ii) boost the quality and effectiveness of development co-operation; and iii) make Dutch efforts and results more visible." In the context of globalisation, the Netherlands views development not simply as a moral obligation but also as a question of interdependence and shared responsibilities between countries and within societies. "Mutual interests, mutual responsibilities" goes on to reaffirm the importance of not just increasing the volume of aid and its quality but also the need for coherent policies and a better use of the knowledge and financial leverage of civil society and the private sector. The policy is organised around ten main policy priorities (Box 1).

Two key recommendations from the inter-ministerial working group were not retained in "Mutual interests, mutual responsibilities". First, the working group proposed to increase the share of multilateral aid. The MFA did not implement this proposal assessing that the case of superior effectiveness of the multilateral channel over the bilateral one was not convincing. Second, the group proposed to abandon aid spending targets unless they are based on international agreements. However, the 2003 policy memorandum confirmed existing spending targets and introduced a number of new ones (Box 2).

The value of input and output targets is debatable. While targets can play a useful role for keeping the focus on the MDGs and in facilitating communication with the general public, they may compromise a managing for results approach in which there is a shift from planning to accounting for results. In particular, they complicate the MFA's programming process which relies in principle on a bottom-up approach in which embassies determine sector focus on the basis of partner country needs and complementarity with other donors. Central input and output targets may risk leading to a supply-driven approach where embassies feel pressure to focus on headquarters' policy priorities, rather than partner countries' own priorities and local efforts towards a better division of sector responsibilities among donors. The Netherlands views input targeting as a step towards stronger

results orientation and states that adequate space will be given for policy setting in partner countries and co-ordination among donors to allow for flexible decision making.

Box 1. Main priorities of Dutch development co-operation

“Mutual interests, mutual responsibilities” establishes the following priorities:

- Concentration: 36 partner countries and, in each of them, two to three sectors at most, with focus on education, environment and water, AIDS prevention and reproductive health care.
- Results driven: introduction of a new appraisal system and assessment framework for country and sector policies and spending targets specified for the above priority themes.
- Partnership: increased partnerships to be fostered with citizens, private enterprises, knowledge and research institutes, civil society organisations and government authorities.
- Bilateral policy: focus on partner countries’ own poverty reduction strategies (PRS), with the aim to work on a programme basis, where possible through budget support. Importance of promoting good governance and respect for human rights, with capacity development and institution building.
- Regional policy: focus on conflict management, security building and peace brokering in the Horn of Africa and in the Great Lakes region; support to African initiatives, including the New Partnership for Africa’s Development (NEPAD); and focus on sustainable stability and economic development in the Balkans.
- Integrated policy: combining diplomacy, political dialogue and pressure, security policy, trade, market access and development co-operation.
- Peace, security and development: establishment of the Stability Fund for activities to promote peace, security and development.
- Coherence: commitment to improve coherence of the Netherlands’ own policies as well as at the European and international level.
- AIDS/reproductive health: commitment to do more to alleviate the social consequences of AIDS and to improve reproductive health.
- Multilateral organisations: support to UN agencies and international financial institutions (IFIs) that are making a tangible contribution to Dutch key policy goals (MDGs, quality and effectiveness, and results).

Box 2. Input and output targets in Dutch development co-operation

“Mutual interests, mutual responsibilities” reconfirms the ODA/GNI commitment to 0.8%. The policy document also states that at least 50% of the bilateral development co-operation budget will be used to reduce poverty and promote economic growth in sub-Saharan Africa. In addition, the following sector targets are introduced:

- Education: 15% of the development co-operation budget.
- Environment: 0.1% of Gross National Product (GNP); this commitment had been made at the Rio World Earth Summit in 1992 together with the commitment to spend EUR 70 million annually for the protection of forests.
- Step up environment and water programmes, subsequently specified as the following output targets: water supply and sanitation for 50 million people; and clean energy for 10 million people by 2015.
- HIV/AIDS, tuberculosis and malaria: double the 2002 level of spending by 2007.

Progress in addressing the DAC recommendations

The main DAC recommendations from the 2001 Peer Review and the Netherlands' actions in responding to them are noted in Annex A. The work to address the issues raised in the previous peer review is also well documented in the Netherlands' Memorandum to the DAC (MFA, 2006a). The Netherlands should be commended for its efforts to address the challenges identified in the 2001 DAC Peer Review. Most of the recommendations have been addressed and key changes introduced include:

- Country focus: the number of partner countries has been reduced from 51 to 36 (Chapter 2).
- Co-operation with NGOs: the cofinancing system which used to be accessible only to a small number of major NGOs has been opened up (Chapter 5).
- Policy coherence for development: capacity has been increased, with the creation of a dedicated Policy Coherence Unit (Chapter 4).
- Planning and monitoring: the introduction of multi-annual strategic plans and the strengthening of annual planning and reporting systems, together with the establishment of a central effectiveness and quality department, constitute important steps in the right direction and contribute to improved communication and a better definition of roles and division of responsibilities between the MFA's headquarters and embassies (Chapter 5).
- Staffing: the parliament's agreement to increase the budget for the ministry's human resources has enabled the MFA to create 80 additional posts (Chapter 5).

Despite some impressive progress in addressing the recommendations from the 2001 DAC Peer Review, some of the main issues identified in the previous peer review will continue to deserve attention because of the need for donors to constantly adjust to changing international circumstances. These include:

- The planning and monitoring system may need further adjustments as the MFA faces the challenge of combining different objectives (planning, results measurement and learning) within one comprehensive system.
- The MFA is struggling with the difficulty of achieving a balance between timely and relevant evaluation for the purpose of learning and management improvement, while maintaining the necessary level of independence to guarantee critical judgment.
- Despite continued MFA efforts, ensuring that the right number and type of people are deployed at the right place at the right time remains a critical challenge for the Netherlands to ensure capacity to fulfil its ambitious development agenda at the country level.

In addition, new issues have emerged in light of the evolving poverty reduction agenda. For example, the Netherlands is committed to private sector development but has yet to adjust its approach so as to better address the challenge of promoting economic growth in support of poverty reduction (Chapter 3). In addition, the Netherlands faces the challenge, with other donors, of how best to operate in fragile state contexts (Chapter 4) given its commitment to working in a certain number of countries with difficult and sometimes deteriorating governance.

Public awareness and domestic policy dialogue

Strong public support but increasing demand for results

Public support for development co-operation remains high in the Netherlands. According to a survey conducted in 2004 by the National Committee for International Co-operation and Sustainable Development (NCDO), 72% of the respondents felt that the budget for development co-operation should be increased (21%) or kept at its present level (51%). The most recent Eurobarometer poll (European Commission, 2005) registered even stronger support: 33% of the respondents thought that the government was not spending enough on aid and 39% considered that the aid budget was about right. Other signs of strong public support include increasing amounts of private donations to international co-operation and the emergence of new small-scale NGOs, often with a single objective.

Although public support for development remains strong, a marginal decrease in support is evident over the past ten years.¹ There are also trends indicating growing mistrust in the action of established aid institutions (the MFA and NGOs alike) and an increasing demand for concrete development results. Opinion surveys indicate that Dutch citizens want to be informed about progress in development co-operation and have become more critical of how aid is delivered because of concerns over corruption and war in developing countries and a perceived lack of measurable impact. In addition, a growing number of Dutch citizens want to be directly involved in development co-operation and to implement their own ideas and projects instead of giving money to NGOs. An increasing number of private initiatives are undertaken by small groups of people who raise funds for specific small-scale activities. The MFA supports such activities through a funding scheme managed by NCDO.²

Reporting on results

The task of promoting public support for development is mainly the responsibility of the NCDO. The NCDO's budget, which is fully funded by the MFA on the basis of a multi-annual co-operation agreement, amounted to EUR 25 million in 2005. In contrast to the NCDO, the MFA has a relatively small budget for communication, amounting to EUR 4 million. The MFA communication and results reporting efforts appear to target parliament, and the MFA should consider the value of also developing communication tools tailored to enhance the general public's understanding of development co-operation. Since 2001, NGOs receiving cofinancing from the MFA are allowed to spend these funds on awareness raising activities. The NCDO estimates that a total of EUR 58.7 million (including its own activities) was spent on such activities in 2004 (NCDO, 2005b).

Under its new financing agreement with the MFA for 2007-10, the NCDO will focus more on communicating the results of MFA development aid. The NCDO has identified four distinct groups of citizens including: "responsible" citizens, who are engaged and interactive; "dutiful" citizens, who are less informed and not as easy to communicate with; "pragmatics" who are informed and reactive; and "outsiders" who are uninterested and passive. The identification of target groups provides a useful basis to differentiate messages and to determine the relative emphasis to place on communicating with different groups. The NCDO intends to focus primarily on the "pragmatics" and the "dutiful" citizens. The NCDO is not targeting the "outsiders" (considering them almost impossible to reach) nor the

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1. In 2000 76% of the respondents suggested that "more" or "the same" amount of money should be spent on aid. These results were already somewhat less positive than those of a 1998 survey.
 2. The annual budget for such activities amounts to EUR 8 million. With this budget, the NCDO doubles the amount of money that is raised by individuals.

“responsible” citizens (who are already engaged with development co-operation debates). The NCDO is striving to make its public awareness building activities more concrete and to demonstrate links between developing countries and people’s own lives in the Netherlands.

To meet the growing demand for visible results, in 2005 the MFA published a report entitled *Results in Development* (MFA, 2005b). The objectives are to help maintain public support and to increase accountability to parliament. The report details country-level results, particularly as measured by performance against the MDGs, and links these to the Netherlands’ inputs. The report does not attempt the difficult task of attributing results to MFA inputs or of identifying causal links, and focuses more on showing the relevance of Dutch inputs where progress is being made.

The Netherlands has also released a first progress report on MDG-8 (MFA, 2004a). Combined with the MDG campaign launched by the NCDO and a coalition of NGOs, this contributed to a significant increase in public awareness of the MDGs. Between 2003 and 2005, the proportion of the Dutch population familiar with the MDGs increased from 10% to 51% (NCDO, 2005a). The next MDG-8 report is due in September 2006. The *Results in Development* report and the MDG-8 report will be submitted to parliament bi-annually on an alternate basis.

Managing expectations

Strong public interest in development is matched by similar interest at the political level. Most parliamentarians support development and believe in the Dutch added value. However, parliamentary debate relates mainly to annual budget discussions and parliamentarians are inclined to influence development policy by setting spending targets (Box 2).

The relatively high expectation within parliament with respect to its role in shaping Dutch development policy highlights the need for the MFA to ensure that political leaders are kept fully informed of Dutch development co-operation and the global context in which it has to operate. In the Netherlands, there is significant debate on development issues led by the media and by a vibrant network of civil society organisations active in organising lectures and seminars. Yet in comparison with some other DAC member countries, the MFA does not seem to have a systematic and strategic approach to policy dialogue with civil society beyond the cofinancing and contractual arrangements with NGOs and other organisations including research institutes. The MFA may find it useful to engage in policy dialogue with stakeholders (including parliamentarians, NGOs, private sector and academics) in a more regular and direct way instead of delegating the lead dialogue role to the NCDO.

Future considerations

- The current policy framework gives the MFA a clear mandate and provides geographic and sector focus. The MFA should ensure that spending targets do not jeopardise the principles of aid effectiveness and are balanced with a strong focus on results.
- The MFA should consider a more structured domestic policy dialogue with the full range of Dutch stakeholders with an interest in development co-operation, including the development research community.
- The MFA is encouraged to pursue public communication efforts showing both the complexity of development and the results being achieved. This will require building on initiatives such as the new *Results in Development* report to communicate the policy objectives and achievements of Dutch development co-operation.

Chapter 2

Aid Volume, Channels and Allocation

Official development assistance volume

One of the most generous donors

The Netherlands remains one of the most generous DAC donors in terms of the proportion of its national income dedicated to ODA. It is one of the few DAC member countries which exceed the UN ODA/GNI target of 0.7%. In 1997 the government decided to fix ODA at 0.8% of GNI, a target reconfirmed by subsequent governments. In 2005 the Netherlands' net ODA disbursements amounted to USD 5.11 billion, corresponding to 0.82% of GNI. The Netherlands has a long history of high ODA/GNI (Chart under Table 1, Annex B). Since 1975 it has surpassed the UN target of 0.7% every year.

In terms of ODA volume, the Netherlands was the sixth largest DAC donor in 2005. There was a significant ODA increase in 2005 (19.8% in real terms). Two major factors account for this increase. First, the Netherlands Central Planning Bureau recalculated its Gross Domestic Product (GDP), raising its estimate by about 4%. Since the Netherlands ODA budget is a fixed share (0.8%) of its GNI, this raised ODA by about USD 250 million. Second, there was a rebound from 2004, when net ODA had been depressed by India's repayment of its loans from the Netherlands. The resulting shortfall in the ODA/GNI ratio (which fell to 0.73%) is being compensated in subsequent years, as the 2005 ratio (0.82%) reflects. Debt relief to Iraq and Nigeria and the Netherlands' response to the Indian Ocean tsunami were financed within the existing development co-operation budget.

Because of its consistently high ODA/GNI performance, the Netherlands does not feel the need to actively promote innovative financing mechanisms but is willing to introduce the tax on air fares proposed by the French government in order to help create a critical mass for the initiative. Resources mobilised would, however, not be used for additional ODA.

Multiple aid delivery channels

The bulk of the Netherlands' aid effort is channelled through the MFA (80% in 2004). The remaining 20% includes the contribution of the Ministry of Finance to the multilateral development banks (9%), the Dutch contribution to the European Union (EU) budget (5%), debt relief (4%) and small additional contributions from various ministries.³ A specificity of the Netherlands is the Homogeneous Budget for International Cooperation (HGIS), which was introduced in 1995 in order to ensure that all foreign policy priorities funded by the Netherlands are grouped in one planning framework. This comprehensive budget presentation is useful in providing an overview of ODA and

3. The following ministries are involved: Culture and Science; Defence; Transport, Public Works and Water Management; Economic Affairs; and Agriculture, Nature and Food Quality.

non ODA activities. In 2004, ODA accounted for 75% of HGIS. The structure of the budget was changed in 2003 to better reflect foreign policy objectives.⁴ The Netherlands does not have a multi-annual budget system but includes an indicative five-year rolling plan.

Dutch ODA has historically relied on three main delivery channels: bilateral (including aid implemented by the MFA and embassies), multilateral and private (which is part of bilateral aid according to DAC definitions). Strikingly, the budget allocation for civil society organisations is larger than that for bilateral country programmes (including delegated funds to embassies) (Table 1). As a share of total ODA, the importance of delegated funds to embassies (which represent the “core” Dutch bilateral development co-operation with 36 partner countries) has so far hardly changed since the 2001 DAC Peer Review. Indications from the MFA are that allocations for bilateral country programmes are increasing (from EUR 693 million in 2004 to EUR 783 million in 2005 and EUR 932 million in 2006).

Table 1. Overview of indicative distribution of Dutch ODA by channels (EUR million 2005)

Bilateral aid	2 990	71%
of which:		
Embassies	783	19%
<i>of which general budget support</i>	125	3%
Humanitarian aid/emergency relief ¹	244	6%
Civil society organisations	893	21%
Business community	158	4%
Debt relief	350	8%
Other ²	562	13%
Multilateral aid	1 241	29%
TOTAL ODA (gross)	4 231	

1. This does not include Dutch core contributions to multilateral humanitarian agencies.

2. This includes among other things administrative and refugee costs.

The rest of this chapter covers the bilateral, multilateral and “private” channels in detail, and the Netherlands’ approach to humanitarian aid is covered in Chapter 7.

Bilateral aid: Policies and allocations

Approximately three-quarters of Dutch ODA is disbursed bilaterally, consistent with the DAC average (72% in 2004). The bilateral share of the Netherlands ODA was lower in 2004 (69%) because of a large contribution to the World Bank in that year. In reaction to the growing debt burden of developing countries, the Netherlands decided in 1991 to abolish loans and to rely on grants for its bilateral assistance.

Increased geographic concentration

In 2003, the Netherlands decided to reduce the number of partner countries from 51 to 36 (Box 3) and to focus, in each of them, on two to three priority sectors. Selection criteria included: i) level of poverty measured by GNP per capita; ii) a positive trend with regard to democratisation and governance; iii) country ODA needs (taking into account the number of donors and the aid volume per capita); and iv) the added value of Dutch development co-operation, according to historical relations

4. The objectives of Dutch foreign policy are: i) international legal order and respect for human rights; ii) peace, security and conflict; iii) European co-operation; iv) “more prosperity, less poverty”; v) human and social development; vi) environment; vii) welfare and safety of Dutch nationals abroad; and viii) Dutch cultural policy. ODA is concentrated under ii), iv), v) and vi).

and experience. Apart from these criteria, political considerations played a role, notably the importance of relations with the country in question and public support in the Netherlands for a development relationship. It was decided to phase out bilateral development co-operation in 14 countries.⁵

Box 3. List of 36 partner countries

Africa: Benin, Burkina Faso, Cape Verde, Egypt, Eritrea, Ethiopia, Ghana, Kenya, Mali, Mozambique, Rwanda, Senegal, South Africa, Tanzania, Uganda, Zambia.

America: Bolivia, Colombia, Guatemala, Nicaragua, Suriname.

Asia: Afghanistan, Armenia, Bangladesh, Georgia, Indonesia, Mongolia, Pakistan, Sri Lanka, Viet Nam, Yemen.

Europe: Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, Moldova.

Middle East: Palestinian Administered Areas.

Despite these concentration efforts, some dispersion of resources remains.⁶ The 36 partner countries received 62% of bilateral allocable ODA in 2004-05 but the exit countries still received 11% of bilateral ODA (USD 209 million). In addition, the share of bilateral ODA reaching the top 20 beneficiaries has only very marginally increased over the past decade (Table B.4) and is relatively low in comparison with other DAC members. Moreover, there were still ODA disbursements in more than 125 countries in total. This can be explained by the fact that the concentration policy concerns only “core” bilateral development co-operation, and excludes humanitarian aid, NGOs cofinancing and private sector, where allocations are determined differently and independently.

Consistent with the overriding goal of poverty eradication, Dutch ODA is largely allocated to countries with low levels of per capita income. The government aims to spend at least 50% of the bilateral development budget in sub-Saharan Africa. Among the Netherlands’ 36 partner countries, there are 15 least developed countries (LDCs), 10 other low income countries and 11 lower-middle income countries. In the multi-annual strategic plans of Cap Verde, Macedonia, Sri Lanka and Surinam, the MFA expressed its intention to phase out programmes in these countries because of their relatively higher per capita income.⁷

In 2005, some two-thirds of Dutch allocable bilateral ODA benefited LDCs (39%) and other low-income countries (21%), above the DAC averages for these categories (respectively 31% and 17% in 2004). The share of bilateral ODA which went to lower-middle income countries was high in 2005 (32%) because of disbursements to Iraq (mainly action relating to debt and emergency and distress relief) which was the third largest recipient of Dutch bilateral ODA in 2004-05 (Table B.4). Africa is

5. The list includes: i) relatively richer countries (Brazil, China, Ecuador, El Salvador, Namibia, Peru and the Philippines); ii) countries with relatively poor policy and governance (Cambodia, Guinea Bissau and Zimbabwe); iii) countries with relatively small Dutch ODA amounts (Bhutan, Honduras, Namibia and Nepal); and iv) India, which decided itself to phase out development co-operation with the Netherlands.
6. The Netherlands has a large share of bilateral aid disbursements reported as “unallocable” (25% and 33% respectively in Tables B.3. and B.4.) due to the importance of core funding to various civil society activities. The analysis of disbursements according to regional, country and income level does therefore not reflect total ODA provided through Dutch channels.
7. The Former Yugoslav Republic of Macedonia and Sri Lanka are about to phase out of IDA eligibility. Cap Verde remains eligible because of its small island status. Surinam used to be an important partner country because of colonial ties.

the highest recipient region (with 51% of total bilateral ODA in 2005, an increase from 44% in 2001) followed by Asia (26%), America (10%), Middle East (7%) and Europe (5%).

Sector distribution

The sector concentration policy statement (with its focus on education, sexual and reproductive health and rights, HIV/AIDS, water and environment) has started to translate into overall bilateral ODA sector distribution. Major changes over the past decade (1994-95 to 2004-05) are visible in “social infrastructure & services” (which increased from 31% to 41%) and in “productive sectors” (which decreased from 17% to 5%). “Education” (14%, of total bilateral commitments, of which 6% is for basic education), “government and civil society” (10%) and “emergency assistance and reconstruction” (17%) were the most highly funded areas in 2004-05. Progress in increasing sector focus at the country level is discussed in Chapters 3 and 6.

Multilateral aid: Policies and allocations

The Netherlands considers multilateral aid to be effective due to its economies of scale and pooling of knowledge and resources. There have been different attempts in the past to increase the multilateral aid substantially, including the 2003 inter-ministerial review which recommended an increase in funding from 30% to 50% of the budget for development co-operation. The MFA did not retain this recommendation, considering that committing to a fixed percentage for any channel could undermine management for effectiveness and results. There is also limited political support for increased multilateral co-operation because of parliamentary concern over the quality of international organisations.

In 2005 the multilateral share of the Netherlands’ ODA was 28%. This is consistent with the DAC average of 28% in 2004 but lower than the 32% for DAC member countries which are also EU Member States. To this should be added the large amounts of bilateral funds channelled through multilateral organisations in the form of earmarked contributions, which would increase the multilateral share by 4-5 percentage points. The multilateral share was unusually high in 2004 due to a large contribution to the World Bank.

Towards a more effective multilateral strategy

The 2003 policy memorandum “Mutual interests, mutual responsibilities” marks a shift in the Netherlands’ approach to multilateral co-operation: in particular “contributions to the UN should be more results-driven and based on relevance to Dutch policy objectives”. This has resulted in a shift from unearmarked contributions towards theme-based earmarked contributions with the intention of meeting targets in Dutch priority areas (Chapter 1). Consequently, a relatively significant share of bilateral funds (approximately 5-6% or about a quarter of the envelope for bilateral country programmes) is disbursed multilaterally.

This approach poses some challenges to both the Netherlands and to the multilateral agencies. First, the resulting fragmentation in Dutch funding of multilateral agencies can make it difficult for the MFA to have a coherent approach to multilateral assistance. Second, this “à la carte” practice could hinder UN management improvement efforts as individual agencies have to deal with competing demands from various members which bypass the regular decision-making and oversight processes in these organisations. This could contradict Dutch efforts towards greater multilateral effectiveness and focus on quality and relevance.

Mindful of the shortcomings of the current practice, the MFA's multilateral department⁸ has launched an internal review, proposing a new focus on a dozen key multilateral agencies with the objective of getting an overview of Dutch funding and assessing overall coherence between performance assessment and total Dutch contributions. The preliminary multilateral strategy document, which includes a performance assessment of individual organisations, is already used internally as a reference basis for discussions on the multilaterals and the preparation of the Netherlands' participation in annual consultations with these organisations. The logical consequence of the increased focus on performance would be for the Netherlands to have a multilateral resource allocation framework to ensure that funding to specific agencies is consistent with overall development policy objectives and to better link Dutch support with performance.

This recent initiative builds on previous efforts to improve the efficiency of multilateral agencies' operations. The Netherlands has been actively monitoring multilateral agencies for a number of years. Already at the time of the 2001 DAC Peer Review, the MFA had a system in place involving embassies in partner countries to report on activities of multilateral organisations, in particular on the way they co-operated at the country level. In the meantime, the MFA has introduced the multilateral assessment described above and the Multilateral Organisations Performance Assessment Network (MOPAN) was developed in partnership with like-minded donors. These two instruments are used to evaluate the performance of multilateral organisations at the country level. The Netherlands should reinforce its co-operation with other DAC members on collective approaches to improving the coherence and effectiveness of the multilateral aid system and ensure complementarity among various multilateral assessment initiatives.

Allocations

Contributions to multilateral agencies are distributed relatively evenly among UN agencies (8% of total ODA disbursements in 2005), the European Community (8%) and the World Bank Group (6%).

The Netherlands is a strong supporter of the UN system and became the biggest contributor to the United Nations Development Programme (UNDP) in 2005. It has been the biggest contributor to the United Nations Population Fund (UNFPA) since 2000. The Netherlands is also a significant contributor to the United Nations Children's Fund (UNICEF) and is increasing its contribution to the Joint UN Programme for HIV/AIDS (UNAIDS). However, its overall contribution to the UN has decreased in recent years both in absolute and relative terms (Table B.2) due to a reduction in, or termination of, voluntary contributions to specific agencies or programmes - the United Nations Environment Programme (UNEP) and the United Nations Development Fund for Women (UNIFEM) among others - because of less tangible links with Dutch bilateral priorities.

The Netherlands is also an important supporter of the World Bank group. During the 14th International Development Association (IDA) replenishment, the Netherlands increased its contribution, which now amounts to 2.8% of IDA total resources (against 2.6% for IDA-13). The African Development Bank (AfDB) and the Asian Development Bank (AsDB) are the two main recipients of Dutch contributions to regional development banks.

The Netherlands' contribution to the European Community (EC) has increased since 2002 because of greater European Development Fund disbursements. The Netherlands has actively supported the European Commission in its reform efforts. During the Dutch presidency in 2004, the Netherlands initiated discussions which eventually led to the adoption in 2005 of new interim ODA

8. One advantage in the Dutch system is the existence of a single MFA department responsible for the UN and the IFIs (with shared responsibility with the Ministry of Finance for the latter).

targets for the EU and Member States by 2010. The Netherlands also promoted the preparation of the EU action plan on co-ordination, harmonisation and alignment. As compared to the 2001 DAC Peer Review, there is now a clear political will to increase the focus on European co-operation and promote a stronger engagement at all levels within the MFA. The Netherlands is supportive of efforts towards a more unified aid policy among EU Member States and greater complementarity between the Commission and Member States, provided that this does not duplicate existing processes among the wider donor community.

The Netherlands also supports the global funds, despite initial concerns about their vertical management structure being a major obstacle to alignment and harmonisation efforts at the country level. The Netherlands' contributions to the Global Fund for AIDS, Tuberculosis and Malaria (GFATM) have increased from USD 7 million in 2002 to USD 56 million in 2004. The Netherlands sees certain advantages in the funds: they allow for the mobilisation of new resources, including from the private sector, and ensure focus on neglected issues (in the case of the Global Alliance for Vaccines and Immunisation). In some cases, the Netherlands sees scope for learning from these funds: for example, lessons can be learned from the success of the GFATM in including civil society in local co-ordination mechanisms. In order to avoid the proliferation of such funds, the Netherlands advocates the use of existing mechanisms with a proven track record. For example, the Netherlands argues that the Global Environment Facility (GEF) should be used for all potential new environment issues.

Co-operation with civil society

The Dutch government has a long-standing commitment to involve civil society in development co-operation. This commitment was reaffirmed in the 2003 policy memorandum "Mutual interests, mutual responsibilities", "partnership" being one of the ten main policy priorities providing for co-operation with NGOs, research institutes and private enterprises.

A broad range of funding sources

In 2005, the Netherlands reported a total of USD 668 million or 18% of bilateral ODA (Table B.2) channelled to or through NGOs. Funding is also available through the NCDO (Chapter 1) for public awareness activities (EUR 16 million) and small-scale projects (EUR 8 million). In addition, Dutch and international NGOs have access to humanitarian aid funds (25% of the annual budget for humanitarian action or EUR 32.5 million) and embassies in partner countries directly support a wide range of activities of civil society organisations involving Dutch and local NGOs.

The Netherlands also devotes funding (4% of total ODA) to co-operation with the business community through a wide range of instruments (Chapter 3). The bulk of such funding (60%) is used for the Development-Related Export Transactions Programme (ORET), which comprises both a tied aid component and an untied aid component for LDCs (Chapter 6).

The new co-financing system

At the time of the 2001 DAC Peer Review, NGO core financing was reserved for the "Four Pillars + 1" group of NGOs, representing the four traditional pillars of Dutch society - Catholic, Protestant, Social Democrat and Humanist - plus Plan International. These five NGOs were entitled to 10% of Dutch ODA as a matter of long-established policy and the Peer Review recommended an "opening up" of this closed system to other NGOs. In 2002, the "Four Pillars + 1" system was replaced by two grants systems: a Broad-based Co-financing Programme and a Theme-based Co-financing Programme. In 2004 it was decided to combine these programmes into a unified Co-financing System (CFS), operational 2007-10 and accessible to all Dutch NGOs. The MFA has

also created the Strategic Alliances with International NGOs Programme (SALIN) to provide funding for international NGOs, operational from 2006. MFA has selected 20 international organisations for this programme for which EUR 20 million is earmarked each year.

Under the new CFS, a maximum of EUR 550 million is earmarked annually (the amount allocated is no longer a fixed percentage of the development co-operation budget) and all Dutch NGOs are eligible to apply for funding. However, organisations must secure at least 25% of their funding from other sources and the MFA funds are to be allocated for programmes rather than given as unallocated core support. Observers have commented that the new “25%” requirement is in principle a positive step towards a more competitive system with new incentives for improved NGO performance. But a number of NGOs are concerned that creating the need to fundraise means they will have to divert scarce resources away from front-line services to high-cost fundraising, advertising and public relations activities. Some commentators have also challenged the decision to outsource the management of the assessment framework for assessing NGO funding proposals to an external advisory committee. Their concern is that this could lead to a reduced level of dialogue - and mutual influence and learning - between NGOs and MFA officials. However, the MFA suggests that separating these responsibilities will increase the scope for dialogue and mutual learning. The primary role of MFA within the new system is now performance monitoring and, to this end, a strong managing for development results (MfDR) dimension has been introduced which has, in turn, introduced new challenges (Box 4).

A small number of organisations⁹ have separate arrangements with the MFA. For example SNV, previously the official Dutch volunteer agency, has been independent of government since 2002 but continues to receive 100% funding from the MFA. The organisation focuses on providing professional, technical advisory services to local organisations that operate at district and provincial levels. While this is an important area of work, especially in view of the macro-micro gap identified in the recent evaluation of the Sector Wide Approach (Chapter 3), MFA could consider the parity benefits of including all NGOs within the same CFS and subject to the same assessment and monitoring criteria. The Netherlands is also encouraged to continue the process of “opening up” the funding mechanisms and to consider enabling non-Dutch NGOs to apply to the CFS.

NGO and embassy complementarity

The MFA is aware of the need to ensure stronger co-operation and complementarity between the bilateral development co-operation programme and Dutch civil society working in the partner countries. Dutch NGOs routinely operate in partner countries without establishing systematic links with the embassy. In Bangladesh and Uganda, for example, Dutch NGOs work directly with their local partners and do not have representatives based in the country; this does not facilitate co-ordination with embassies. In Bangladesh, the embassy has commissioned a study to get an overview of Dutch NGO involvement in the country and identify scope for greater co-ordination. In Zambia, Bolivia and Uganda, the embassy organises an annual meeting with NGOs while acknowledging that there is scope for a more structured approach to co-ordinating with NGOs.

9. They include: the National Committee for International Cooperation and Sustainable Development (NCDO), the Royal Tropical Institute (KIT), the Netherlands Organisation for International Cooperation in Higher Education (Nuffic), the Association of Netherlands Municipalities (VNG) and the Netherlands Development Organisation (SNV).

Box 4. The introduction of a strong MfDR emphasis for NGO funding

In April 2006, NGOs submitted applications to the new CFS for four-year grants covering 2007-10. The applications' guidance detailed new and extensive requirements for NGOs to formulate their goals on the basis of forward results planning, monitoring and reporting in what constitutes an enhanced MfDR approach for NGOs. This approach was partly in response to findings from an evaluation of broad-based co-financing (GOM-Consultative body of cofinancing agencies, 2003), which concluded it had been extremely difficult to assess NGO results due to the lack of performance information.

Improving the quality and effectiveness of development co-operation is one of the central priorities of the Netherlands development policy and the new focus on NGO results, is in principle, highly welcome and many stakeholders are confident it will help "professionalise" the Dutch NGO sector by emphasising strategic planning, results, learning and accountability. The approach may also serve to make development results more easily communicable, and so help maintain long-term public support for development. However, many NGOs have expressed specific concerns over the extent of the move to MfDR. While it will remain to be seen in the next DAC Peer Review the extent to which these concerns prove valid over the coming years, the issues merit early consideration at both the MFA and the DAC:

- The cost-effectiveness of preparing detailed information on forward plans for results has been challenged. Smaller NGOs express particular concern that the increased "professionalisation" (or "bureaucratisation") of the system creates an access barrier for civil society organisations that consider themselves to lack capacity to fulfil the extensive MfDR requirements. The MFA has therefore earmarked EUR 40 million for "new and dynamic" organisations that cannot meet the requirement to demonstrate past achievements. The MFA also requires a lighter level of results planning and reporting from NGOs requesting less than EUR 2.5 million per year from the CFS.
- The focus on results measurement might encourage a culture of NGO risk-avoidance. A number of observers express the concern that NGOs may increasingly focus on more easily measurable service provision outputs (e.g. numbers of schools, teachers, medicines) and move away from addressing underlying political issues of democratisation, human rights and good governance, where results may be harder to measure and demonstrate. Willingness to take risks and to innovate is seen as a traditional added value of the NGOs. On the other hand, the MFA highlights that NGOs themselves decide which level of results they wish to be appraised on and that the CFS guidance notes that results in human rights and conflict prevention cannot be planned and monitored in the same way as results in other areas.
- A potential tension has been noted between the requirement for NGOs to plan the results they will be delivering over the years to 2010 and the need to remain flexible and adapt to changing needs and circumstances. This issue was stressed in the context of the move to country-led approaches in which organisations need to be increasingly responsive to country circumstances and less driven by their "own" agendas and plans.
- Some observers note that the MFA's report *Results in Development* (MFA, 2005b) highlights the real-world limitations in the extent to which results can be realistically planned and monitored. "It is difficult, if not impossible, to know precisely what impact each euro the Netherlands spends on development co-operation is having on developing countries. This is largely because the Dutch government is usually working with other donors and partners... There is also a problem of time lag. Development is an ongoing process. It is therefore almost impossible to gauge how long it will take to achieve development results. This in turn makes it difficult to identify a direct relationship between cause and effect". The MFA must ensure that the challenges in moving to MfDR are acknowledged equally for the work of NGOs as for its bilateral programme.

Complementarity which leads to greater synergy is therefore one of the assessment criteria within the new CFS framework and embassies must include a paragraph on Dutch NGO activities in their Annual Plan/Report. It should be noted, however, that complementarity is one of a large number of criteria within the NGO assessment framework and will not carry the highest scoring in the assessment process. A more systematic approach to complementarity might include creating a mechanism for embassies to contribute to the CFS selection process. Remaining broader questions include whether

complementarity will be better achieved by NGOs working in the same 36 countries as the MFA or by working in other countries such as fragile states. The DAC will need to wait for the next Peer Review to see whether the CFS has been successful in improving co-ordination and collaboration between embassies and NGOs.

Future considerations

- The Netherlands is invited to assess the impact of focusing on 36 partner countries and could share with other DAC members its experience in terms of graduating partner countries from its aid programme. The Netherlands is encouraged to build on its efforts towards greater geographic concentration by increasing the share of its aid provided to the 36 partner countries and to pursue, in collaboration with other donors, its efforts towards stronger sector focus in its bilateral country programmes.
- Given its objective of promoting greater multilateral effectiveness, the Netherlands is encouraged to further elaborate its multilateral strategy. While reviewing its overall multilateral approach, the Netherlands should make efforts to strike a balance between bilateral considerations and implications for multilateral agencies in order to avoid the risk of “bilateralising” multilateral agency programmes and to take into account on-going reform efforts.
- The new focus on NGO results is in principle highly welcome but the MFA should be careful to ensure a system that enables NGOs to adapt to changing country circumstance, that ensures that NGOs are not discouraged from innovating and risk taking, and that acknowledges the challenges for civil society organisations in moving to MfDR as it does for its bilateral programmes. A more systematic approach could be considered to ensure complementarity between NGOs and embassies in partner countries.

Chapter 3

Sector Priorities and Specific Themes

Poverty reduction

Strong commitment to poverty reduction and the MDGs

The policy memorandum “Mutual interests, mutual responsibilities” reaffirms sustainable poverty reduction as the overarching aim of Dutch development policy. The MDGs are used as a basis for setting main priorities and benchmarks. The key principles of the Dutch development policy (Chapter 1) are driven by poverty reduction considerations, particularly the commitment to greater geographic and thematic focus. For example, the Netherlands considers the level of poverty and ODA needs as important criteria for selecting and remaining engaged in its 36 partner countries (Chapter 2). As a result, 26 partner countries are low income countries (including 15 LDCs) and 16 countries are located in Africa. The Netherlands’ priority sectors (education, environment and water, AIDS prevention and reproductive health) also have strong links with the MDGs.

Alongside a stronger geographical and thematic focus, and more emphasis on partnerships with its own civil society and private sector since 2003, Dutch development policy is marked by continuity and consistency in favour of poverty reduction. Such themes have a long history in Dutch development policy. In the early 1990s, a major foreign policy paper “A World of Difference” proposed a structured vision around three major dimensions of poverty: economic, social and political, the operationalisation of which would require ownership and a more integrated approach to addressing poverty reduction. This led in the mid-1990s to a reorganisation of the Dutch programme involving the devolution of primary responsibility for the management of bilateral aid programmes to embassies. In the late 1990s, sector-wide approaches (SWAs) were introduced as the leading principle for Dutch development co-operation.

The challenge of achieving the right focus

The Netherlands considers good governance to be a pre-requisite for sustainable poverty reduction. While co-operation with countries with weak governance is not excluded, the promotion of good governance and respect for human rights, as well as capacity development and institutional building, needs to occupy a central place in this process. The Netherlands intends to promote good governance through a more intensive dialogue on human rights, democratic principles, the fight against corruption, the business climate, management of natural resources, illegal migration and human trafficking. This includes a focus on activities that promote good governance and strengthen the executive, legislative and judicial branches of government. Given the number and range of important areas that need to be addressed to improve governance, the Netherlands should ensure that its approach in its main partner countries is strategic, targeting key constraints, and pursued in collaboration with other donors.

A recent evaluation of the sector-wide approach as an organising principle for Dutch bilateral development co-operation (MFA, 2006b) provides valuable lessons learned on the basis of country

studies in Bangladesh, Bolivia, Burkina Faso, Uganda and Zambia between 1998-2005. In assessing whether the shift towards SWApS has improved conditions for poverty reduction, the report concludes that the Netherlands has successfully encouraged a stronger focus on poverty within the policies of partner governments, for example a higher priority for primary health care in rural areas and more attention to the situation of women and girls. The report confirms that SWApS have created better scope than projects for comprehensively addressing structural problems, including issues such as civil service reform. However, the report warns of the risks of over emphasising the role and ownership of central government. It is not always clear to what extent poor people have benefited from increased delivery of social services, which often remain of poor quality. Meanwhile, the Netherlands has reduced direct aid to poorest districts in partner countries. The MFA argues that the Netherlands continues to support supplementary activities, such as education for special target groups. While the Netherlands believes in a country- and sector-specific mix of aid modalities, the MFA does not envisage going back to implementing stand-alone projects as a way to compensate for the shortcomings of partner country governments and to stay in touch at the community level. The MFA prefers an approach in which the partner countries' own delivery mechanisms at different levels of government are being strengthened, including through better co-ordinated support to capacity development and partnerships with civil society. The recent joint evaluation (IDD and Associates, 2006) of general budget support (GBS) carried out by a consortium of donors, including the Netherlands, indicates some clear links between GBS and improved basic services, although the evaluation team could not confidently track distinct GBS effects to the poverty impact level. Given the importance of such findings for future use of this instrument and the considerable donor interest in it, the Netherlands is encouraged to share more broadly its experience with GBS and SWApS.

Given the Netherlands' objective of sustainably reducing poverty, the question is still being debated internally as to whether productive sectors should figure more prominently as priorities in the Dutch programme. The above evaluation of SWApS (MFA, 2006b) claims that the introduction of SWApS in 1998 led to a concentration of Dutch aid in social sectors and a more limited focus on the economic dimensions of poverty, and therefore calls for a review of priorities of Dutch development co-operation. In her response to parliament, the Minister for Development Co-operation argues that the MFA's focus is on economic governance rather than financial support for the productive sectors, which requires less of a hands-on role for the government and limited public funding for private sector development. This includes support for a clearer division of responsibilities between public and private actors. This strategy is intended to contribute to the private sector investing more in productive sectors.

Private sector development

Given its long-standing reputation of being able to adapt to new challenges and to flexibly test innovative operational approaches, the Netherlands has the potential to play a stronger role in promoting private sector development. The core challenge for the Netherlands is to find the space for greater focus on promoting private sector development within the context of increased sector concentration. In other words, how can the Netherlands enhance its focus on private sector development without causing greater sector dispersion in its aid programme? One potential solution would be to allow embassies in countries where there is a clear need for assistance in private sector development to choose this area as a priority sector. Embassies would then need to consider whether there is a Dutch comparative advantage in focusing on private sector development, taking into account complementarity among donors and the role of the multilateral development banks in this area. This would be a way of ensuring enough focus on the needs of the partner country and a sufficiently strategic approach to ensure that Dutch efforts in private sector development have real credibility, added value and impact. Additional efforts needed are discussed below.

Greater policy focus on private sector development

Since the 2001 DAC Peer Review, private sector development has received greater recognition in Dutch development co-operation policy. The Netherlands believes that a vibrant private sector is essential for economic growth and poverty reduction in developing countries. The 2003 policy memorandum “Mutual interests, mutual responsibilities” stipulates that: “Sustainable poverty reduction works best against the background of an expanding private sector that is strong, stable and productive. Productive local industries need to be encouraged, preferably in such a way that the poorest groups can benefit sustainably from them.” This policy indicates how the Netherlands intends to contribute to the improvement of the business and investment climate in developing countries by fighting corruption, strengthening the financial sector and trade capacity, and improving macro-economic stability. It also places greater emphasis on co-operation between the public and private sectors. This approach builds on a strategy introduced in 2002 to address private sector development more comprehensively. “In Business against poverty” focused on three levels: i) international environment (trade, FDI, debt, commodities); ii) enabling environment (macroeconomic and political stability; good governance; market functioning; social and physical infrastructure; protection of the people and the environment); and iii) specific needs and shortcomings of the private sector (*e.g.* knowledge gap, insufficient return on investment, high political and credit related risks).

From a policy perspective, the Dutch approach is consistent with the guidance recently approved by the DAC on private sector development and on investment for development. This guidance places the functioning of markets at the heart of the agenda for promoting private sector development. To improve the impact of private sector development on poverty reduction, the guidance stresses the importance of building up human and institutional capacities in government, the private sector and civil society to identify key constraints, at country and sector levels, that are holding back investment and job creation, as well as their capacities to implement necessary reforms.

Implementation at country level: The Business Climate Scan

Since 2004, and in line with the approach recently endorsed by the DAC, embassies in the 36 partner countries are requested to prepare a Business Climate Scan in order to identify bottlenecks to private investment and potential areas for Dutch development co-operation. Monitoring of the general business climate on an annual basis has become mandatory for all embassies as part of the Track Record (Chapter 5). The objective is “... to enhance and monitor the functioning of markets in partner countries in order to facilitate entrepreneurial activities that contribute to pro-poor economic growth”. The Netherlands defines the term “business climate” broadly, including the wide range of external circumstances which affect the efficiency with which enterprises can operate. The business climate is assessed against the following dimensions: i) good economic governance; ii) functioning of markets; iii) financial sector; iv) physical infrastructure; and v) innovation and knowledge management. Although there is no *a priori* target group, the Netherlands justifies a focus on the business climate for domestic entrepreneurs because domestic assets are larger than potential foreign direct investment and are also likely to create a more stable and sustainable pattern of growth, with a substantial direct impact on poverty reduction. The Netherlands also recognises that female entrepreneurs require special attention because of the more specific obstacles they face (limited ownership rights and cultural barriers).

Some embassies initially did not feel comfortable to push for new priorities that could be perceived as donor driven, especially in the context of the first generation PRSPs which did not have a sufficiently strong focus on economic growth and productive sectors to enable their poverty reduction goals to be reached. Nevertheless, more than 15 embassies have used the results of their scan for specific measures which range from activities promoting good economic governance to various

public-private partnerships. In some cases, this has led to support activities which address the bottlenecks preventing markets to work for the poor (*e.g.* providing formal land titles to small farmers in Bolivia, providing business advice to small and medium enterprises in Nicaragua and Rwanda). In order to define priority areas, the MFA is currently taking stock of all the activities supported by the Netherlands that are contributing to creating a better enabling environment for private sector development according to the five dimensions of the Business Climate Scan. In this context, the Netherlands' efforts in enhancing policy coherence (Chapter 4) also represent an important contribution: initiatives for promoting a development-friendly multilateral trading system and strengthening trade-related capacity are essential elements of private sector development.

Tension between Dutch policy ambition and its operational approach on private sector development is highlighted by the fact that capacity in embassies remains limited in this area. In some partner countries, as observed in Bangladesh and Uganda, the embassy's commercial advisor combines the functions of representing the interests of Dutch private sector and of promoting private sector development. These activities require different sets of skills and ways of working. The first involves promoting Dutch exports and encouraging Dutch foreign investment, while the second involves liaison with development colleagues working on issues such as governance, gender and capacity development. Their aim is to strengthen the institutional capacity of a wide range of government institutions in the partner country, working with groups and associations of informal firms and workers, micro entrepreneurs and producers in rural areas. It is unlikely that the Dutch objective of promoting private sector development can be carried much further until the issue of appropriate staffing at embassy level has been addressed.

Direct support to firms

Alongside its policy focus on supporting the institutional and policy reforms that will enhance market outcomes in developing countries and its approach of using the annual Business Climate Scan, the Netherlands also provides support to Dutch and non-Dutch companies in developing countries with the aim of stimulating commercial partnerships and investments. Such support is provided through some ten instruments (list available in Annex C) which currently account for close to 5% of total Dutch ODA. These include several instruments managed by the Netherlands Development Finance Company (FMO) on behalf of the MFA (support for local financial institutions, support for export transactions, risk capital for foreign direct investment, funding for infrastructure and microfinance) and various instruments related to knowledge and capacity building (advisory services for small and medium-sized enterprises in developing countries, strengthening of the local financial sector, promotion of trade opportunities and foreign direct investment). Since 2003, the MFA has also encouraged public-private partnerships.¹⁰ In addition, a number of Ministry of Economic Affairs' export promotion instruments are not ODA-funded and therefore not part of the Netherlands' development co-operation. Their contribution to sustainable private sector development and impact on poverty reduction remains a question to be considered in terms of policy coherence for development.

Despite the regrouping of the various instruments under clusters of activities and within the responsibility of fewer agencies, there remain a number of instruments not necessarily strongly linked to the poverty reduction objective of Dutch development co-operation. Because the various instruments are centrally managed in the Netherlands, with little involvement from embassies, it is not clear that specific activities are aligned with partner country priorities. Indeed, recent DAC work on private sector development has highlighted shortcomings experienced with the use of concessional

10. By the end of 2005, there were 41 on going PPPs for a total funding of EUR 515 million (19% provided by the MFA, 60% by non-profit organisations and 21% by profit organisations). There were also 25 PPPs in preparation.

finance to end users in the private sector, which may result in market distortions and crowding out of the private sector through unfair competition and may often be unsustainable. In addition, according to various stakeholders, these instruments require a labour-intensive assessment process and rely on procedures which are not perceived as user friendly.

The Netherlands should review the poverty reduction relevance and sustainability of the full range of its instruments providing direct support to the private sector. This is not a new topic. Over the past decade, there have been frequent discussions within parliament, private sector, NGOs and academics about the role of Dutch private sector in development co-operation (see Schulpen, 2004, for an overview). When providing direct support to private companies, the Netherlands must ensure that such support leads to sustainable outcomes by focusing on the causes of market failure while avoiding distorting markets. The Netherlands also needs to better evaluate the cumulative impact of its various activities on increasing private investment and creating jobs. The forthcoming evaluation of ORET should provide useful evidence in this respect. Finally, there is scope for the MFA to better tap into Dutch private sector knowledge and expertise and exploit synergies with firms' own initiatives which can help identify solutions to specific development problems in developing countries (Box 5).

Box 5. An innovative contribution from a Dutch private company

In addition to fund-raising among its employees, TNT makes its organisational expertise available to WFP for more effective food distribution through knowledge transfer (enhancement of supply chain management capabilities and fleet management systems) and direct support (response to emergencies by offering transport services, warehousing and specialised personnel). TNT has also recently applied its sophisticated logistical planning capacity to identify infrastructure repair and construction priorities in South Sudan and in the Democratic Republic of Congo.

Gender equality and empowerment of women

A shifting policy focus

The Netherlands has been among the most active players in promoting gender equality and empowerment of women since the mid-1980s. In Bangladesh and Uganda, the two countries visited by the DAC Peer Review team (Chapter 6), the Netherlands is extensively recognised for its contribution in this area at the macro level, as well as in supporting specific activities of civil society organisations. At the international level, the Netherlands promotes gender mainstreaming in IFIs, UN agencies and the EC. The Netherlands is one of the most supportive members of the DAC Network on Gender Equality, where it not only provides significant expertise but has also regularly – including presently – chaired this body. Such a broad involvement is impressive given the apparent declining high-level political interest in gender equality. Reduced gender visibility can be explained by the policy focus in “Mutual interests, mutual responsibilities”, increased reliance on gender mainstreaming efforts and the shift to programme-based approaches for aid implementation.

For several years the Netherlands has demonstrated its commitment to women's empowerment and strong and vibrant civil societies. It consistently funds women's human rights organisations and local women's organisations through direct support and by providing significant support to Dutch NGOs. Whilst the Netherlands has played an influential role in mainstreaming gender into the UN system and IFIs, the 2003 decision to withdraw core funding from UNIFEM prompted strong international responses, especially from civil society, to what was perceived as a step back from the government's commitment to women-specific programmes and activities. One unintended impact of that decision has been a deepening of the global debate on how far donors, the UN system and civil

society should rely on gender mainstreaming as the main strategy to achieve gender equality and women's empowerment. The Netherlands has played an important role in rebalancing the two-track strategy of mainstreaming and programmes which are specifically focused on women.

The Netherlands' gender policy has not changed over the past decade and relies on a two-pronged strategy: gender mainstreaming and empowerment of women. In 2002, the commitment to gender equality and the need to mainstream efforts was reconfirmed in a letter from the Minister of the Development Cooperation to parliament in the context of the government-wide policy statement on gender mainstreaming. In support of the Netherlands' commitment to the MDGs, the 2003 policy memorandum "Mutual interests, mutual responsibilities" establishes sexual and reproductive health and rights (SRHR) as one of the five priorities (Box 6) but does not include a single reference to gender equality and empowerment of women. There is a certain risk that the Netherlands' focus is limited to the target related to gender disparity in education, which is the case in the Netherlands progress report on the MDGs (MFA, 2004a) and in the *Results in Development* report (MFA, 2005b), and neglects the overarching intention of MDG3 and its other indicators, as well as the gender dimensions in all the other MDGs. This contrasts with the Dutch approach to poverty reduction (MFA, 2001) at the time of the previous DAC Peer Review which underscored the importance of gender equality for successful PRSs.

Box 6. Sexual and reproductive health and rights - a priority of Dutch development co-operation

The Netherlands is proud of being a pioneer in the field of SRHR. Although this priority is not included as such in the MDGs, the Netherlands considers that improving sexual and reproductive health and rights, especially for women and girls, is a prerequisite to achieving the MDGs. Progress in this area will help reduce maternal and infant mortality, the spread of HIV/AIDS and sexual violence against women.

The aims of Dutch policy are to: i) increase political and financial commitment for SRHR; and ii) promote better and faster implementation of the Cairo agenda at country level. The International Conference on Population and Development held in Cairo in 1994 redefined population issues by introducing the concept of sexual and reproductive health and rights. While previous population policy focused on demographic targets and the need for birth control, the new approach was centred on individual freedom of choice, based on people's wishes and needs.

The Netherlands takes a broad approach to SRHR, encompassing development and political considerations. Its approach entails a combination of strengthening health systems, including better reproductive, maternal and newborn care, sex education, more condoms and contraceptives, gender equality and the freedom of deciding whether to have children and their number as well as the protection and promotion of rights relating to sexuality. In partner countries, the Netherlands actively promotes dialogue on the SRHR agenda, for example in the broader context of human rights. Progress has been made in including sexual and reproductive health and rights in the PRSPs of five of the 13 partner countries in which the Netherlands focuses on health. Most of the Netherlands' funding is provided through multilateral channels, and the MFA intends to step up bilateral efforts in this area.

Progress in mainstreaming gender

While gender may have become less visible at the level of overall Dutch development policy, in comparison with many other DAC members, the Netherlands has been quite successful in mainstreaming gender. Equality between men and women is embedded in the overall results framework of the MFA: it is one of the three operational objectives in the MFA's budget under the policy article "Increased human and social development". Equal opportunities are therefore included in multi-annual strategic plans and the embassies' annual planning and reporting process. In line with mainstreaming international best practice, the MFA has kept dedicated, specialist gender-expertise and some resources rather than falling into the "everywhere and nowhere" trap where all staff are

supposedly accountable but no-one is responsible for providing the necessary guidance and advice on good practice or for monitoring the quality of programming. The MFA has a team of 7.6 staff focusing on gender and SRHR. In addition, there are 17 embassy-based gender advisors, most of them locally recruited. Funds available for gender and SRHR in 2006 include a central budget of EUR 1.5 million and delegated funds to embassies of EUR 7 million.¹¹ According to a screening of 2002-03 DAC data against the “gender marker”, aid in support of gender equality amounted to 16% of bilateral ODA and benefited ten partner countries. The embassies have discretionary funds that can be used to support activities from civil society organisations which are widely used for gender and women’s work, as could be observed in Bangladesh and Uganda. These funds can also be used to hire consultants to support the embassy’s gender equality work and in some countries such work is harmonised with other donors. In 2000, the gender unit organised a workshop on macro-planning and gender for thematic experts and embassy-based gender advisors. In the following years, a range of training activities were organised on various aspects of gender and SRHR. In 2007, the Netherlands will organise a workshop on gender and aid effectiveness, and women’s empowerment in the context of new aid modalities and mutual accountability. As is the case for other issues (*e.g.* public financial management or capacity development) systematic learning tools and processes (Box 9 in Chapter 5) could be useful to enable staff to address gender issues and support their efforts in a sustained way.

The Netherlands has also been quite successful in seizing opportunities for promoting gender strategies in the context of changing aid modalities and shifting to programme-based approaches. This was most recently demonstrated during the joint workshop of the DAC GENDERNET and the UN Inter-Agency Network on Women and Gender Equality on aid modalities (Nairobi, January 2006) where Dutch embassy staff from Uganda, Tanzania and Zambia made presentations on their engagement with joint assistance strategies and PRS processes. Drawing from the findings of a Consultative Workshop on Gender Equality in SWAps (The Hague, February 2001) the Netherlands assisted with the publication of the DAC reference guide on gender equality and SWAps. In both Bangladesh and Uganda, the Netherlands participates actively in local co-ordination groups on gender. Long-term and consistent involvement, coupled with the availability of flexible funding, have enabled the Netherlands to advocate for a better engendering of PRSPs at country level while ensuring local ownership, through regional workshops and by contributing to guidance on good practice (Box 7).

In Bangladesh, the Netherlands in collaboration with the United Kingdom’s Department for International Development (DFID) supports public financial management reforms and more specifically the gender budgeting component of the programme. The embassy recognises that gender inequality (which is now addressed as part of its focus on governance) needs to receive special attention, particularly violence against women and the promotion of women’s political participation. In Uganda, through Dutch support, a gender budget manual was produced and contains guidelines which are now used by the Ministry of Finance for mainstreaming gender in sector budgets. However, the recently released evaluation of SWAps (MFA, 2006b) contained only a brief reference to achievements in terms of poverty reduction from a gender perspective. This is a good indication that there is scope for further mainstreaming.

11. Both human and financial resources have decreased since the 2001 DAC Peer Review: there was a gender-specific unit of five people and 20 gender experts in embassies to implement a budget of EUR 20 million.

Box 7. The role of the Netherlands in “engendering” the PRSP in Bangladesh

The Netherlands embassy's gender advisor, who was chairing the Local Consultative Group Women's Advancement and Gender Equality (LCG-WAGE) during the PRSP preparation process over the period 2002-05, encouraged close co-ordination with the IMF and the World Bank in the organisation of the seminar to launch the PRSP process in 2002. The Netherlands embassy facilitated the participation of resource persons to share their experience with gender incorporation in PRSPs, including the gender advisor from the Netherlands embassy in Tanzania. The LCG-WAGE also organised a workshop to enable Bangladeshi gender experts and activists to help them in their preparation for the PRSP consultation process. This was a key measure to broaden lobbying beyond the donor community and ensure an active involvement of Bangladeshi stakeholders. When the draft interim PRSP was released in 2002, the LCG-WAGE found major gender gaps in the proposed framework and hired two gender experts with funding from the Netherlands and Canada to complement the analysis and put more gender emphasis on macro-economic issues. By the time of the preparation of the full PRSP in 2003, the co-ordination process was in the hands of the Bangladeshi government. The Netherlands funded the services of a Bangladeshi gender expert to work directly with the PRSP drafting team on behalf of the Ministry for Women and Children's Affairs. Following initial support from donors, Bangladeshi stakeholders decided to take the lead in engendering the PRSP process and formed a Gender and PRSP Group. This group now receives funding from Netherlands and Canada to become a watchdog for the monitoring of the PRSP implementation.

This experience has been rated as a success story in a recent evaluation (Zuidberg, 2005). The Embassy's efforts are considered successful because they resulted in a sound analysis and appraisal of inequalities between men and women and proper consultation and participation of gender specialists in drafting the PRSP. Many stakeholders confirm that the “... influence of the Netherlands embassy has contributed importantly, if not decisively, to this outcome.” The progress achieved by the Netherlands embassy in influencing the PRSP content and process is due to a combination of: i) leadership within the embassy, which was key for developing a vision and pro-active and timely networking with various influential stakeholders; and ii) the ability of the embassy's gender advisor to mobilise resources to fund key additional expertise.

Future considerations

- The Netherlands needs to develop a more specific strategy with respect to promoting economic growth in support of poverty reduction that is aligned with partner country priorities and needs. This includes promoting a better integration of private sector development in PRSPs and other national plans for reducing poverty. Together with other donors, the Netherlands may need to identify constraints to growth and promote the required policy and institutional reforms.
- The Netherlands should review the poverty reduction relevance of the full range of its existing private sector instruments and staff assignments at embassy level and assess whether they are appropriate for addressing the needs of poor men and women in partner countries operating mainly in the informal economy.
- The Netherlands's experience in addressing gender equality - including in the context of changing aid modalities - deserves to be shared broadly for the international community to make further progress in achieving the MDGs by 2015. In updating its gender strategy, the Netherlands is encouraged to pay due attention to the need for specific targeted actions to focus on political and economic empowerment of women.

Chapter 4

Policy Coherence for Development

A strong contribution to international coherence

The OECD and its members recognise that to make a lasting impact on poverty in developing countries, coherent and complementary policies are needed in the economic, social and environmental fields. The 2001 DAC Peer Review highlighted the Netherlands' long-standing political commitment to policy coherence and recommended that a more systematic approach to identifying and addressing coherence issues would require increased analytical capacity within the MFA. In follow up, the MFA established a dedicated Policy Coherence Unit in 2002 and identified coherence as one of the main focal points of development co-operation in the 2003 policy framework "Mutual interests, mutual responsibilities". The Netherlands now has a "winning combination" of political commitment, a clear policy framework for coherence, and the capacity to deliver through the Policy Coherence Unit. The strength of this approach is reflected in the Netherlands consistently high ranking (ranked second in 2005) on the *Comprehensive Development Index* of the Centre for Global Development (Roodman, 2005).

The Netherlands has played a proactive role in a number of international coherence debates, especially in areas related to improving trade opportunities and market access for developing countries. For example in the area of Common Agricultural Policy (CAP) Reform, the Netherlands advocated for the 2005 reform of EU sugar policy as well as for 100% decoupling of EU cotton subsidies (65% decoupling as of 2006 has now been agreed). The Netherlands has also worked with other donors to support the negotiating capacity of the four West African cotton producing countries at the World Trade Organisation (WTO) negotiations. In addition, the Netherlands has played an active role in coherence debates on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and public health and a number of other areas highlighted in this chapter.

A conducive institutional setting

The 2003 policy framework, "Mutual interests, mutual responsibilities", was developed following an inter-ministerial review of the effectiveness and coherence of development co-operation. The memorandum emphasises the need for an integrated and coherent policy framework for development, combining diplomacy, political dialogue, security, trade, market access and development co-operation. Within the EU, it states that the Netherlands will continue to work on a series of specific coherence issues. These include reform of the CAP; removal of non-tariff trade barriers; better market access for manufacturing products, services and temporary workers from developing countries; increased direct investment in these countries; balanced protection of intellectual property rights; and international nature conservation and environment policy. In 2005, the MFA set out in more detail its ambition to approach the various foreign policy areas in a coherent manner in its annual Explanatory Memorandum for the budget. Issues such as peace and security, good governance and human rights, trade, poverty, the environment and migration were all recognised as interrelated areas, requiring an integrated approach and a combination of diplomatic, strategic, military, economic and developmental instruments.

The Netherlands prioritises an “integrated foreign policy” and development co-operation is fully integrated within the MFA (Chapter 5). Full Cabinet seats are allocated to both the Minister for Development Cooperation and the Minister of Foreign Affairs. The former is able to represent development interests and to intervene where needed at Cabinet level to resolve coherence disputes. This has enabled effective political leadership which is “a necessary precondition to coherence, and a tool to enhance it” (OECD, 2005). In recent years, the relationship between the political and development functions at administrative/official levels within MFA has improved considerably, which has strengthened the Netherlands’ capacity to effectively integrate its policies.

In 2002, the MFA established the new Policy Coherence Unit (PCU). The PCU provides dedicated analytic, co-ordination and negotiation capacity, enabling MFA to work proactively and intensively on coherence. The unit, which reports to the Director-General for International Cooperation is constituted of four policy officers managed by a senior-level director. A recent evaluation concluded that the PCU is “... a winning combination of favourable conditions and a strong team,” and identified its strengths as: staff competencies, the focus on results, creativity and networking, and advocacy and negotiation skills. The mandate of the PCU has since been extended to 2010.

One institutional challenge is to ensure that embassies are able to feed into the coherence discussions. A more structured system of consultations between embassies and the PCU could ensure that embassies: i) play an effective role in identifying new and emerging coherence issues; ii) where appropriate inform ongoing coherence debates and discussions with a country-oriented perspective; iii) reflect priority coherence issues in country-level dialogue; and iv) contribute to monitoring the effects of policy coherence at the country-level. Another challenge is to ensure that other Dutch ministries implementing projects in developing countries establish effective links with the embassy to enable it to take the lead in ensuring country-level coherence.

A three-pronged strategy

The MFA works on three distinct levels: i) coherence at the EU level; ii) proactive targeting of specific coherence dossiers; and iii) building partnerships and promoting awareness of the importance of coherence.

Coherence at the EU level

As an EU Member State, the Netherlands is aware that a number of coherence issues can only be addressed at the community level, given EC jurisdiction in most relevant areas of government action which has an impact on developing countries (Box 8). The Netherlands therefore advocates for coherence issues at the EU level, where possible in alliances with like-minded donors. The Netherlands has been active in the “Cotton Club”, the “Sugar Club”, the “Fish Club” and the “Agriculture, Trade and Development Network”. For example, working together with a number of other members of the “Fish Club”, the Netherlands has drawn up a proposal for improved and more transparent fisheries negotiating procedures. The MFA was also instrumental in initiating the informal EU Policy Coherence for Development Network.

A key strength of the Dutch approach to promoting coherence within the EC is that the MFA systematically screens all new Commission proposals and Council agendas for their development impact. The PCU represents the development perspective on the relevant inter-departmental committees, including the Coordination Committee for European Affairs (CoCo) and the Working Group for the Assessment of New Commission Proposals (BNC). The BNC formulates an initial Dutch position on new proposals and provides an opportunity for the PCU to signal developing

country interests at an early stage. Since 2004 the BNC is obliged to include a paragraph on effects on developing countries in all its assessments.

The PCU is also forward-looking and reviews the EC-planning to consider coherence issues that may arise within two to three years. In this way, the Dutch team can start laying the groundwork for a coherent Netherlands position well in advance of the time the issue comes up for debate within the EU.

Box 8. Policy coherence within the European Union

Within the EU, the principal of coherence in development assistance policies is enshrined in the 2002 Maastricht Treaty. Institutional mechanisms have subsequently been adapted for this purpose, including the amalgamation, under the abbreviated name RELEX, of two of the various directorates involved in the EU's external relations. In 2005 the Council adopted a Commission Communication on Policy Coherence for Development, which commits the EU to promote and enhance this concept and invites the Commission to produce a biennial report on policy coherence for development.

Because the EU is such a powerful trading block, policy formulation relative to market access has taken account of the potential consequences for developing countries. The "Everything but Arms" initiative adopted in 2001 was intended to eliminate most EU quotas and tariffs for exports from LDCs, and actions to overcome non-tariff barriers are growing in importance, as other obstacles to trade disappear. European policies, such as the CAP, can also have significant repercussions on developing countries. There is evidence to show that subsidised production of this kind also give rise to unfair competition on local markets in developing countries where farming is the main source of livelihood for most of the population. The EU is pursuing negotiations to reform the CAP in order, *inter alia*, to reduce the trade distortions it causes.

Specific targeting of coherence issues

The PCU works proactively to identify, target and address specific incoherencies in Dutch policy. The unit involves relevant players from other MFA departments and from other ministries, within project teams to target a rolling list of coherence dossiers. Specific dossiers are then taken forward proactively either within the Dutch government, the EC or the WTO. For example, the Netherlands has raised a number of specific coherence dossiers at the EC in the area of product standards such as lobbying for the adoption of a less strict maximum residue level of a substance called ochratoxin on coffee beans. The MFA assessed that the level initially proposed by the Commission was unnecessarily strict and would have cost developing countries USD 160 million in export revenues per year, and worked with others to successfully advocate for a more balanced threshold.

The PCU is also considering the question of how to broaden the coherence agenda while ensuring that it remains able to focus intensively and delivers tangible results on specific coherence dossiers. The PCU is encouraged to retain its focus on specific priority issues while broadening the coherence agenda through building strategic partnerships.

Building partnerships and promoting awareness of policy coherence

The PCU is aware that it cannot achieve policy coherence on its own and needs to prioritise coalition building. The unit has been effective in building broad awareness of the importance of coherence within the MFA, other government departments and within EU and OECD forums.

A series of memoranda have also been agreed to clarify joint positions with other ministries. For example, the *Memorandum on Coherence between Agricultural and Developmental Policy* was jointly agreed with the Minister for Agriculture in 2002. The memorandum outlines a coherent Dutch position

on CAP reforms and a development-friendly position for the WTO Doha round. However, the 2005 evaluation of the PCU suggested that "... in some cases, even though agreement has been achieved within the Netherlands, positions on coherence are not presented as strongly to the world as CU (Coherence Unit) would like." It is clear that the MFA will continue to face ongoing challenges in building deeper ownership of the coherence agenda within other line ministries.

Specifically, the MFA is keen to address concerns raised by other ministries that policy coherence should be a "two-way street". The MFA therefore aims to deploy funds strategically to coherence-related issues (although explicitly without going in the direction of more tied aid), such as to increase the commercial potential of the agriculture sector in developing countries through public-private partnerships. The intention is to look for win-win synergies between different policy areas. For example, in East Africa, the MFA and the Ministry of Agriculture are working together in partnership with the Dutch private sector to increase market access for vegetables, fruit and flowers by addressing bottlenecks in the supply chain, such as logistics problems, infrastructure, the quality of phytosanitary services, post-harvest problems and the involvement of small farmers in horticulture for export. The overall "two-way street" strategy appears to have had some success in winning support from other ministries, several of which have expanded their internal capacity on policy coherence issues.

The OECD publication on *Policy Coherence for Development* (OECD, 2005) identifies good practice from the Dutch experience in working with other ministries. The report highlights "... the importance of gradual engagement, showing willingness to compromise in some areas to secure progress in others. In the area of reforms to EU agricultural policies, the Netherlands first addressed the cotton sector, less sensitive as the crop is not grown domestically. The government was able to put forward a very pro-development position in Brussels and undertake specific initiatives to support West African countries to develop their own negotiation capacities. Capitalising on the momentum and cross-government co-operation established during this cotton initiative, the MFA and the Ministry of Agriculture are now moving on to the sensitive area of sugar, which is a crop grown domestically". This constructive approach should not discourage the Netherlands from addressing the more difficult outstanding coherence issues, including export credits and further aid untying.

Alongside its work at EC level, the Netherlands has been working within the DAC and other international forums (Africa Partnership Forum, G8, Commission for Africa) to strengthen international co-ordination on coherence issues amongst like-minded donors. The PCU also needs to consider how to build donor partnerships beyond traditional like-minded donors.

The MFA is also aware of the importance of reaching out to civil society, the research community and partner countries and acknowledges that work remains to be done in this area. For example, a key area needing increased focus is the question of how to include partner countries in analysing both the impact of policy clashes and the results of efforts towards increased coherence. The PCU could also consider more proactive approaches to building partner country capacities for coherence issues, for example in ensuring coherent policies within the PRS frameworks. A more strategic and systematic approach could also be developed to building partnerships with NGOs on coherence issues. Finally, the PCU should consider how to strengthen its links with the academic and research communities, including southern research institutes, to ensure strong, informed and open dialogues on difficult coherence issues.

Scope for improved results monitoring

The MFA has taken initial steps towards ensuring a results approach to its work on coherence, in line with the increased MfDR emphasis across the ministry and the government, by ensuring a strong

focus on results delivery and clear reporting on progress. For example, the Minister for Development Cooperation reported on progress on coherence in a Letter to Parliament in March 2006 and in 2004 the Netherlands published a first Progress Report on MDG-8: Developing a Global Partnership for Development (MFA, 2004a). However, the team could undertake further work in ensuring a systematic approach to performance assessment, both in tracking progress against objectives and in assessing the ‘real-world’ effects of specific policy coherence successes. Strong partnerships would likely be needed to move in this direction, including with other line ministries to track progress on particular coherence issues and with the research community and partner countries to assess country-level effects of improved coherence.

Specific examples

Security and development – a coherent approach

The Netherlands believes that peace and stability are irrevocably linked to sustainable poverty reduction and prioritises an integrated and coherent approach to security and development. Building on the policy framework provided by “Mutual interests, mutual responsibilities”, the Netherlands has developed regional approaches to security and development in three regions – the Horn of Africa, the Great Lakes Region and the Balkans. The “Africa Memorandum” calls for a holistic and regional approach combining political, economic, diplomatic and security instruments with the provision of aid.

In 2005, a *Memorandum on Post-Conflict Reconstruction* was agreed by the Minister of Defence, the Minister of Foreign Trade and the Minister for Development Cooperation. A key premise in the memorandum is that sustainable reconstruction calls for an integrated approach to security and stability, governance, and socioeconomic development. The memorandum provides a framework for co-operation and policy co-ordination between the ministries involved. This integrated approach to reconstruction is implemented in the five priority countries/regions where the Netherlands is currently supporting activities aimed at post-conflict reconstruction (Afghanistan, the Balkans, Burundi, the Democratic Republic of Congo and Sudan). Issues around civil-military co-operation aimed at force protection and force acceptance (CIMIC), building on lessons learnt from the Balkans, are also spelt out in a joint document agreed with the Ministry of Defence.

A key innovation in the Netherlands’ approach to security and development is the Stability Fund. Established in 2004 and managed jointly by the Minister of Foreign Affairs and the Minister for Development Cooperation, the Stability Fund disposes mixed ODA and non-ODA funds to provide rapid and flexible support for activities that promote peace, security and development in conflict contexts. In assessing intervention proposals the MFA fund does not consider the relative level of ODA and non-ODA funds, instead determining *ex-post* the proportion of the expenditure that should be accounted as ODA. In the DAC context, the Netherlands is arguing strongly for expanding the range of security-related expenditures that qualify as ODA. The DAC has agreed to review this question further in 2007.

A total of EUR 82 million was allocated to the Stability Fund in 2005, with a notional allocation of 85% ODA funds and 15% non-ODA (*ex post* the expenditures were accounted for as 87% ODA and 13% non-ODA). The fund pays special attention to conflict prevention and peace building, including security sector reform, as well as conflict mediation and demobilisation and reintegration programmes. For example, funding has been provided for a number of activities supporting the verification and monitoring of the peace process in the Sudan, including for the Team for South-Sudan, the Joint Monitoring Commission for the Nuba mountains and the mission of the African Union in Darfur.

The topic of fragile states is currently high on the international agenda and the DAC has developed a set of “Principles for Good International Engagement in Fragile States”. The problems of fragile states, however, are myriad and complicate efforts to formulate an effective and efficient response. One of the challenges for the Netherlands in developing country strategies for fragile states is that such countries require a different approach and different (financial) instruments than traditional developing countries. The current Dutch development co-operation is mainly geared towards working with the 36 bilateral development partners, which are identified with good governance as one of the four selection criteria (Chapter 2). Following internal discussions based on the consultations with the DAC Peer Review team, the MFA has indicated that it is now starting work on developing an overall policy for its engagement in fragile states, building on its active engagement in the DAC Fragile States Group which is piloting the draft principles mentioned above.

Migration – increasing focus

In the Netherlands, as with many industrialised countries, the topic of immigration is controversial. Public and media concerns including illegal immigrants, the challenges of integration and assimilation and international security concerns related to terrorism are driving an intense political debate. A new immigration policy was introduced in 2001 and strict policy implementation continues under the current government.

It is generally admitted that national and international coherence between migration and development policies can assist individual nations such as the Netherlands manage its migration more effectively while harnessing the benefits as part of a national strategy in favour of poverty reduction in the developing world. The World Bank “Global Economic Prospects” report for 2006 suggests that if the increase in migrant workers in high income countries is sufficiently large to raise the labour force by 3% by 2025, its impact would be to increase global real income by USD 356 billion with gains for all parties, much of it to new migrants and people in developing countries.

In 2004, a joint “Policy Memorandum on Development and Migration” was agreed with the Ministry of Justice. The memorandum emphasises the relationship between stability, migration and development and highlights the importance of temporary labour, and especially circular migration from developing countries and preventing brain drain from vulnerable sectors in those countries. An important component of the discussion on increasing temporary labour migration is how the Netherlands can ensure that such labour is genuinely temporary. The MFA is now also starting to coordinate with the Ministry of Social Affairs and Employment and the Ministry of Economic Affairs as well as the Ministry of Justice.

In addition, the Netherlands has set up a number of specific projects to strengthen coherence with migration policy. Projects have been established to encourage the sending of qualified migrants from the Netherlands to their countries of origin, including Afghanistan, Sudan and Sierra Leone, to help with reconstruction and development. In selected countries, especially in West Africa (*e.g.* Ghana), the Netherlands is exploring how to build capacity for migration management. In Zambia, the Netherlands is funding a programme for retention of local doctors within the national market, in which doctors receive a bonus if they practice in rural areas. This innovative approach represents a real step forward from more traditional supply-driven approaches of financing expatriate doctors to provide support.

The Netherlands MDG-8 Progress Report (MFA, 2004a) states that “Remittances from migrants residing in the Netherlands, foreign direct investment by Dutch companies, and grants by Dutch civil society organisations amount to billions of dollars. Though the government does not control these flows, it seeks to stimulate them and enhance their development impact”. However, the DAC Peer Review team noted that the MFA is hesitant to address the issue of remittances, expressing concern

that these transfers are a private sector matter and that regulatory interventions could serve to drive the industry underground rather than produce benefits for migrants and their dependants. Further research is being undertaken by the Ministry of Finance on the costs, accessibility and transparency of remittance transaction services and MFA could consider complementary research to find empirical evidence for the potential benefits and challenges of government intervention or regulation in this important area.

The MFA is aware that more strategic approaches are needed, both nationally and internationally, to address the complex challenge of harnessing the benefits of migration for both northern and southern countries. The Netherlands is encouraged to take further steps to consistently involving the increasingly robust migrant organisations and NGOs in dialogues on development policy. The 2006 joint ministerial conference on migration with the African Union and the UN High Level Dialogue on Migration will provide further international opportunities for the MFA to step up its engagement in the field of migration and development coherence.

Future considerations

- The MFA has established a strong and effective Policy Coherence Unit and could now build on this to ensure a more systematic approach to performance assessment in the area of coherence, both in tracking progress against objectives and in assessing the ‘real-world’ effects of specific policy coherence successes.
- A more structured system of consultations between embassies and the PCU could ensure that embassies: i) play an effective role in identifying new and emerging coherence issues; ii) where appropriate inform ongoing coherence discussions and debates with a country-oriented perspective; iii) reflect priority coherence issues in country-level dialogue; and iv) contribute to monitoring the effects of policy coherence at the country level.
- The MFA could consider how to develop a more strategic and systematic approach to developing and building partnerships for policy coherence, beyond traditional like-minded donors, to include NGOs, the research community and partner countries.
- The MFA is encouraged to build on its active engagement in the DAC Fragile States Group and its whole-of-government approaches as laid out in the 2005 Memorandum on Post-Conflict Reconstruction and the Stability Fund to formulate an overall policy for its engagement in fragile states.

Chapter 5

Organisation and Management

Organisation

The Netherlands Ministry of Foreign Affairs (MFA) has a “two-headed” structure with Cabinet Ministers for both Foreign Affairs and Development Cooperation overseeing an integrated administrative structure. The approach is based on a 1994 review of the Netherlands foreign policy, which aimed to improve the ability of the government to “speak with one voice”. This required major organisational changes within the MFA. Up until that point, the ministry had been divided into departments working specifically for the Minister of Foreign Affairs and specifically for the Minister for Development Co-operation. The review process resulted in the so-called “de-compartmentalisation” of the ministry; the departments were restructured along integrated lines, creating regional and thematic departments working for both ministers. The MFA’s personnel rotation system, in which all personnel change positions within the ministry (also between headquarters and embassy level) every three to four years, is meant to reinforce such integration as it implies that staff will be confronted with both the developmental and the political side of foreign policy.

An integrated organisational set up

Within the ministry, the Directorate General for International Cooperation (DGIS) is the organisational heart of much of Dutch development co-operation. Primary departments with responsibility for ODA funds can be located in the organisational chart provided in Annex D, including:

- Embassies: bilateral delegated funds.
- United Nations and International Institutions Department (DVF): UN and IFIs funds.
- European Integration Department (DIE): European Union funds.
- Social and Institutional Department (DSI): NGO funds.
- Human Rights and Peace-building Department (DMV): humanitarian assistance.
- Sustainable Economic Development (DDE): private sector funds.

In order to improve integration and internal co-ordination, DVF and DMV report to both the Directorate General for Political Affairs (DGPZ) and to the DGIS while the Cultural Cooperation, Education and Research Department (DCO) reports to the Directorate-General for Regional Policy and Consular Affairs (DGRC) and to the DGIS.

Five Regional Departments collect and manage knowledge about regions and work with the missions to develop integrated approaches. Country Teams, consisting of representatives from the thematic departments involved in programmes in the country concerned and chaired by a member of the appropriate regional department, also convene periodically in The Hague.

While the multiple chains of reporting appear on the surface somewhat complex, good working relationships between development and political actors at ministerial and other levels have facilitated effective co-ordination. A number of observers commented that working relationships between the political and development staff have improved considerably over recent years. Relations between the two ministers are also collaborative, although the structure of shared responsibility has potential to become an issue if relationships within future ministerial teams are less collaborative.

Recent changes to organisational structure

A number of the DGIS thematic departments have undergone internal reorganisations since 2001. The main substantive change to the overall organisational structure, however, was the creation of the new Effectiveness and Quality Department (DEK) in 2005. DEK has a broad mandate to oversee effectiveness and quality within the MFA and collects and records data, makes policy recommendations, and develops and maintains instruments for implementing policy on cross-theme and cross-country issues. Its objectives are:

- To strengthen the learning capacity of DGIS by linking data management and information to policy analysis and implementation.
- To conduct policy analyses on cross-cutting themes.
- To support and advise the embassies on cross cutting themes.

Some challenges appear to remain in clarifying the relationships and delineations of responsibilities between DEK and the Financial and Economic Affairs Department (FEZ). FEZ is primarily responsible for financial management and budgeting but is also involved in coordinating the planning and control cycle, including co-ordinating the annual plan for decentralised evaluations which is attached to the annual budget.

Decentralisation and its limits

Reforms introduced in 1996 led to major increases in delegation of management responsibility to the field. Embassies are now responsible for local policy, implementation and financial management, within the limits of the “delegated funds”. This includes responsibility for policy dialogue with partner country governments and other donors, formulation of Dutch country and sector policy, and assessment, approval and monitoring of implementation activities.

Following internal discussions based on the consultation with the DAC Peer Review team, the MFA has decided to move further in increasing the resources for which financial authority is decentralised to embassies. This is consistent with the international context of increased emphasis on partner country-led approaches. It also responds to the 2001 DAC Peer Review recommendation that a “... re-examination of the various budget flows of Dutch ODA to any individual recipient could be undertaken so as to more strategically place the local Dutch representative in transacting the use of these funds. One specific intention expressed by the Minister for Development Cooperation in this respect is the delegation of more authority for macro support funds, all of which are currently controlled out of headquarters”. Funds for general budget support, which were authorised centrally until recently, have now been delegated to embassies in the 15 partner countries where the MFA is currently using this modality.

Overall leadership at the embassy level is provided by the Ambassador, supported by a Head of Development Cooperation. In terms of staffing, the Bangladesh embassy, for example, maintains 15 Dutch staff and 31 locally hired staff (five of these are policy advisers). The embassy in Uganda

has a similar level of staff capacity. The Netherlands makes a relatively extensive use of locally hired staff who perform various policy and programme management functions. They often represent the Netherlands in local consultative groups and may act as co-ordinators when the Netherlands holds such a responsibility. Although they are not hired with long-term career perspectives and tend to move after a few years of service, both embassies seem to be making good use of their specific comparative advantage (*e.g.* local experience and ability to understand local complex situations).

Improved communications between embassies and headquarters

The 2001 DAC Peer Review called for specific attention to improving communications between headquarters and the embassies following the delegation of tasks and responsibilities to the latter. The MFA has taken a number of steps to address this problem. For example, embassies are now notified at an earlier stage about proposed new administrative arrangements and policies which enables them to prepare for and comment on proposed changes. The most important development in this area is the development of a more enhanced planning and monitoring system (see below), which is improving the flow of information between headquarters and embassies. Regular meetings of all ambassadors and of all heads of Development Cooperation are also organised to improve communications.

Country Teams, composed of representatives from across DGIS thematic departments, have a key role to play in ensuring smooth communications between headquarters and embassies. Observers within the MFA note that Country Teams are varied in their quality and performance, with some providing only very limited additionality and support. In addition, Regional Departments are perceived to focus primarily on political rather than development work. DGIS could usefully undertake further work on clarifying the role and value added of Country Teams, while also ensuring incentives for both Country Teams and Regional Departments to provide demand-driven support services to embassies.

Personnel and human resource management

Overview

In 2005, MFA maintained a staff of 3 115 foreign service staff (53% men, 47% women) plus 2 067 local staff. While DGIS alone has a staff of 319 persons, the Director General for International Co-operation directly oversees 157 staff and shares management responsibility for an additional 162 staff with other directors generals.¹² However, the MFA estimates that approximately 1 000 of the foreign service staff work specifically on development co-operation, with about 50% of these based in The Hague and about 50% overseas. Since the 2001 DAC Peer Review, a number of steps have been taken to bring staffing levels and personnel policy more in line with the management needs of the development assistance programme. In 2001, parliament agreed to allow an extra EUR 14 million from the development co-operation budget to be used for personnel purposes from 2002 onwards. Eighty additional posts have been created, with the aim of relieving pressure on understaffed divisions and embassies and bringing new skills, knowledge and specialisation into the organisation. For the short-term future, and in the context of government-wide headcount pressures, further increases in staff numbers are considered to be unlikely.

The MFA recruits the majority of its staff through concourses for generalist civil servants. Over the last few years, 20-30 new staff have joined each year as entry-level generalist policy officers while only 5-10 staff have been recruited each year as sector or thematic specialists (often identified by

12. DGIS staff is allocated as follows: DG's office (17 persons); DDE (32 persons); DMW (35 persons); DSI (45 persons); and DEK (28 persons). Staff working in other directorates generals include: DMV (57 persons); DCO (53 persons); and DVF (52 persons).

embassies). Generalist recruits undertake a three-month course on diplomacy, development and international affairs. While the Netherlands recruitment policy retains much of its traditional MFA character it appears to be succeeding in recruiting very high quality staff.

Capacity challenges

Since the 2001 DAC Peer Review there have been significant developments in international development co-operation policy and practice, including the agreement of the Paris Declaration on Aid Effectiveness. A key challenge for the Netherlands is how to deploy and use existing resources to ensure that embassies in particular have the right skills mix and capacity levels to deliver on the policy agenda.

One effort to address this challenge is the 2004 policy document on careers at the MFA. The policy identifies five categories of work within the ministry: support; administrative and consular; policy; specialist; and management. Staff can choose either to pursue their careers within their own category or to move sideways into another. One intention is to enable specialist staff to progress and pursue a career within the MFA without necessarily moving into a management role. This would seem to be an interesting approach to providing incentives to some specialist staff with knowledge and skills valuable to the MFA to remain within the ministry.

Another step taken to address this capacity challenge was the 2001 reform of how staff are transferred to new positions. Previously there was a “free market” system while now staff transfers are managed more centrally. The reason for the change was that under the former system some vacancies remained unfilled while many people could not find a new position. In 2002, therefore, rules were introduced to make it easier to co-ordinate staff transfers. Staff can now indicate their preferences and line managers can indicate who they consider to be suited or unsuited to a position. The personnel department uses this information to decide on a transfer. MFA is also working to keep staff (especially specialists) in post for longer time periods so as to make full use of the skills and knowledge developed in the first year(s) of the posting.

Nevertheless, the DAC Peer Review field visits indicated ongoing problems in filling posts in both Bangladesh and Uganda and suggested that MFA has not yet solved the challenge of filling all posts with the right people. For example, at the Kampala embassy there has been an acting head of development co-operation for the past year and another staff member has been covering the responsibilities of both macro-economist and humanitarian affairs advisor. Across the MFA, continued efforts to increase sector concentration could serve to reduce the number of specialist staff needed at the embassy level and better enable the Netherlands to meet its capacity demands with its existing staff resources.

The MFA is also aware that the capacities demanded of its staff will continue to evolve on a long-term basis. A strong focus is therefore on ensuring high-quality and innovative training for existing staff with a particular focus on building capacity for higher-level policy dialogue around general budget support and political governance. A number of specialised and innovative courses on aspects of development co-operation such as PRSPs and SWAs have been developed with other bilateral donors and are now being organised jointly. For example, the “learning and developing” project allows the development co-operation sections at the embassies to work on the difficulties they encounter in implementing SWAs. Under the guidance of an external coach, problems are identified and discussed, and a staff plan and implementation track prepared to overcome them. Four embassies have made use of the training since 2001 which is now being rolled out to nine more embassies. Further examples of innovative training programmes are outlined in Box 9.

Box 9. Innovative Learning Programmes

Public Finance Management Embassy Support Programme

The Netherlands has recognised that an important way of improving the quality of its interventions and policy dialogue is by increasing the knowledge of MFA staff of how to assess the quality of budget policy and management. The Public Finance Management Embassy Support Programme (PFM-POP) consists of 15 theme-based modules linked to specific coaching based on the local context and on the knowledge requirements of the embassy. PFM-POP has sought co-ordination with other donors and local stakeholders by giving the embassy the opportunity to invite these groups to participate in the training. Over 25 embassies have launched PFM-POP programmes since 2003.

The Support Programme for Institutional and Capacity Development (SPICAD)

The Netherlands also recognises that adequate country capacity is one of the critical factors missing in current efforts to meet the MDGs. In 2006, the Netherlands is rolling out a new support programme - SPICAD - to enhance the capacities of embassy staff to address partner country institutional and capacity challenges. The support is demand-driven, flexible and offers a range of embassy-specific support modalities. It includes a thorough analysis of the institutional and capacity development issues the embassy is addressing, followed by tailored modular and on-the-job training. Embassies determine the key areas for the training, which may include: working with drivers of change; capacity challenges in sectors; public sector and civil service reform; accountability and transparency; decentralisation; inclusion and democratisation; and poverty analyses.

Integrating planning and monitoring

The 1994, 1997 and 2001 DAC Peer Reviews successively flagged the need for the Netherlands to develop a comprehensive monitoring system to provide information on performance and results for decision makers. In the context of international efforts to make development aid more results-led and a government-wide drive for strengthened management for development results (MfDR) approaches, the MFA has made significant progress since 2001 in developing systems for planning, monitoring, knowledge management and learning. The key steps taken, which are reviewed in more detail below, include the introduction of a new system of multi-annual strategic planning for embassies, the restructuring of the Track Record system, the introduction of sector and activity ratings, and the development of an electronic knowledge management system. While challenges remain in harmonising these various instruments, the Netherlands should be commended for its substantive efforts to develop a comprehensive framework for planning and monitoring.

A new approach for multi annual strategic planning

Since 2001, a major new system of Multi Annual Strategic Plans (MASPs) has been rolled-out across the 36 development co-operation partner countries. The four year MASPs enable a more explicit linking between the country context and the Netherlands' central policy framework (*i.e.* linking of top-down and bottom-up priorities). The intention is that in setting out the four year strategic vision in close agreement with headquarters, the operational aspects can be better delegated to the embassy and the annual planning process lightened. The embassy Annual Reports and Annual Plans have therefore been combined into one Annual Report/Plan; they focus more on reporting results and lessons learned from the previous year than on planning for the coming year. The MFA is encouraged to continue to move towards a lighter annual planning process and to ensure that Annual Report/Plans focus on broad questions around: Is the embassy on track to reach the MASP objectives? If not, why? And what does this mean for the MASP?

In introducing the MASPs, the Netherlands should be commended for having taken a very significant step towards a more strategic, contextualised and long-term approach to embassy planning.

However, the MFA is invited to consider the following challenges as it continues to develop the multi-annual planning system and moves towards preparing the ‘second generation’ MASPs:

- The MFA states that, “Multi-annual planning constitutes an internal process.” In the context of the Paris Declaration on Aid Effectiveness and the move to country-led approaches it is critical that partner countries should be enabled to participate to a certain extent in developing these key strategic planning documents so that MASPs are responsive to the needs of the partner country. The Netherlands is encouraged to move away from positioning the MASP as an “internal planning document” to a more collaborative approach systematically involving the partner country in influencing the embassy development co-operation strategy.
- Building on the above challenge, MASPs could be made public once agreed so that all stakeholders are informed and aware of the Netherlands’ strategic development objectives (some diplomatic considerations may need to remain internal). This is important in enabling harmonisation with other donors and co-ordination and complementarity with NGOs. A second best option, which the embassy in Ghana has already taken forward with its first generation MASP, is to produce an outline summary of the MASP for public consumption.
- According to official guidance, first generation MASPs should be adjusted in view of “major changes” in the country context. However, little evidence has come to light of these important adaptations to the national context being enacted in practice. Second generation and future MASPs could usefully be produced and amended on more of a rolling basis.
- The overall purpose and scope of the MASPs may need to be reconsidered in view of the increasing number of Joint Assistance Strategies (JAS) being agreed at the country-level. The MASP is likely to continue to play a valuable role in establishing the Netherlands strategic vision, but may need to reposition itself with more of an explicit focus on serving as a link between the JAS and the Netherlands central policy framework.
- While MFA guidance states that MASPs should cover “... all areas of integrated foreign policy,” the first generation MASPs are strongly focused on the development co-operation aspects of the embassy’s programme. In the two countries visited by the DAC Peer Review team, Bangladesh and Uganda, the MASP covers only core bilateral development co-operation and the two embassies therefore do not have an overview of the full range of Dutch activities taking place (including Dutch NGOs and private sector activities receiving funding centrally managed in The Hague).¹³ In developing second generation MASPs, the Netherlands could consider more focus on the non-delegated ODA programmes in the country and with more scope for analysis of coherence with the broader political work of the embassy, in line with the overall integrated approach to foreign policy.

Planning which aid modality to use: The Track Record

The Track Record (Box 10) is the most important tool for the Netherlands in selecting which aid modality (project, programme or budget support) is most appropriate to use in a partner country. Previously, the Track Record only assessed whether a partner country qualified for general budget support but in 2004 the Track Record was restructured to assist in the overall choice of aid modalities.

13. In Bangladesh, it is estimated that Dutch NGOs spend about EUR 13-14 million every year (80% of which is funded by the MFA).

It is an annual assessment framework that assesses whether a partner country is making sufficient progress in reducing poverty, has adequately functioning economic structures and a government that is able and willing to abide by its own rules and is capable of pursuing a meaningful dialogue in pursuit of a development policy. Based on these analyses, the Track Record determines what level of alignment is feasible in the partner country and what range of aid modalities (budget support, programme, project) would be appropriate for the country context.

The Track Record does not prescribe which aid modality to choose, but indicates the available scope and the preferred aid modalities within that scope. Its recommendations may be over ruled by political factors (Box 10). Steps could usefully be taken to embed analysis of political governance more strongly within the Track Record (*e.g.* analysis of democracy and human rights could be more central to the current governance assessment which is focused primarily on the public financial management (PFM) assessment framework and cross-referencing with the external Kaufmann indicators). This could reduce the frequency with which the Track Record analysis and recommendation is over ruled by concerns around political governance.

Box 10. The Track Record analysis

The Track Record is an annual assessment framework that details and analyses partner country progress in four cluster areas. A stand-alone review framework and reporting format has been developed for each of them:

- The PRSP and the commitment to poverty reduction, assessed with a *PRSP Review Framework*.
- The macroeconomic policy and business climate, assessed with a *Business Climate Scan*.
- Good governance, including Public Finance Management, assessed with a *PFM Review Framework*.
- Dialogue and harmonisation, analysed using the explanatory notes on quality of policy dialogue.

Each of these four analyses includes a rating (good, satisfactory, unsatisfactory, bad). The Track Record also includes a section on risk analysis and culminates in an overall rating for the partner country. Two external benchmarks – the World Bank's country policy and institutional assessment (CPIA) and the Kaufmann governance indicators – are used to ensure ratings are roughly in line with those of other donors. Divergences from these benchmarks must be explained. The overall rating indicates the level of alignment, and the consequent aid modality, that is considered possible:

- If the Track Record is generally satisfactory, then full alignment is considered possible and budget support will be the preferred option.
- If the partner country fails to satisfy a number of basic conditions then partial alignment will be preferred and SWAs and other sectoral support may be considered appropriate.
- If however the Track Record is broadly unsatisfactory, especially if this is due to lack of commitment to poverty reduction, an inadequate macroeconomic policy or poor budget management, alignment is not considered possible and only project approaches may be developed.

It should be noted that the Track Record does not proscribe which aid modality to choose, it indicates the available scope and the preferred aid modalities within that scope. For example, even if fully aligned aid is recommended, there is still scope for implementing a mix of budget support with other less fully aligned modalities. In addition, if there are good reasons for deviating from the preferred choice indicated by the Track Record, this can be done provided the reasons are explained. For example, wherever political factors have played a decisive role in the choice of aid modality, the Minister for Development Cooperation will justify the decision that has been reached in the ministry's annual report.

Once the aid modality has been selected, an Activity Appraisal Document is prepared which describes the assessment process, justifies the decisions and details the results to be achieved.

The Track Record is primarily a planning and analysis instrument, but successive track records will also allow long-term development in a country to be monitored.

Sector and activity monitoring

A new framework of activity and sector ratings has been developed to improve country-level monitoring. The purpose is to assess the inputs, outputs, results, goals and sustainability of activities in progress (activity ratings) and of overall sectors in which the embassy is active (sector ratings). In 2005, the MFA published its first *Results in Development* report (Chapter 1), which details country-level results and links these to the Netherlands' inputs. The report does not attempt to attribute results to MFA inputs or to identify causal links, but rather to show the relevance of Dutch inputs to country-level progress that is being made. Results reports will be submitted to parliament on a biannual basis and the Netherlands is encouraged to strengthen the links with the new monitoring systems to ensure that information from the activity and sector rating feeds into the future reports.

Knowledge management

A new knowledge management system has also been rolled-out across the MFA since 2002. This large-scale Enterprise Resource Planning (ERP) package – Piramide – includes all information from the activity and sector ratings categorised with a new Policy Information Marker System (POLIS). The package appears to provide an effective knowledge management system although it is clear that helping senior managers to see how they can make systematic use of the system in their work is a frontier.

A challenge remains, however, to ensure that all relevant information, including output as well as input information, is captured by the system. For example, track records and appraisal memoranda might also usefully be included in Piramide. In addition, it is curious that even with the strong Dutch focus on GBS, it is not a distinct category within Piramide but included in a broader 'macro' budget line. A second challenge is to ensure that embassies make full use of the new system for knowledge management and learning to inform policy dialogue and decision-making. This will require awareness raising, training and incentives to improve data quality.

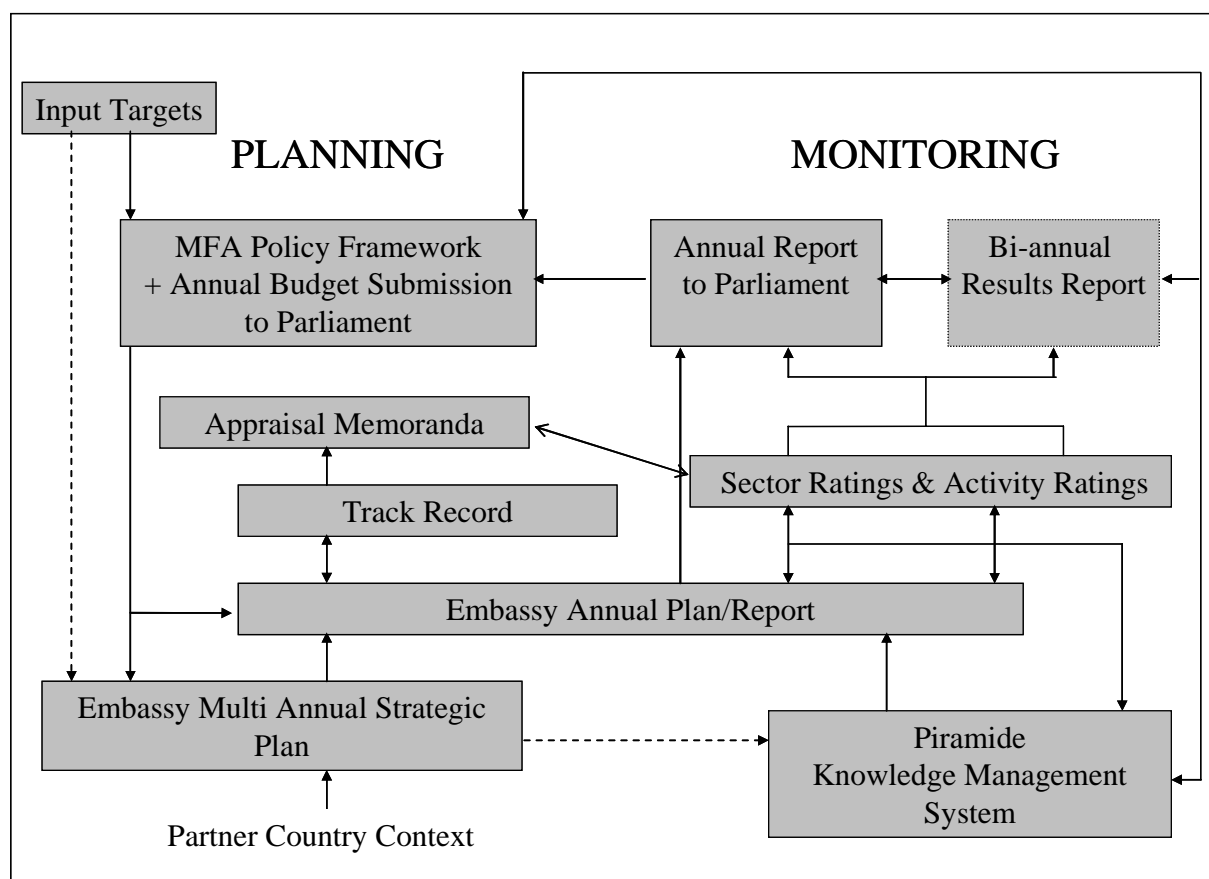
Possibilities for simplifying the planning and monitoring system

The Netherlands should be commended for its proactive efforts to develop an integrated planning, monitoring and knowledge management system (Figure 1). However, the number of mechanisms now being used (MASPs, Annual Plans/Reports, the Track Record and the Activity and Sector Ratings) add together to constitute a somewhat complex system. This risks being perceived by embassies as a management burden rather than as a learning tool, especially as the guidance on how to use each component of the system is extensive (*e.g.* the various detailed assessment frameworks that feed into the track record analysis). The MFA has already initiated a review of the overall system and should act on the findings of the review to identify where and how it can be simplified. For example, there might potentially be scope for integrating the sector ratings and the track record. Links also need to be systemised between evaluation and the integrated planning, monitoring and knowledge management system.

In implementing the Paris Declaration on Aid Effectiveness, donors are moving away from individual analyses and monitoring processes and towards jointly agreed performance assessment frameworks, PRS monitoring systems, joint PFM assessments and other country-level joint review processes. While these joint processes are feeding into and informing its monitoring systems, the MFA recognises the need to make a greater and more systematic use of information generated through joint

donor and partner country monitoring and reporting systems, to avoid duplication of analysis and reporting and to help strengthen those joint systems. The locus of accountability needs to be in providing results information to both the Netherlands' and their partner country's public and parliament.

Figure 1. Integrated planning, monitoring and knowledge management



Evaluation – ensuring relevance and quality

Evaluations focusing on broad policy and cross-cutting themes are generally undertaken by the central Policy and Operations Evaluation Department (IOB). IOB was created in 1977 as an independent “Inspection Unit” and in 1996 expanded to take on responsibility for evaluating foreign affairs as well as development co-operation. IOB reports are high quality and have had major impacts on the form and content of Dutch development co-operation over the years. For example, at the time of the DAC Peer Review mission to The Hague, major and timely evaluations on both the Sector Wide Approach (Chapter 3) and on Humanitarian Aid (Chapter 7) were being completed and the findings and implications were being widely discussed throughout the ministry. The Minister for Development Cooperation prepares an official policy response in the form of a letter to parliament.

In 2006, the MFA decided to overhaul the evaluation planning process. Until now, IOB has had control over determining which programmes or themes to evaluate, writing the evaluation Terms of Reference, conducting the evaluation with the assistance of commissioned external consultants and writing the final report. While this independence has been a long-term strength of IOB, the MFA has identified a problem with the extent and timeliness with which findings and recommendations are

feeding back to policy makers. The MFA has therefore decided to move responsibility for selecting which programmes or themes to evaluate from IOB to the policy makers and the Directors-General. There is concern among IOB staff that this could undermine IOB's capacity to determine in which areas it should play a challenge function to the policy community and the independence of evaluation. At the same time, it is acknowledged that enabling the policy and operational departments of the MFA to actively engage in evaluation programming and provide suggestions to determine which evaluations are needed will create a demand-driven approach and may well serve to increase the extent to which evaluations are timely, relevant and able to inform and influence the policy community. In the new situation, the MFA should ensure that, to safeguard evaluation quality, IOB retains its independence for managing the evaluation once the subject has been determined and for reporting and making public the findings. Mechanisms could also be developed to create more of a joint planning process, potentially enabling IOB to continue to play a challenge function in more difficult policy areas while also adapting to the more systematic demand-driven relationship with the policy community.

IOB evaluations are complemented by decentralised evaluations, undertaken by policy departments and embassies and focused more on routine and operational feedback. Successive DAC Peer Reviews have identified problems with these evaluations, highlighting in 2001 that the overall feedback system was "... uneven in quality, not yet systematic in its approach, and with a tendency to be informal and anecdotal". The MFA itself also identified pervasive weaknesses in the decentralised evaluations including very limited insights into programme efficiency, limited insights into effectiveness and limited feedback to the policy cycle. The Netherlands should be commended for taking steps to address these weaknesses, including setting up an IOB help desk to regularly review the quality of decentralised evaluations and to advise operational staff undertaking such evaluations and revising the ministry's evaluation guidelines.

A question for the future is how to move towards an evaluation programme that is driven by the joint needs of multiple donors and of partner countries. In 2006, the DAC agreed new "Guidance for Managing Joint Evaluations", which highlights the benefits of joint working for addressing multi-agency impacts beyond the results of one individual agency. This is seen as increasingly important in a context in which significant quantities of aid are provided through joined-up modalities such as basket-funds, sector-wide approaches and budget support and within the frameworks of co-ordinated and joint assistance strategies. Most importantly, the guidance sets out the aim of the evaluation community to move towards an agenda set jointly with the partner countries and meeting their learning and accountability needs. IOB has played a valuable role in a number of past joint evaluations, notably in leading the Joint Evaluation of External Support to Basic Education in Developing Countries. The challenge now, with responsibility for determining evaluation programming moving to the policy side of the department, will be to ensure continued joint planning with other donors and to move towards both centralised and decentralised evaluation agendas set jointly with the partner countries.

Future considerations

- The Netherlands should be commended for its proactive efforts to develop an integrated planning, monitoring and knowledge management system. However, the MFA is encouraged to consider the best way to simplify the planning and monitoring system, potentially by combining certain of its components.
- The Netherlands could move away from positioning the MASP as an "internal planning document" towards a more collaborative approach involving key stakeholders, especially the partner country, in shaping embassy strategy. It would also be useful to make the MASP public once it is agreed (or as much of it as is possible). In addition, MASPs could be

produced and amended on more of a rolling basis, to better enable amendments in view of changes in the country context.

- Challenges remain with the new knowledge management system, including ensuring that awareness raising, training and incentives are introduced to improve data quality and to ensure that embassies and senior management make full use of the new system.
- In the context of responsibility for evaluation planning moving from IOB to the policy community, the MFA is encouraged to ensure that, to safeguard evaluation quality, IOB retains its independence for managing the evaluation once the subject has been determined and for reporting and making public the findings. Mechanisms could also be developed to create more of a joint planning process, enabling IOB to continue to play a challenge function in more difficult policy areas while also adapting to the more systematic demand-driven relationship with the policy community.
- DGIS could usefully undertake further work on clarifying the role and value added of Country Teams (composed of representatives from across the DGIS thematic departments) while also ensuring incentives for both Country Teams and Regional Departments to provide demand-driven support services to embassies.
- The MFA should strengthen its efforts to maximise the potential of existing human resources by continuing to work to ensure that embassies have the right skills mix and capacity levels.

Chapter 6

Country Operations

Overall Dutch approach to aid effectiveness

With its long-standing commitment to partner country-led approaches to poverty reduction, concern about aid effectiveness is not a new item on the Dutch policy agenda. The Netherlands' commitment to harmonisation and alignment is embedded in its 2003 policy memorandum (MFA, 2003a): "The Netherlands wants to take donor co-ordination a step further towards harmonisation. Donors and partner countries must therefore do more to convert the arrangements they have made into long-term/multi-year agreements and harmonised funding of budget items (sector programmes) or, where possible, the general budget."

Response to the Paris Declaration on Aid Effectiveness

The Netherlands is committed to implement the principles from the 2005 Paris Declaration on Aid Effectiveness. The MFA intends to develop an aid effectiveness action plan which will be based on the outcome of the survey launched by the DAC in 2006 to establish the baseline for the monitoring of the Paris Declaration. The Netherlands views the Paris Declaration in continuity with previous efforts, including commitments at the EU level and the "Joint Action Plan for Effective Aid Delivery through Harmonisation and Alignment of Donor Practices" adopted by the Nordic+ countries¹⁴ in the wake of the 2003 Rome Declaration on Harmonisation. In 2004 the Netherlands developed a multi-year Harmonisation Plan in order to translate its overall policy commitment into results to be achieved by 2008. The MFA identified 18 "front-runner" countries¹⁵ among its 36 partner countries where significant progress could be achieved on the basis of the following objectives: i) reach operational harmonisation (namely pooled funding) in 80% of the priority sectors (against a baseline of 53%) and operational alignment (namely budget support) in 50% of the priority sectors (against a baseline of 24%); ii) reach at least policy alignment (PRSPs and SWAp) in all priority sectors (against a baseline of 84%); and iii) increase co-operation with EU Member States in accordance with EU agreements (including the EU road maps at the country level).

Although the Netherlands does not yet have a specific aid effectiveness action plan, Dutch commitment is now embedded in the annual budget process. Since 2006, the explanatory note to the MFA's annual budget, which constitutes an important policy reference for the ministry, makes a direct reference to the Paris Declaration. One of the eight policy clusters of this budget (Chapter 2) is entitled "more prosperity and less poverty" and is articulated as five operational targets, one of which deals with "enhanced aid quality and effectiveness". The indicators identified to measure progress mirror those from the Paris Declaration and propose steps on an annual basis towards the achievement of the Paris targets for 2010. Dutch embassies are responsible for the implementation of the Paris

14. Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the United Kingdom.

15. Are included: Bangladesh, Benin, Bolivia, Burkina Faso, Cape Verde, Egypt, Ethiopia, Ghana, Mali, Mozambique, Nicaragua, Rwanda, Senegal, Tanzania, Uganda, Vietnam, Yemen and Zambia.

Declaration, with multi-annual strategic plans and annual plans as operational instruments used for defining strategies and results and reporting on progress.

While there is concrete action on the ground to implement the Paris Declaration, there is a communication gap that the Netherlands is planning to address. The Paris Declaration and its five pillars (ownership, alignment, harmonisation, management for results, and mutual accountability) call for a degree of commitment going beyond previous initiatives focusing on harmonisation. A more explicit and detailed policy statement (or action plan) will help the Netherlands to: better guide actions and ensure consistency in support of implementation, and to monitor progress at the country level. For example, the 2006 annual plan for Uganda does not go further than stating that the embassy will “... pro-actively promote harmonisation and alignment as laid down in the Paris Declaration”, including “... by actively participating in joint analysis such as the Uganda Joint Assistance Strategy (JAS) and priority setting via the Poverty Eradication Action Plan (PEAP)”. Yet there is scope in both Uganda and Bangladesh for more effective alignment and harmonisation, including when assistance is provided through sector-wide approaches. The scope of action with respect to the 18 partner countries which were not among the front runners in 2004¹⁶ deserves more attention, especially in light of the need to work more effectively in fragile states and to consider the aid effectiveness agenda in other more difficult environments such as when there is deteriorating governance performance undermining the level of alignment.

Efforts to increase aid effectiveness in practice

A number of initiatives testify to the institutional integration of harmonisation and alignment. The Effectiveness and Quality Department (DEK) was established in 2005 (Chapter 5). Earlier, in 2002, the Harmonisation Desk at the Financial and Economic Affairs Department (FEZ) and a ministry-wide harmonisation network were set up. The elaboration of the Track Record (Chapter 5) as a tool for selecting aid modalities is an important element of the Dutch approach. In this context, the degree of decentralisation of the MFA and the role of embassies at the country level, combined with the quality and dedication of staff, can constitute additional assets.

A key step was the decision in 2003 to increase the concentration of bilateral aid. As compared to many other DAC members, the Netherlands has already come a long way in this respect. In each of its 36 partner countries, the Netherlands has decided to focus on a maximum of two to three sectors (out of five possible priority sectors).¹⁷ In practice, governance and private sector development as cross-cutting themes constitute two additional areas of focus and some associated dispersion. In terms of analytical and management needs for the full range of issues on the agenda, the situation in Bangladesh and Uganda (Boxes 11, 12) suggest that the embassies could benefit from further focus.

The Bangladesh MASP (2005-08)¹⁸ identifies three priority sectors: water, education, and health. It was decided to phase out of rural electrification because of the limited value-added of the Dutch contribution to this sector as compared to other donors. As cross cutting issues, it was decided to maintain a strong focus on gender and to develop a governance strategy involving mainstreaming in all sectors but also a separate programme (institutional and financial aspects including planning and budgeting, capacity development and corruption; human rights; and democracy). In addition, the

16. Afghanistan, Albania, Armenia, Bosnia, Colombia, Eritrea, Georgia, Guatemala, Indonesia, Macedonia, Moldavia, Mongolia, Pakistan, Palestinian Territories, Surinam, South Africa.

17. Priority sectors include: education, environment, water, HIV/AIDS, sexual and reproductive health and rights.

18. Dutch annual bilateral commitments amount to EUR 41 million.

embassy intends to further explore opportunities for supporting private sector development (both in improving the enabling environment and in stimulating Dutch private investment).

Box 11. DAC Peer Review visit to Bangladesh (5-9 March 2006)

Since the 1990s Bangladesh has recorded impressive economic performance (4-5% economic growth annually) and social gains (improvements on a number of social indicators). The state has encouraged the emergence of a vigorous private sector through sound macroeconomic management and trade liberalisation and has emphasised pro-poor expenditures in public resource allocation. A vibrant civil society deeply rooted at the community level has been instrumental in mobilising people in various social and economic activities that have proved critical for progress in rural areas. Bangladesh remains the country with the third largest number of poor people in the world (nearly half of its 130 million people live in poverty) and ranks 139 out of 177 on the 2005 Human Development Index. Pockets of extreme poverty persist and inequality is increasing. Political risks (worsening political climate and deterioration in law and order with increased violence) and major governance weaknesses (decreasing political support for reforms and weak implementation capacity) constitute serious obstacles to the acceleration of economic growth and successful implementation of the poverty reduction agenda.

The updated PRSP “Unlocking the Potential” was released in 2005 and stresses the links between investment, growth, job creation and poverty reduction. The PRSP focuses on the following pillars: i) macroeconomic environment for pro-poor economic growth; ii) critical sectors for pro-poor economic growth; iii) effective social safety nets and targeted programmes; and iv) human development. The government also launched in 2005 the PRS Implementation Forum, an annual high-level process to monitor the PRSP implementation. This is an important step in shifting to a government-led aid co-ordination process. The four largest donors (Asian Development Bank, World Bank, Japan and United Kingdom) have developed a joint assistance strategy in an effort to harmonise their support for the PRSP and invited other donors to join the process in 2006. Progress in alignment and harmonisation also features in the health and education sectors where donors support SWAs through pooled-funding arrangements. Although ODA accounts for 2% of Bangladesh’s GDP it represents as much as 50% of public expenditure in the health and education sectors.

In a country where 80% of ODA is provided by the above four donors, the Netherlands faces the challenge of identifying its comparative advantage. However, the Netherlands is recognised for its long-standing expertise and consistent support to the water sector since the 1970s and its valued-added in building physical and social infrastructure (notably by promoting participatory approaches). The Netherlands was also a key player in promoting SWAs in health and education and its substantive contribution - notably on gender issues - to sector-level policy dialogue is valued even though it is not a lead donor in those areas. The Netherlands is recognised for its flexible and responsive approach which is facilitated by its decentralised system. Dutch development co-operation in Bangladesh could benefit from addressing the following issues:

- Because of the high level of harmonisation among donors and a degree of dispersion in the Dutch programme, there appears to be a policy dialogue gap. Other donors indicated to the DAC Peer Review team that they were not sufficiently familiar with the Dutch development policy priorities and had the impression that the Dutch embassy kept a low profile. The Netherlands could identify ways of playing a more prominent role in macro-level policy dialogue and explore ways of addressing governance reforms in a more systematic way.
- Joining the JAS process could be a useful opportunity for the Netherlands to strengthen its programme focus on the basis of division of labour with other donors and to update the MASP. It could also provide a basis for strengthening overall policy dialogue with the government of Bangladesh in collaboration with other donors.
- Building on its experience in developing the health and education SWAs and its long-standing involvement in the water sector, the Netherlands could be instrumental in promoting a more programmatic approach in this sector.
- It could be important for the Netherlands to review its approach to capacity development and the relative levels of support it is providing to NGOs versus the assistance given to government for service delivery. Favouring the relatively well performing non-governmental sector for service delivery could undermine efforts to build up the necessary government capacity. A long-term and comprehensive strategy for building government capacity would be useful.
- A recent decision to provide no more funding to the government and to redirect Dutch bilateral funding for the water sector through multilateral partners because of growing concerns about the risk of misuse of Dutch ODA raises questions about how to best tackle corruption and manage its associated risks.

The Uganda MASP (2005-08)¹⁹ identifies three priority areas: i) education; ii) justice, law and order; and iii) decentralisation. In addition, the embassy focuses on cross cutting themes such as gender, human rights and corruption. Increased focus on improving the enabling environment for the private sector and the creation of PPPs has been identified as a potential area for future development.

Box 12. DAC Peer Review visit to Uganda (1-5 May 2006)

Uganda has long been considered an African success story. The National Resistance Movement, which took power in 1986, restored peace and stability after decades of conflict and misrule. Strong economic management and structural reforms have resulted in macroeconomic stability and sustained high rates of economic growth (6% annual average since the early 1990s). Partly because of pro-poor spending, the incidence of poverty declined from 56% in 1992 to 34% in 2000 (but was up to 38% in 2003). Uganda remains one of the world's poorest countries (per capita GDP of USD 285 in 2005), ranking 144 out of 177 on the 2005 Human Development Index. Progress in raising per capita income has been undermined by high population growth (3.4% annual average during the 1990s). The HIV/AIDS pandemic had a devastating impact on the population throughout the 1990s, but there was a drastic reduction in HIV prevalence from 20% to below 10% with levels stabilised now around 7%. Development remains uneven in the country and the conflict-affected North remains the poorest region (63% poverty incidence).

In the early 1990s, while targeted interventions were carried out to alleviate the adverse social costs of structural adjustment, concerns emerged about the need to address poverty more comprehensively. Uganda's first PEAP was approved in 1997 and served as a model for the now internationally standard PRSPs. The PEAP 2004 is built on five pillars: i) economic management; ii) competitiveness, production and incomes; iii) security, conflict resolution and disaster management; iv) governance; and v) human resource development. Uganda was also the first country to qualify for Heavily Indebted Poor Country (HIPC) and the first recipient of the World Bank Poverty Reduction Support Credit (PRSC). The PEAP provides a sound framework for alignment and harmonisation. The PEAP 2001 introduced partnership principles for guiding donor behaviour and in steering donor-government co-operation. These principles established the importance of general budget support for increasing aid effectiveness. The adoption of the PEAP 2004 provided the opportunity for donors to develop a JAS¹ aligned behind the government's own programme. Uganda is highly aid-dependent, with aid flows accounting for 11% of GDP and 50% of public expenditure. The government is concerned about the adverse macroeconomic effects that could result from high levels of aid and imposes strict sector expenditure ceilings.

The Netherlands is a credible partner respected by the government, civil society and other donors. The strength of Dutch development co-operation is derived from its constructive contribution to policy dialogue. The ability of the embassy to be flexible and responsive is a clear indication of the value of having a decentralised system. The Netherlands is among the lead donors in several areas (budget support, governance and gender). In 2003, the Netherlands was also instrumental in raising awareness among the international community for the need to resolve the conflict in Northern Uganda. The Netherlands has maintained the political momentum of its support through an active participation in political dialogue for conflict resolution while providing timely and un-earmarked funding in support of humanitarian relief (Chapter 7). The following issues need further attention:

- A key challenge facing the Netherlands and other donors is how to maintain focus on ownership and not undermine alignment and harmonisation achievements if governance further deteriorates in the wake of the 2005 constitutional amendments and subsequent concerns around human rights. There is a need for a more harmonised budget support process, particularly greater clarity and consistency in using conditionality.
- The need to increase focus on local governance will become even more critical in the context of transition from humanitarian relief to recovery in northern Uganda.
- Given the high levels of budget support and humanitarian assistance in Uganda, control of the majority of funds was not delegated to the embassy at the time of the DAC Peer Review team's visit. In the meantime, the MFA has reviewed the situation and has decided to include budget support in the embassy's delegated funds (Chapter 5).
- In light of the long history of donor co-ordination in Uganda and the recent JAS, the Netherlands is encouraged to review the role of the MASP in such a context.

19. Dutch annual bilateral commitments amount to EUR 40 million (excluding humanitarian aid).

- In light of the ambitious Dutch agenda, the embassy's capacity is overstretched. Despite the main focus on two areas, cross cutting issues create additional demands in terms of analytical and management capacity.
1. Initial JAS partners included: AfDB, Austria, Germany, Netherlands, Norway, Sweden, United Kingdom and the World Bank. Others have joined in the meantime.

Ownership: Promoting country led approaches

Implementing Dutch development co-operation through partner country-led strategies became official policy in the mid-1990s. At the very preliminary stages following the introduction of PRSPs in developing countries, the Netherlands committed to use such frameworks for the programming and implementation of bilateral co-operation. In the view of the MFA, partner country ownership is, however, not restricted to governments. Civil society is also expected to play a role in shaping the development agenda in partner countries. The Netherlands is committed to encourage the participation of civil society in the preparation and monitoring of PRSPs. Its support to gender mainstreaming has been key in strengthening a stronger voice of civil society partners (Chapter 3).

The need for the MFA to achieve input targets (Chapter 1) may complicate the embassies' programming process and could potentially undermine partner country ownership and Dutch efforts to align with partner country-led priorities and to promote complementarity among donors. In Uganda, the embassy has ample room to resist the pressure from headquarters to increase spending on HIV/AIDS and water and is able to respect the Ugandan government's strict discipline on sector allocation ceilings.

Alignment and harmonisation: A strong focus on programme-based approaches

As early as 1999, the MFA introduced SWAp as the organising principle for Dutch bilateral development co-operation. This principle has been reaffirmed in the 2003 policy memorandum "Mutual interests, mutual responsibilities". A central feature of the sector approach in Dutch development co-operation translates operationally into "... on-budget where possible, off-budget where necessary". In terms of aid modalities, "... programme aid, and where possible budget support," is the preferred form of aid. The Netherlands considers budget support as the most effective form of aid since it ensures that recipient countries assume responsibility for implementing their own development agenda and contributes to a better alignment of aid with partner countries' policies and systems. This means that while project funding is not excluded, individual projects will be financed only if they directly support the sector policy or facilitate the piloting of innovative concepts, and provided that the proportion of projects is gradually reduced.

In recent years, the MFA has introduced and refined various instruments to improve the process of selecting aid modalities and assessing the effectiveness of aid interventions. These include MASPs, the Track Record, and activity and sector ratings, which are all discussed in Chapter 5. The Netherlands is aware that the choice of aid modalities is not simply a technocratic process but must combine an instruments-based approach with political analysis. However there is scope for embedding the analysis of political governance more strongly within the Track Record.

According to the MFA (MFA, 2006a), in 2004 close to 50% of "Dutch bilateral aid" (namely resources available for bilateral country programmes, which means about 10% of total ODA) was spent through programme-based approaches in partner countries which have signed the Paris Declaration and 37% in all countries, against a target of 66% by 2010. The share of budget support alone was 20% of "Dutch bilateral aid". There are major variations across sectors (61% in education, 48% in health and 10% in environment) and countries (85% in Uganda and 21% in Bangladesh).

SWAps

The Netherlands does not view SWAps simply as a technical or funding mechanism. The sector-wide approach is based on the principle that donors should jointly support the long-term development and implementation of policy for a sector or sub-sector, with the partner country taking the lead. This is, in principle, a systematic approach aimed at strengthening capacity in the partner country at all levels – macro, meso and micro – and hence at creating the basic conditions for more effective poverty reduction. Political issues such as access to public services, the ability to participate in decision-making processes and transparent budgets and expenditure are at the heart of the approach. The Netherlands has demonstrated its leadership in successfully promoting SWAps even in areas that do not lend themselves easily to such approaches (Boxes 13 and 14).

The 2001 DAC Peer Review noted a number of over-ambitious expectations concerning the Dutch policy on sector approaches with respect to the pace with which such approaches should be introduced. In practice, and in the light of field realities, embassies have adopted a pragmatic approach and shifted to sector approaches progressively. The introduction of SWAps has entailed many changes that embassies have addressed on a learning-by-doing basis with support initially provided by a cross-organisational SWAp support group based in headquarters. With the creation of DEK (Chapter 5) there is now a SWAp “help desk”. The MFA has been keen to learn from its experience and consequently regularly updates the main SWAp reference document (MFA, 2004b) which looks at both the operational and organisational implications for Dutch development co-operation. Findings from a recent evaluation (Chapter 3) raise the challenge of monitoring grass roots developments and trends while engaging fully in macro policy dialogue. The Netherlands is aware of the need to strengthen monitoring systems in partner countries in this context.

Box 13. Education SWAp in Bangladesh

In 2001 the Netherlands, together with DFID, took the initiative to promote the preparation of a SWAp in support of Bangladesh's second Primary Education Development Programme (PEDP). The embassy funded a review to draw lessons from the first PEDP and also provided expertise and backstopping on gender issues. As a result, the second PEDP focused on improving both access to primary education for poorer segments of the population by introducing targeting (geographical and social strata) and quality of education.

The PEDP represents a major harmonisation achievement including four multilateral and seven bilateral partners. Eight donors support PEDP through pooled funding under the leadership of AsDB while three other donors make funds available through direct payments to service providers under bilateral agreements. At the initiative of the Netherlands embassy, which chaired the PEDP donor consortium between 2002 and 2004, donors agreed to a Code of Conduct, which set guiding principles for open and transparent co-operation. Principles include: channelling donor funding through government systems using common procedures and requirements; refraining from parallel funding of technical assistance; planning activities to be done jointly, particularly for those which put demands on the time of government officials; communicating with government and other stakeholders in one voice; participating in a joint review process on the basis of a common reporting system. A common implementation structure with an AsDB-managed programme liaison unit serves as a platform between donors and the government executing agency for dialogue and external monitoring and evaluation. A similar code of conduct has been adopted for the multi-donor funding programme for non-formal education with the Bangladesh Rural Advancement Committee (BRAC).

Box 14. Justice, law and order SWAp in Uganda

In Uganda, justice, law and order (JLOS) is an institutionally complex grouping of more than ten different institutions. Having realised that organising these institutions into a visible sector was the best way to get political support for reforms, the main stakeholders within government decided to collaborate and align with the PEAP priority of improving access to justice and its quality. This was the first attempt in Africa to have a JLOS co-ordinated sector-wide reform policy around a medium-term sector investment plan (2001-06) and a unified annual budget. A sector secretariat in the Ministry of Justice has day-to-day responsibility for managing the SWAp and facilitating dialogue between the institutions involved in the process and other partners, including donors and civil society partners. Oversight is ensured by the Steering Committee, comprising officials at the highest level of each JLOS institution and the Ministry of Finance. A Technical Committee with several groups is responsible for co-ordination at the operational level.

The ten donors involved in the process meet as a group on a monthly basis with a representative from the Secretariat to discuss development in the sector as a whole and in specific institutions. Donors, together with the Steering Committee, prepare the six-monthly joint government-donor review. Dutch support has been provided since 2003 through general budget support with a notional sector earmarking. It is estimated that around 75% of donor support to JLOS is currently provided as budget support for the period 2003-06. The Netherlands, which chaired the donor group for the first three years, was a key partner in helping the government shape the SWAp and forge consensus among various partners. The contribution of the Netherlands is appreciated because of its thorough knowledge and credible experience, combined with a pragmatic and flexible way of operating. The Netherlands was also instrumental in advocating the importance of strengthening the legal sector for reducing poverty, which resulted in the JLOS integration in the PEAP revision in 2004.

JLOS provides promising achievements. In addition to greater government ownership for reforms in the sector, a better understanding of a pro-poor approach to justice and a streamlined dialogue with donors, concrete results have already been achieved, such as a reduction of case backlogs. A key challenge is to secure budget allocations to this sector which is subject to overall sector expenditure ceilings imposed by the Ministry of Finance. JLOS remains a non-priority sector and regularly receives less than its requested resource allocation. The ultimate challenge will be to move beyond a good process at the operational level and produce results, in terms of a well performing judiciary and police and establishing further rule of law in Uganda.

Budget support

The Netherlands is among the driving forces within the DAC promoting budget support. The MFA uses this modality in 15 of its 36 partner countries and estimates that about 17% of its bilateral country programmes was channelled through budget support in 2005 (from a level of 9% in 2001). This represents 4% of total Dutch bilateral ODA as compared to a DAC average of 2.5%. The Netherlands uses a mix of GBS, sometimes with notional earmarking, and sectoral budget support.

Like other DAC members engaged in budget support, the Netherlands considers that this modality is the ultimate recognition of partner country ownership and the simplest way for donors to align with government priorities. The Netherlands also views general budget support as a key entry point for policy dialogue. According to Dutch policy (MFA, 2003a), the following principles are important when considering budget support: i) direct link with the PRSP process, which must translate the MDGs into national policies and allow for partnerships, including with civil society; ii) effective policy dialogue with the government on improving governance, including in its political dimension, and reducing poverty; and iii) a results-based approach with clearly defined progress indicators for institutional and policy reforms.

With budget support, the management responsibility is transferred from the donor to the partner country and the MFA considers that its responsibility ends once the funds are transferred to the recipient government. The ministry is responsible for conducting an *ex ante* assessment of management risks, monitoring, and applying sanctions in case of misappropriation. The risks related to the lack of good governance, corruption and weak institutional capacity are appraised annually as part of the Track Record (Chapter 5). The Netherlands views corruption, which is endemic to many

developing countries, as a serious management risk. It does not consider, however, that retaining control of all aspects of project or programme management is a good way of tackling the problem of corruption itself. The Netherlands prefers to exercise pressure on partner countries to stem corruption and to encourage them, through aid alignment, to adopt more a transparent budget process and increase accountability in aid spending.

The transition from managing “by” results to managing “for” results has led the MFA to change its approach to conditionality. This has resulted in a shift from *ex ante* conditionality, in which a certain number of requirements must be satisfied by the recipient country before aid can be given, to *ex post* conditionality, which is performance driven. The Netherlands will consider sanctions only if the underlying principles (chiefly good governance and commitment to poverty reduction) are no longer adequately being met and the partner country shows no evidence of improvement. The Netherlands is aware that any recourse to sanctions (a temporary or permanent suspension of future programme aid) should in principle be harmonised and based on joint consultations to agree a combined and coherent approach among donors. Such a decision should be made in response to the lack of a positive outcome following the joint government-donor review. The preferred option remains a graduated response based on dialogue with the government over two to three consecutive years. In the context of budget support, monitoring is carried out on a multi-donor basis which can prove challenging in difficult contexts such as Uganda (Box 15). The Netherlands is playing a constructive role in this context. In line with the Nordic+ approach it is committed to harmonisation (including the reduction in the number of indicators and conditionalities) and predictability (transparency and consistency regarding the basis on which aid can be suspended, reduced or withdrawn).

Box 15. The Netherlands’ experience with budget support in Uganda

Uganda is a pioneer in budget support which currently accounts for more than half of its aid receipts. In the early 2000s, the government of Uganda indicated a clear preference for budget support. The modality was introduced in 1998, with the establishment of the Poverty Action Fund, with the aim of mobilising additional resources for priority poverty reduction programmes in social sectors. This fund was resourced through savings on debt service in the context of HIPC debt relief and notionally earmarked budget support from various donors. The introduction of the PRSC by the World Bank in 2001 constituted the first unearmarked budget support designed to support Uganda in the PEAP implementation. Meanwhile, there has been a large increase in budget support, alongside growing donor confidence in the government’s reforms and performance. However, growing concerns about political transition and the quality of the dialogue with the government, combined with on-going concerns about corruption, led several donors, including the Netherlands, to cut budget support in 2005.

Donors in Uganda find themselves at a critical stage of alignment and harmonisation where consensus is not easy to reach in a context of deteriorating governance and development performance. Although general budget support in itself leads to alignment with government priorities and government systems, there is still scope for greater harmonisation among donors. The JAS should provide a useful basis for further harmonisation in approaches to budget support, including for alignment with the government budget cycle and the development of a common performance assessment framework, two key issues as indicated below:

- Budget support is provided by 13 donors through 34 different budget support programmes involving different characteristics in terms of financial flows and disbursements conditions. Budget support commitments and disbursements by different donors have yet to be fully aligned with the Ugandan budget cycle to avoid short-term predictability problems. The diversity of budget support instruments can also undermine the incentives provided by the policy dialogue and conditionality to maintain the momentum of the reform programme.
- Overlapping and competing performance matrixes and conditionalities undermine donors’ efforts for more transparency and predictability. The PRSC matrix is used as the joint framework for policy dialogue between the government and all donors involved in budget support and supports the progress review of PEAP implementation. Bilateral donors, however, have also agreed to a separate governance matrix¹ in the context of the Partners for Democracy and Governance Group (PDG) in order to enhance the political governance dimension in the PEAP.

About 60% of Dutch ODA to Uganda takes the form of budget support with notional earmarking for the education and justice sectors. The Netherlands has been active in the PRSC donor co-ordination process and has been instrumental in coordinating inputs from bilateral donors into this process. The Netherlands is keen to promote convergence between the PDG governance matrix and the PEAP and ultimately the PRSC and had previously advocated for the inclusion of stronger governance indicators in the PEAP matrix.

In the beginning of 2005, the Netherlands was among the first donors to question the relevance of continuing budget support on the basis of the Track Record assessment resulting in the minimum score justifying budget support. It therefore engaged very early on in a discussion with other donors through an extra review in May 2005, which was negative and resulted in a decision by other donors to cut GBS. However, the Netherlands was the last country to announce a cut in budget support, at the end of the year, following long debate in headquarters. The Netherlands cut its budgetary assistance from a planned EUR 21.9 to 15.9 million for the financial year 2005/06. The EUR 6 million cut was used for humanitarian assistance in Northern Uganda.

In the 2006 Track Record, Uganda does not meet the minimum requirements for full alignment and GBS. However, a decision has been taken to continue with GBS as it is judged that the Track Record does not cater adequately for a situation of gradually declining country performance - it only allows for a 'sufficient' or 'insufficient' score and the embassy does not consider it practical to cut GBS direct from 100% to 0%. Nevertheless, the Track Record is a solid tool which needs to be better used as a decision-making and feedback mechanism and could more strongly integrate political governance dimensions (Chapter 5). The decision has therefore been taken to continue with GBS but to again reallocate EUR 6 million of the EUR 22 million total to UN agencies and NGOs providing humanitarian aid in the north of the country.

On the basis of the experience in Uganda, it is important that the Netherlands continues to pursue efforts in promoting a harmonised approach to conditionality. In a situation of gradually declining performance, the embassy should have the authority to flexibly adapt its approach in close co-ordination with other donors. The social and institutional consequences of sanctions should be fully taken into account and proper safeguards should be developed against a rapid withdrawal of GBS. Because the situation may not evolve favourably, and similar situations may arise in other countries, the Netherlands should discuss with other donors how to move towards a graduated response mechanism which provides credible incentives for performance and long-term predictability, protected from short-term political cuts.

The Uganda country study of the recent evaluation of budget support (IDD and Associates, 2006) provides an overall positive assessment of budget support in Uganda. It confirms that budget support has had a major effect in increasing total and pro-poor expenditures. Budget support has contributed to expansion in service delivery although the quality of health and education services delivered by local governments remains low. The influence of GBS on accountability shows mixed results. The overall leadership of the Ministry of Finance remains strong. While there are signs of increased accountability through sector review processes, donors tend to dominate the dialogue at the expense of domestic stakeholders, at the risk of decreasing political ownership. The report therefore concludes that the rationale for GBS in Uganda remains valid despite the political and institutional difficulties (although the report pre-dates the apex of the recent governance problems and the 2006 elections). It warns against the danger of reverting to project modalities. A number of recommendations encourage the government and donors to review their strategies more systematically, with sector-by-sector attention for the best fit between different instruments. Donors should also adapt GBS instruments so that they can achieve a balance between support for long-term development strategies and the need to be responsive to performance.

1. Key dimensions are: democracy, human rights, corruption, and the conflict in northern Uganda.

Capacity development

The Netherlands considers that adequate country capacity is crucial for effective poverty reduction and in achieving the MDGs. In principle, the Netherlands relies on SWAp which integrate capacity building. In practice, it recognises that there is still need for specific support for planning, sector management and public finance management.

Although the SWAp evaluation report (MFA, 2006b) indicates a significant decrease in the Netherlands' use of technical assistance, several recent IOB evaluation reports (MFA, 2003c - Bangladesh and Uganda country studies; MFA, 2006b) highlight room for continued improvement. Dutch funded technical assistance, which used to be linked to specific Dutch funded projects, could have been more effective if based on a more comprehensive strategy. Support to

capacity building has tended to focus on human resources development and not enough on organisational strengthening due to a lack of thorough institutional analysis. Building on the recommendations from the recent SWAp evaluation, the Netherlands embassy in Kampala needs to review its support to capacity building at decentralised levels so as to improve service delivery. The official answer is to work with SNV (Chapter 5) but this could prove difficult as the embassy reported that this organisation, which used to have considerable experience in capacity development in decentralisation, has yet to translate operationally its new mandate of providing advisory services.

The Dutch approach to capacity development is evolving in line with good practice identified by the DAC's Network on Governance.²⁰ Because of the lack of institutional capacity and high fiduciary risk, projects remain the preferred modality for Dutch support to water resource management in Bangladesh and have an important technical assistance component. As most projects are jointly implemented with the Asian Development Bank, technical assistance is frequently pooled and increasingly using local expertise. In Bangladesh the Netherlands also supports the public financial management reform process through a silent partnership with DFID for a joint financing of the World Bank led programme. In Uganda, the Netherlands is the only donor providing an unearmarked financial contribution to the Public Procurement and Disposal of Public Assets Authority while other donors fund capacity building activities separately.

As for many other donors, the challenge remains for the Netherlands to fully align and harmonise support for capacity development. Because this new approach to capacity development involves a different role for donors, in 2006 the MFA launched a support programme for institutional and capacity development (Chapter 5) in order to enhance the capacities of embassy staff to better address capacity development challenges.

Silent partnerships

Since 2003, the Netherlands has considered silent partnerships, in priority countries only, as part of JAS processes which require a better distribution of labour among donors or when embassies lack capacity to make a significant contribution in important priority areas of Dutch development policy. In such cases, silent partnerships may provide a way to meet the Netherlands' input targets.²¹ The preparation of silent partnership agreements is often a cumbersome process and has been more difficult than initially foreseen. Along with the Nordic+ countries, the Netherlands has developed a template for joint financing arrangements in order to simplify the legal requirements before entering such arrangements and to harmonise the conditions and procedures related to the implementation of joint financing.

The DAC Peer Review team noted different approaches to silent partnerships in Bangladesh and Uganda. In principle, the Dutch policy restricts silent partnerships to bilateral partners. In some cases, the Netherlands tends to consider multilateral cofinancing as being similar to silent partnerships and uses multilaterals to a significant extent as executing agencies - as is the case in Bangladesh. In Uganda, the Netherlands is engaged in silent partnerships that do not involve any funding – for

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20. Paradoxically, for a country which declares that it no longer run technical assistance programmes, “technical co-operation” is as important as “project and programme aid” (Table B.2). However, analytical work by the DAC Secretariat suggests that three-quarters of the aid reported as technical co-operation by the Netherlands to the DAC is extended in the form of projects and programmes carried out in developing countries. Some work is under way within the DAC Working Party on Statistics to improve the categorisation of such activities.
 21. Because of the education 15% input target, the Netherlands is planning to develop silent partnership in 11 priority countries where education is not a priority sector.

example in education the Netherlands represents DFID and on HIV/AIDS DFID represents the Netherlands. This raises a number of questions about the exact meaning of silent partnerships, including whether funds need to be involved and how silent the silent partner should be. While the Netherlands is in principle interested in developing silent partnerships with other donors, some representatives of the MFA acknowledge that it is a sub-optimal option compared to a more effective division of sectors among the donors.

Aid untying

The Netherlands recognises the developmental advantages of untying aid and has promoted various initiatives within the OECD and the EU in order to enhance the effectiveness of aid through untying. A recent example includes Dutch efforts to persuade the EU to adopt a common position on the changes needed to the Food Aid Convention, including a clause providing for further untying of food aid.

In response to the 2001 “DAC Recommendation on Untying ODA to Least Developed Countries”, the Netherlands established the LDC Infrastructure Fund (annual budget of EUR 45 million) by reallocating the funds previously used for tied aid projects in LDCs. In a number of countries, the Netherlands is playing a key role in strengthening the procurement systems.²² In 2005, the Development-Related Export Transactions Programme (ORET) was modified. The minimum level of Dutch component in the transaction was lowered from 60% to 50%. More important, an untied component for LDCs was introduced. With the untying component, FMO (which manages the programme on behalf of the Dutch Government) expects greater interest for ORET in LDCs.²³ The Netherlands is committed to provide *ex ante* notifications when possible. As the responsibility for procurement rests with the recipient government, applications for ORET support can sometimes be received after the procurement process has been completed. This explains the low level of *ex ante* notification for untied ORET transactions.

In principle, the Netherlands is willing to support initiatives aimed at broadening the coverage of the DAC Recommendation only if they are implemented on a reciprocal basis. In practice, there has been a shift towards greater untying. Even before the DAC decided in December 2005 to remove the threshold of SDR 700 000 (EUR 750 000) above which aid to LDCs had to be untied, the Netherlands was already applying a lower threshold of EUR 225 000. In Bangladesh and Uganda, the DAC Peer Review team observed that technical assistance was not restricted to Dutch consultants. An additional step would be to follow the example of other DAC member countries which have decided to fully untie their entire aid. In 2001, a proposal from the Minister for Development Cooperation to abolish the ORET programme was rejected by parliament. A forthcoming evaluation of the ORET programme should prove highly relevant in this context, notably to determine the poverty reduction relevance of activities financed under this programme.

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22. In Uganda, where public procurement represents three quarters of total procurement, the Netherlands supports the Public Procurement and Disposal of Public Assets Authority. This regulatory body, established in 2003, is responsible for ensuring the application of fair, competitive, transparent, non-discriminatory and value for money public procurement and disposal standards and practices.
23. Out of a total ORET budget (EUR 95 million in 2005), a maximum of 30% is reserved for the untied LDC programme. In 2005, there were 35 requests from LDCs (half the total).

Management for results and mutual accountability

As detailed in Chapter 5, the MFA has made progress in establishing a comprehensive approach to managing for results. In this context, the MFA recognises the need to make greater use of information generated through partner countries' monitoring and reporting systems (*e.g.* sector reviews and performance assessments frameworks) in its own system.

The Netherlands, like other donors, will increasingly be expected to provide timely, transparent and comprehensive information on aid flows and to disburse them as scheduled. This includes the need for multiyear commitments. Instructions from headquarters for the preparation of multi-annual strategic plans include an indication of annual country allocations for a four-year period. While embassies are now allowed to commit up to 90% of their delegated funds on a multiyear basis without time limit, budget support cannot be committed for more than four years in advance. Multi-year commitments are included in bilateral agreements with partner governments and memorandums of understanding when multi-donor financing is involved.

Future considerations

- The Netherlands is encouraged to move forward with its plan to develop an overall aid effectiveness strategy in order to better communicate how the Paris Declaration agenda is to be implemented at headquarters and embassy levels in different partner country circumstances. This action plan could include a strategy for what can be achieved in partner countries where there is a less conducive environment for making progress on the aid effectiveness agenda, including fragile states.
- In conjunction with other donors, the Netherlands needs to clarify the approach to conditionality in order to ensure that general budget support contributes effectively to both ownership and predictability as well as poverty reduction objectives. This may require strengthening the analysis of political governance in the Track Record. In this context, the Netherlands is encouraged to continue its efforts, on the basis of transparent dialogue with partner countries and in co-ordination with other donors, to promote convergence of different performance assessment frameworks for general budget support.
- The Netherlands is encouraged to take further steps on aid untying and to assess the costs and benefits of maintaining a partially tied aid programme, including in terms of partner country ownership and ongoing harmonisation efforts.

Chapter 7

Humanitarian Aid

Humanitarian policies and principles

The Netherlands has been a consistent and strong participant in global efforts to respond to humanitarian crises, whether natural disasters or conflict-related. It was among the countries which initiated “The Principles and Good Practice of Humanitarian Donorship” (GHD) and has paid attention to the need to translate the spirit and letter of the commitments embodied in that document into policy and programming actions, as captured in a GHD implementation plan prepared in 2005. The Netherlands has placed considerable emphasis on the need for donors to improve their behaviour in terms of adopting a needs-based approach, harmonising their interventions and relationships with operational agencies (with particular attention to predictability of support) and improving co-ordination throughout the global humanitarian system. The Netherlands has been among those donors leading the discussion in 2005 on how to improve system response to sudden onset crises, notably through the enlargement of the Central Emergency Response Fund (CERF).²⁴

As part of its efforts to address systemic issues as well as achieve progress on major policy issues, the Netherlands has invested in a good dialogue with United Nations (UN) agencies and the International Committee for the Red Cross (ICRC). This dialogue has been the vehicle by which the Netherlands has communicated its clear - and high - expectations on the building of a body of good practice, especially with regard to the UN Office for the Coordination of Humanitarian Affairs (UN-OCHA). As well as looking at improving institutional performance, the dialogue has also incorporated significant elements of Dutch advocacy on such humanitarian policy issues as the right to protection, curbing illegal trade in small arms, and needs-based programming. It is interesting to note, however, that notwithstanding the priority attached to these efforts, the Netherlands has as yet no overall humanitarian aid policy framework, which could serve as a vehicle for stimulating discussion around priority issues and inform operational partners of Dutch policy principles and the expectations of the government with respect to harmonisation and coherence.

The Netherlands humanitarian aid programme is global in character. In practice there is a degree of focus in the following nine regions retaining a useful and essential degree of flexibility: Afghanistan, Angola, Great Lakes (Burundi and Democratic Republic of Congo), North Caucasus, Somalia, Sudan, Uganda and West Africa (Côte d’Ivoire, Liberia and Sierra Leone).

There has been a conscious effort in recent years to move from a predominantly operations/delivery focus in terms of headquarters attention to a policy focus, though without overlooking the need to monitor delivery quality. In this respect it is worth noting the Netherlands’ willingness to consider different funding arrangements, such as the pooled funding approaches being tested in Sudan and in the Democratic Republic of Congo. Attention has also been given to the

24. The CERF is administered by the United Nations Emergency Relief Coordinator and aims to ensure a more predictable and timely response to humanitarian crises. The target is to mobilise USD 500 million and the Netherlands is the fourth largest contributor having pledged USD 24 million.

challenges involved in moving in a post-crisis context from emergency responses to reconstruction, rehabilitation, reconciliation and restoration of affected populations' livelihoods. Instruments such as the Stability Fund have been created to facilitate this transition (see section below on policy coherence for discussion).

An evaluation of Dutch humanitarian aid was done in 2005 by the Policy and Operations Evaluation Department (IOB), covering activities undertaken from 2000 to 2004/05. At the time this analysis was prepared by the DAC Peer Review team, the report was not available publicly. It is understood, however, that the report concludes that the Netherlands has respected humanitarian principles, has advocated for co-ordination and for policy changes consistent with Dutch foreign policy and humanitarian principles, has provided relevant and effective financial and other support and has taken an integrated approach on policy. It would be useful for other bilateral humanitarian aid donors to be able to draw from the Netherlands experience in assessing how successful its efforts have been with respect to improving the effectiveness and coherence of its humanitarian aid and that of its operational partners. In that respect sharing in synthesis form the findings of the IOB evaluation could be a valuable service to humanitarian practitioners and facilitate joint progress to achieving the GHD objectives.

Organisation and management

The Humanitarian Aid Division (DMV/HH) is situated within the Human Rights and Peacebuilding Department (DMV) which reports both to the political director-general (DGPZ) and to the international development director general (DGIS) of the Ministry of Foreign Affairs (MFA organisational chart available in Annex D). This headquarters unit has ten policy staff and four support personnel. There are hardly any dedicated humanitarian aid staff in partner countries, though policy monitoring expectations of certain embassies in conflict-prone or affected countries are high as observed by the DAC Peer Review team during its mission to Uganda in May 2006 (Box 16). Where local co-ordination needs or headquarters expectations require a more active role by the embassy, the MFA should consider augmenting embassy resources so as to benefit from specialist expertise and avoid pulling staff away from other priority tasks. The main concerns of the division are with respect to the needs-based responsiveness of the organisations supported and the effectiveness of the assistance provided. Financing agreements are in place with ICRC, OCHA, the UN High Commissioner for Refugees (UNHCR), the World Food Programme (WFP) and the UN Children's Fund (UNICEF) which facilitate the channelling of the annual support from the Netherlands. Steps have been taken to streamline the arrangements for co-operation with NGOs on humanitarian operations.

The criteria for NGOs to qualify for support are clearly set out in the annual grant policy framework for humanitarian aid available on the MFA's website. This framework also emphasises the importance of operational partners having adequate knowledge, experience and capacity to carry out the activity proposed. From 2006, operational partners will be required to have a co-financing capacity, either from own resources or from another donor, equivalent to 20% of the total project/programme budget.

Box 16. Northern Uganda situation

Since 1986 northern Uganda has been ravaged by conflict, triggered first by Alice Lakwena and the Holy Spirit Mobile Force and then by Joseph Kony and the Lord's Resistance Army (LRA), a particularly brutal group noted for abductions of children forced to serve as fighters and as sex slaves for LRA leaders. The result of the LRA raids on villages and towns, the murders and mutilations and threats to the civilian population, has been the displacement of up to 1.6 million people, most of whom now live in camps (sometimes called "protected villages"). The Ugandan army has a significant presence in the north but has not consistently mounted campaigns against the LRA, the leaders of which have in the past found haven in southern Sudan. Of late the LRA has been roaming between Uganda, southern Sudan and eastern Democratic Republic of Congo, putting peace processes in the latter two countries at risk. The origins of the conflict are linked to the historic division between the north and south of Uganda and the role the northern Acholi people played in the period of the country's history between independence in 1962 and President Museveni's taking power in 1986. It is important to note that northern Uganda has some of the highest rates of poverty in the country.

Many humanitarian agencies operate in northern Uganda, ranging from UN agencies such as the WFP, UNICEF, and UN-OCHA to NGOs like Médecins sans Frontières, AVSI and CESVI (Italian NGOs), OXFAM, World Vision, and the Red Cross movement. Despite the presence of these entities, the conflict and consequent humanitarian impact on the local population is often referred to as a forgotten crisis. The displaced persons camps provide a form of protection for inhabitants but they also mean residents are vulnerable to abuse by soldiers who are meant to protect them. Provision of health and education services is also limited, and the populations are highly dependent on government and relief agencies for the basic means of survival. Political efforts have been made from time to time to negotiate cease-fires and peace arrangements but with very little success, partly because the efforts have received little support from the government and from donors. In late 2005 the International Criminal Court unsealed arrest warrants for the five top LRA commanders, though execution of these warrants will depend largely on the Ugandan authorities' actions.

The Netherlands has been providing significant levels of support to humanitarian agencies since 2003. Consistent with its approach globally, support to the UN and the ICRC is provided early in the financial year, with light if any earmarking and in response to Dutch concerns about the affected population's access to health services, water and sanitation and the need for protection. NGOs are funded, as elsewhere, on a project basis. In 2005 the planned amount of EUR 6 million was augmented by EUR 6 million transferred from general budget support and a special contribution to the ICRC of EUR 1.5 million. Given the number of agencies and organisations working in the region, the Netherlands is also supporting OCHA in its role as coordinator. Identification of the partner agencies was done by the embassy in Kampala at the request of headquarters. Though the embassy does not have a specific dedicated humanitarian officer, it has been able to maintain good relations with the agencies benefiting from Dutch support which helps to inform the policy on assisting measures to find long-term, sustainable solutions to the conflict. Liaison missions to the north are undertaken by the Kampala embassy, in conjunction with a group of concerned countries (the Netherlands, the United States of America, the United Kingdom and Norway) which is attempting to facilitate peace discussions and stimulate a comprehensive, coordinated approach involving the three countries affected (Uganda, Sudan and the Democratic Republic of Congo) with military and non-military aspects. This group of countries has had meetings with President Museveni on protection questions, the future of the displaced persons camps, and peace discussions with the LRA and other armed groups in the north and west.

On the basis of discussions with humanitarian agencies, co-ordinating institutions, local and central government authorities and the Kampala embassy, the impression is that the Netherlands has been effective in "punching above its weight" in terms of the quality and timeliness of its financial support and the importance of its voice in drawing attention to the issues of protection, and the need for comprehensive programmes covering multiple facets of the problem, including the links to development. The Netherlands political engagement, including the role of the Minister for Development Cooperation in keeping attention on the crisis, is also valued by partners. Consistent with its global policy emphasis on gender, the Netherlands has also maintained a high profile in Uganda on the need to take action on violence against women, and on children's rights which are especially acute challenges in the north as traditional social structures have collapsed due to displacement and the depredations of the LRA and local militias.

Volume and distribution

According to DAC data (Table B.2), the Netherlands expenditures on humanitarian aid, amounted to USD 495 million in 2005, accounting for 10% of the Netherlands' total ODA. This amount includes expenditures for assistance to refugees in their first twelve months of stay in the Netherlands (USD 93 million in 2005), which are reported by the MFA in accordance with the DAC reporting directives. Over the past decade, the Netherlands has reported amounts of USD 350 million on average for emergency and distress relief with peaks of USD 500 million in 1999 and 2000. In 2005, the Netherlands pledged an additional²⁵ EUR 240 million for the Indian Ocean Tsunami, EUR 40 million for emergency relief (of which 31 million were spent and 9 million reallocated to so-called "forgotten crises" in Africa) and EUR 200 million for reconstruction.

Initial budget levels (Table 2), set at the start of the year, are topped up via reallocations and overall increases in line with demand and at the direction of the two ministers involved, for Foreign Affairs and for Development Cooperation. In 2004 and 2005 the disbursements were EUR 176 million and EUR 216 million respectively (against initial allocations of EUR 100 million and EUR 130 million). In general, the resulting allocation is 95% for complex emergencies and 5% for natural disasters although these respective percentages can be very different depending on actual events as was the case in 2005 for example. Within those broad allocations funding tends to be distributed 75% to UN agencies and the Red Cross movement and 25% to civil society organisations.

Mine action is an important element of Dutch humanitarian aid, for which a distinct budget line has been created. In 2005 this activity received an allocation of EUR 15 million. The areas of particular attention for the Netherlands are: mapping and awareness; victim assistance; support for a total ban on landmines; and local capacity-building for mine action. By and large the main partners have been the UN mine action centres in seriously affected countries, the United Nations Development Programme (UNDP) and four international NGOs (Halo Trust, Handicap International, Mines Advisory Group, and Norwegian Peoples Aid.)

In addition, the MFA estimates that the Netherlands' core contributions to UN humanitarian organisations (WFP, UNHCR and the UN Relief and Works Agency for Palestine Refugees in the Near East) amount annually to some EUR 80 million.

Table 2. The Netherlands humanitarian aid budget structure

	2005 amounts in EUR million
Humanitarian aid annual budget allocation	130
Additional (including tsunami emergency relief)	99
Core contributions to UN humanitarian agencies	80
Humanitarian mine clearance	15
TOTAL	324

Projections of humanitarian aid expenditures are contained in the annual ODA budget message to parliament. The MFA aims to provide un-earmarked, needs-based funding to its operational partners and tries to have its funding arrangements in place by February of each year. This early commitment of financial support is welcomed by the partners, but its annual nature, given the protracted nature of a number of humanitarian emergencies to which the Netherlands has attached a particular priority, could be re-examined. Dutch support for the United Nations Consolidated Appeals process (UN-CAP) is consistent, early and un-earmarked. While NGOs receive support from the Netherlands on a project

25. The Netherlands' Tsunami response was additional to the initial annual budget allocation for humanitarian aid but not additional to the annual ODA budget.

basis (with grants for up to two years), they must align their activities with the UN-CAP for the country in question and accept co-ordination by OCHA.

There is scope for a consolidation of the budget structure. The current somewhat fragmented budget presentation could be usefully reviewed to reinforce efforts to protect a minimum level of humanitarian financing in future annual ODA budgets. With a view to improve the predictability of Dutch humanitarian assistance and help reduce transaction costs for operational partners, the Netherlands could usefully review its funding arrangements for protracted complex emergencies, including consideration for broader use of multi-year arrangements.

Policy coherence

The Netherlands' integrated approach to ODA policy-making and delivery facilitates achieving coherence between humanitarian, development, diplomatic, defence and security policies. The humanitarian aid division has made a deliberate effort to reach out within the MFA and work more closely with other responsibility centres with the objective of achieving greater coherence of Dutch positions. An interesting example of this has been the work done on civil-military co-operation (CMC). The MFA invested significantly in discussions with the Ministry of Defence and was able to issue a joint policy paper in 2003 setting out the Dutch view on what CMC is and is not. As well, the Ministry of Defence has assigned an officer to work with concerned divisions of the MFA to facilitate smoother collaboration between the two organisations. A further example of approaches to coherence is the inter-ministry work leading to the 2005 Memorandum on post-conflict reconstruction, published jointly by the ministries of Foreign Affairs, Defence and Economic Affairs (Chapter 4). This Memorandum is intended to guide integrated approaches, involving security, stability, governance and socio-economic development in post-conflict situations, recognising that there is no tidy, clear demarcation line between the humanitarian phase and reconstruction and rehabilitation.

The Netherlands Stability Fund was set up in 2004, to provide rapid and flexible support for activities promoting peace, security and development in countries and regions where violent conflict has erupted or threatens to erupt. Main areas of activity are: conflict prevention; conflict mediation; peacekeeping and peacebuilding – including security sector reform; demobilisation and reintegration; and mine action. The consequences of successful utilisation of fund resources would in a number of cases be to reduce the need for humanitarian aid and facilitate the transition to reconstruction. It is interesting to note that stand-alone activities are discouraged, that is to say that efforts will be made to integrate Stability Fund use with other Dutch humanitarian and development and foreign policy initiatives, in the priority areas of the Horn of Africa, the Western Balkans, and the Great Lakes region of central Africa. It is also valuable to note the explicit aim to take into consideration factors regarding women, peace and security, as per UN Security Council Resolution 1325. The budget allocation for the Stability Fund was EUR 82 million in 2005.

Cross-cutting and emerging issues

The Netherlands support to operational partners requires the latter to take HIV/AIDS factors into consideration, using the UN Inter-Agency Standing Committee's "Guidelines for HIV/AIDS Interventions in Emergency Settings", though this could be made more explicit and situated in an overall Dutch humanitarian aid policy statement. Similarly, the Netherlands could consider the value of explicit gender-sensitive requirements guidance to operational partner agencies, given the high proportion of women in crisis-affected populations, over and above the cross-cutting priority assigned to sexual and reproductive health and rights within Dutch ODA.

Future considerations

- The development and publication of a comprehensive humanitarian aid policy framework could be useful in drawing together the various elements of the Netherlands' involvement in this area. This process could also help in identifying those issues where further work needs to be done.
- The funding arrangements for protracted complex emergencies, including consideration of multi-year arrangements, could be reviewed in the light of experience with existing instruments, including CERF, in order to improve the predictability of Dutch humanitarian assistance and help reduce transaction costs for operational partners.
- Increased staff capacity should be considered, especially for those embassies in countries where there are protracted crises or where there is a high probability of natural disaster or conflict, *i.e.* the Horn of Africa and the Great Lakes region, or Indonesia.

Annex A

The 2001 DAC Peer Review and Netherlands achievements

Key Issue	Recommendation made in 2001	Achievements since 2001
ODA	Continue to maintain the current strong commitment to high ODA levels, combined with high quality and creative approaches to development programmes.	The Netherlands has continued to achieve 0.8% ODA/GNI. This target was reaffirmed in the 2003 policy memorandum.
Resource allocation	Continue to use developmentally appropriate allocation solutions to a regularly growing ODA budget and give special attention to adequate staffing.	In order to use resources more efficiently, the MFA decided in 2003 to focus bilateral assistance on 36 partner countries and, in each of them, on 2-3 sectors.
Policy coherence for development	Strengthen MFA analytical capacity to pursue greater policy coherence among Dutch actors and on the international scene.	The MFA established a dedicated Policy Coherence Unit in 2001 and identified coherence as one of the main focal points of development co-operation in the 2003 policy framework "Mutual interests, mutual responsibilities".
Communications between headquarters and the field	<p>Initiate the actions necessary to effective communications between headquarters and the field, so as to redress any perceptions of separation and to ensure that perspectives from both ends are fully understood and utilised.</p> <p>Ensure that policy-making is fully informed by the field perspective. Special note is made in this sense of the need for policy clarity relating sector assistance to budget support and on the appropriate uses of technical assistance in the field.</p>	Embassies now notified at an earlier stage about proposed new administrative arrangements and policies. The development of an enhanced planning and monitoring system is improving the flow of information between headquarters and embassies. The establishment of DEK also contributes to improve communication.
Civil society / NGO targeting	Continue to actively collaborate with Dutch civil society so as to address policy coherence issues and other issues of mutual interest concerning Dutch development co-operation in headquarters and abroad.	New NGO Co-financing System introduced with more systematic MfDR approach to NGO assessment and to promote complementarity between the MFA policy and NGOs.
Aid untying	Pursue current intentions to bring Dutch policy on tying in line with the April 2001 DAC agreement on Untying ODA to the LDCs.	The Netherlands has untied aid in compliance with the DAC recommendation. In principle the Netherlands is in favour of broadening the coverage of the recommendation if initiatives are implemented on a reciprocal basis.

Multilateral co-operation	Maintain its active involvement in co-ordinated actions with selected multilateral agencies as well as in European policy dialogue and co-ordination.	The Netherlands is committed to increase multilateral effectiveness and is preparing a more systematic approach to performance assessment focusing on 12 agencies.
Personnel policy	Develop a personnel policy for the development co-operation operations of the MFA that provides a useful framework for the recruitment and assignment of appropriate staff and generates accurate information on developmental staff.	New policy document on careers in MFA introduced and system of transferring staff to new posts reformed.
Monitoring and evaluation	Undertake the actions necessary to creating an overall monitoring and evaluation system which allows for well informed management decisions and which is structured conceptually around learning.	Very significant steps taken to develop a comprehensive framework for planning and monitoring, including introduction of Multi Annual Strategic Plans and systems of activity and sector ratings.
Sector wide approaches	Further develop sector approaches and continue to engage key international partners in collaborative efforts to ensure that country-owned approaches such as the PRSP are rendered operational as soon as possible.	The Netherlands is playing a lead role in promoting SWAs and budget support. The proportion of Dutch ODA delivered through programme-based approaches is increasing.

Annex B

OECD/DAC Standard Suite of Tables

Table B.1. Total financial flows

USD million at current prices and exchange rates

Netherlands	Net disbursements						
	1989-90	1994-95	2001	2002	2003	2004	2005
Total official flows	2 437	3 152	3 413	3 778	5 387	4 577	-
Official development assistance	2 316	2 871	3 172	3 338	3 972	4 204	5 115
Bilateral	1 672	1 973	2 224	2 449	2 829	2 670	3 683
Multilateral	644	899	948	889	1 143	1 534	1 432
Official aid	91	211	214	211	306	222	-
Bilateral	79	75	96	132	153	53	-
Multilateral	12	137	117	79	154	169	-
Other official flows	30	69	27	229	1 109	151	-
Bilateral	30	69	27	229	1 109	151	-
Multilateral	-	-	-	-	-	-	-
Grants by NGOs	219	310	240	257	379	412	422
Private flows at market terms	656	2 465	-3 454	-6 371	21 405	27 084	-
Bilateral: of which	868	2 714	-2 313	-7 255	20 731	26 562	-
Direct investment	840	1 848	7 183	3 056	10 309	10 500	-
Export credits	- 59	- 11	132	1 088	2 771	5 541	-
Multilateral	- 213	- 248	-1 142	884	674	522	-
Total flows	3 312	5 928	198	-2 336	27 171	32 072	-
<i>for reference:</i>							
ODA (at constant 2004 USD million)	3 617	3 476	4 725	4 550	4 405	4 204	5 036
ODA (as a % of GNI)	0.93	0.79	0.82	0.81	0.80	0.73	0.82
Total flows (as a % of GNI) (a)	1.29	1.57	-0.89	-0.36	3.04	2.46	-

a. To countries eligible for ODA.

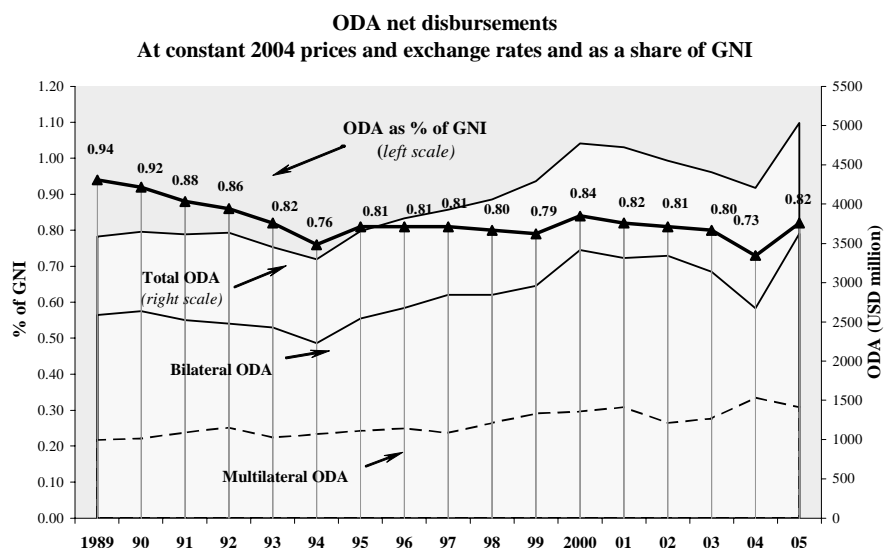


Table B.2. ODA by main categories

Netherlands	Constant 2004 USD million					Per cent share of gross disbursements					Disbursements	
											Total DAC	2004%
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005		
Gross Bilateral ODA	3 563	3 593	3 415	3 364	3 711	72	75	73	69	72	72	
<i>Grants</i>	<i>3 562</i>	<i>3 585</i>	<i>3 407</i>	<i>3 363</i>	<i>3 690</i>	<i>72</i>	<i>75</i>	<i>73</i>	<i>69</i>	<i>72</i>	<i>62</i>	
Project and programme aid	979	1 031	739	744	973	20	21	16	15	19	16	
Technical co-operation	945	698	759	663	600	19	15	16	14	12	20	
Developmental food aid	19	9	20	2	-	0	0	0	0	-	1	
Emergency and distress relief	425	289	341	339	495	9	6	7	7	10	8	
Action relating to debt	248	468	283	231	325	5	10	6	5	6	8	
Administrative costs	273	266	251	247	241	5	6	5	5	5	4	
Other grants	673	823	1 015	1 138	1 056	14	17	22	23	21	5	
<i>Non-grant bilateral ODA</i>	<i>1</i>	<i>8</i>	<i>8</i>	<i>0</i>	<i>20</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>10</i>	
New development lending	-	-	-	-	-	-	-	-	-	-	8	
Debt rescheduling	1	8	8	0	20	0	0	0	0	0	1	
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	1	
Gross Multilateral ODA	1 412	1 212	1 267	1 534	1 410	28	25	27	31	28	28	
UN agencies	675	546	414	446	402	14	11	9	9	8	5	
EC	289	286	401	383	425	6	6	9	8	8	10	
World Bank group	171	103	300	545	309	3	2	6	11	6	7	
Regional development banks (a)	84	98	66	73	160	2	2	1	1	3	2	
Other multilateral	193	179	88	87	114	4	4	2	2	2	3	
Total gross ODA	4 975	4 805	4 683	4 898	5 120	100	100	100	100	100	100	
Repayments and debt cancellation	- 250	- 255	- 278	- 694	- 85							
Total net ODA	4 725	4 550	4 405	4 204	5 036							
<i>For reference:</i>												
Associated financing (b)	105	85	99	108	119							
ODA to and channelled through NGOs												
- In USD million	498	602	706	665	668							
- In percentage of total net ODA	11	13	16	16	13							
- Median DAC percentage of total net ODA	8	8	8	8	-							

a Excluding EBRD.

b. ODA grants and loans in associated financing packages.

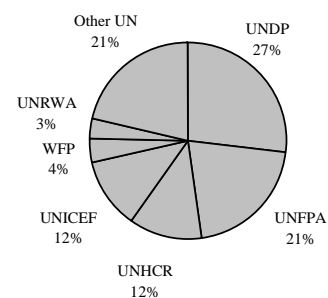
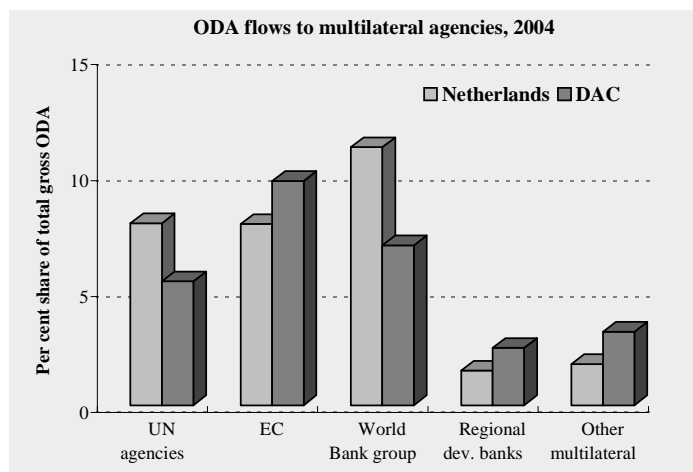
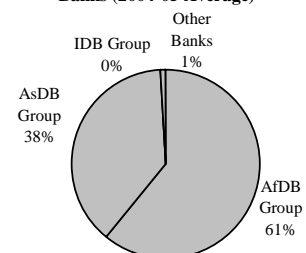
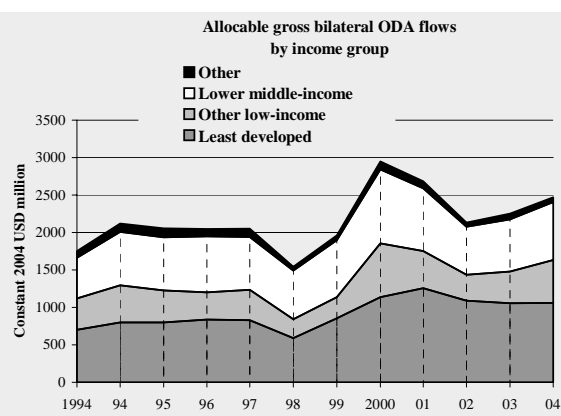
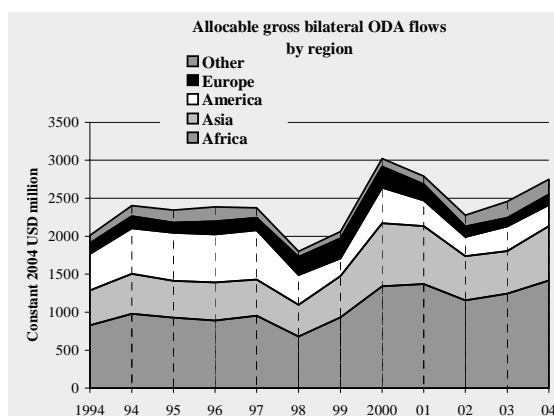
Contributions to UN Agencies
(2004-05 Average)Contributions to Regional Development
Banks (2004-05 Average)

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

Gross disbursements											
Netherlands	Constant 2004 USD million					Per cent share					Total DAC
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	2004%
Africa	1 340	1 368	1 155	1 244	1 414	44	49	51	51	51	41
Sub-Saharan Africa	1 279	1 299	1 090	1 167	1 317	42	46	48	47	48	34
North Africa	38	26	19	22	28	1	1	1	1	1	5
Asia	827	765	578	555	718	27	27	25	23	26	29
South and Central Asia	474	438	356	324	367	16	16	16	13	13	13
Far East	349	311	211	225	315	12	11	9	9	11	16
America	471	339	257	326	281	16	12	11	13	10	13
North and Central America	207	121	90	134	99	7	4	4	5	4	6
South America	258	213	152	188	160	9	8	7	8	6	7
Middle East	102	106	144	211	193	3	4	6	9	7	11
Oceania	4	2	3	2	7	0	0	0	0	0	2
Europe	280	214	137	120	135	9	8	6	5	5	4
Total bilateral allocable by region	3 024	2 793	2 274	2 459	2 749	100	100	100	100	100	100
Least developed	1 135	1 254	1 088	1 055	1 060	38	45	48	43	39	31
Other low-income	716	496	351	423	571	24	18	15	17	21	17
Lower middle-income	988	838	635	696	772	33	30	28	28	28	39
Upper middle-income	106	91	56	80	68	4	3	2	3	2	5
More advanced developing countries	1	0	0	0	0	0	0	0	0	0	0
For reference:											
Total bilateral	3 563	3 532	3 294	3 218	3 659	100	100	100	100	100	100
of which: Unallocated	539	739	1 020	759	910	15	21	31	24	25	18



1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total. Shares by income group refer to the total allocable by region and therefore do not sum to a hundred per cent.

Table B.4. Main recipients of bilateral ODA

Netherlands	1994-95				Memo: DAC countries' median	1999-2000				Memo: DAC countries' median	2004-05				Memo: DAC countries' median (2004)
	Current USD million	Constant 2004 USD mn.	Per cent share			Current USD million	Constant 2004 USD mn.	Per cent share			Current USD million	Constant 2004 USD mn.	Per cent share		
India	124	151	7			109	160	9			131	130	5		
Netherlands Antilles	83	99	5				76	6			128	127	5		
Tanzania	68	82	4			67	98	5			126	125	5		
Bangladesh	64	78	4			63	86	5			112	111	5		
Bosnia and Herzegovina	61	73	4			60	86	5			104	103	4		
Top 5 recipients	400	483	23		38	376	542	30		34	601	596	25		38
Suriname	55	66	3			53	77	4			103	102	4		
Kenya	50	61	3			42	60	3			85	84	4		
Mozambique	48	58	3			37	53	3			76	75	3		
Sis Ex-Yugoslavia unsp.	48	58	3			35	51	3			76	75	3		
Zimbabwe	46	55	3			34	50	3			65	64	3		
Top 10 recipients	646	781	38		57	576	832	45		53	1 005	996	42		59
Bolivia	45	54	3			34	50	3			63	62	3		
Nicaragua	42	50	2			34	49	3			60	59	3		
Rwanda	39	48	2			32	48	3			58	58	2		
Zambia	39	48	2			30	44	2			56	55	2		
Burkina Faso	38	46	2			28	41	2			55	54	2		
Top 15 recipients	849	1 026	49		67	736	1 065	58		65	1 296	1 285	54		68
Ethiopia	36	44	2			25	37	2			55	54	2		
Yemen	34	42	2			22	33	2			54	54	2		
Peru	33	40	2			21	30	2			52	52	2		
Pakistan	32	39	2			21	29	2			47	47	2		
Ghana	31	37	2			20	29	2			38	37	2		
Top 20 recipients	1 015	1 227	59		75	845	1 223	67		75	1 543	1 530	65		77
Total (137 recipients)	1 722	2 077	100			1 271	1 839	100			2 381	2 362	100		
Unallocated	522	636				1 076	1 554				1 185	1 175			
Total bilateral gross	2 244	2 713				2 347	3 393				3 566	3 537			
						Total (125 recipients)					Total bilateral gross				
						Unallocated					Unallocated				
						Total bilateral gross					Total bilateral gross				

Table B.5. Bilateral ODA by major purposes

at current prices and exchange rates

Netherlands	1994-95		1999-2000		2004-05		2004 Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
Social infrastructure & services	513	31	535	27	1 255	41	38
Education	130	8	158	8	441	14	9
of which: basic education	30	2	85	4	174	6	3
Health	104	6	86	4	138	4	5
of which: basic health	39	2	35	2	48	2	3
Population & reproductive health	3	0	40	2	111	4	3
Water supply & sanitation	72	4	49	2	169	6	4
Government & civil society	54	3	111	6	316	10	13
Other social infrastructure & services	149	9	90	4	80	3	4
Economic infrastructure & services	197	12	97	5	360	12	17
Transport & storage	76	5	48	2	7	0	5
Communications	11	1	8	0	20	1	1
Energy	58	3	25	1	56	2	8
Banking & financial services	10	1	10	0	101	3	1
Business & other services	43	3	7	0	175	6	2
Production sectors	288	17	87	4	164	5	6
Agriculture, forestry & fishing	261	16	73	4	128	4	3
Industry, mining & construction	18	1	8	0	20	1	2
Trade & tourism	8	1	6	0	-	-	0
Other	0	0	-	-	16	1	0
Multisector	119	7	127	6	402	13	7
Commodity and programme aid	130	8	123	6	235	8	3
Action relating to debt	243	15	153	8	58	2	11
Emergency assistance & reconstruction	163	10	331	16	512	17	10
Administrative costs of donors	-	-	3	0	21	1	5
Core support to NGOs	-	-	560	28	61	2	2
Total bilateral allocable	1 653	100	2 015	100	3 067	100	100
<i>For reference:</i>							
Total bilateral	2 211	52	2 335	58	3 168	59	62
of which: Unallocated	558	13	320	8	101	2	2
Total multilateral	2 073	48	1 712	42	2 246	41	38
Total ODA	4 284	100	4 047	100	5 414	100	100

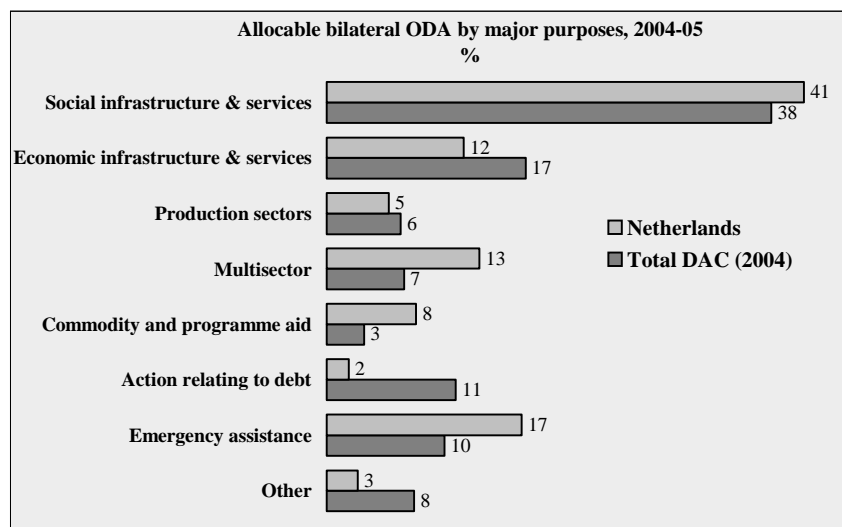


Table B.6. Comparative aid performance

Official development assistance					Grant element of ODA (commitments) 2004	Share of multilateral aid 2004				ODA to LDCs Bilateral and through multilateral agencies 2004		Official aid 2004	
2004		98-99 to 03-04 Ave. annual % change in real terms		% (a)		% of ODA		% of GNI		% of ODA	% of GNI	USD million	% of GNI
USD million	% of GNI					(b)	(c)	(b)	(c)				
Australia	1 460	0.25	1.7	100.0	18.5	0.05	18.5	0.05	23.9	0.06	10	0.00	
Austria	678	0.23	1.1	100.0	48.0	0.11	48.0	0.11	24.8	0.06	260	0.09	
Belgium	1 463	0.41	11.5	99.8	38.3	0.16	38.3	0.16	44.1	0.18	190	0.05	
Canada	2 599	0.27	1.7	100.0	23.4	0.06	23.4	0.06	27.0	0.07	93	0.01	
Denmark	2 037	0.85	-2.0	100.0	41.0	0.35	41.0	0.35	36.1	0.31	140	0.06	
Finland	680	0.37	5.4	99.9	40.9	0.15	40.9	0.15	24.6	0.09	104	0.06	
France	8 473	0.41	3.3	95.3	34.3	0.14	34.3	0.14	37.4	0.15	2 358	0.11	
Germany	7 534	0.28	2.7	96.2	49.3	0.14	49.3	0.14	30.7	0.08	1 434	0.05	
Greece	465	0.23	12.1	100.0	34.6	0.08	34.6	0.08	14.1	0.03	131	0.06	
Ireland	607	0.39	13.3	100.0	32.6	0.13	32.6	0.13	53.1	0.21	3	0.00	
Italy	2 462	0.15	-0.5	99.6	71.4	0.11	71.4	0.11	32.0	0.05	664	0.04	
Japan	8 922	0.19	-5.1	88.8	33.7	0.06	33.7	0.06	18.9	0.04	121	0.00	
Luxembourg	236	0.83	8.7	100.0	27.4	0.23	27.4	0.23	36.9	0.31	15	0.05	
Netherlands	4 204	0.73	0.6	100.0	36.5	0.27	36.5	0.27	36.6	0.27	222	0.04	
New Zealand	212	0.23	1.7	100.0	25.0	0.06	25.0	0.06	30.9	0.07	1	0.00	
Norway	2 199	0.87	2.6	100.0	30.1	0.26	30.1	0.26	38.1	0.33	45	0.02	
Portugal	1 031	0.63	13.8	87.1	15.4	0.10	15.4	0.10	85.1	0.53	62	0.04	
Spain	2 437	0.24	4.0	97.5	42.5	0.10	42.5	0.10	17.4	0.04	15	0.00	
Sweden	2 722	0.78	6.9	100.0	23.7	0.18	23.7	0.18	28.0	0.22	123	0.04	
Switzerland	1 545	0.41	4.7	100.0	23.2	0.10	23.2	0.10	25.8	0.11	100	0.03	
United Kingdom	7 883	0.36	10.3	100.0	32.3	0.12	32.3	0.12	37.9	0.14	834	0.04	
United States	19 705	0.17	12.6	99.9	17.5	0.03	17.5	0.03	22.9	0.04	1 605	0.01	
Total DAC	79 553	0.26	4.1	97.5	31.6	0.08	31.6	0.08	29.7	0.08	8 530	0.03	
Memo: Average country effort													
0.42													

Notes:

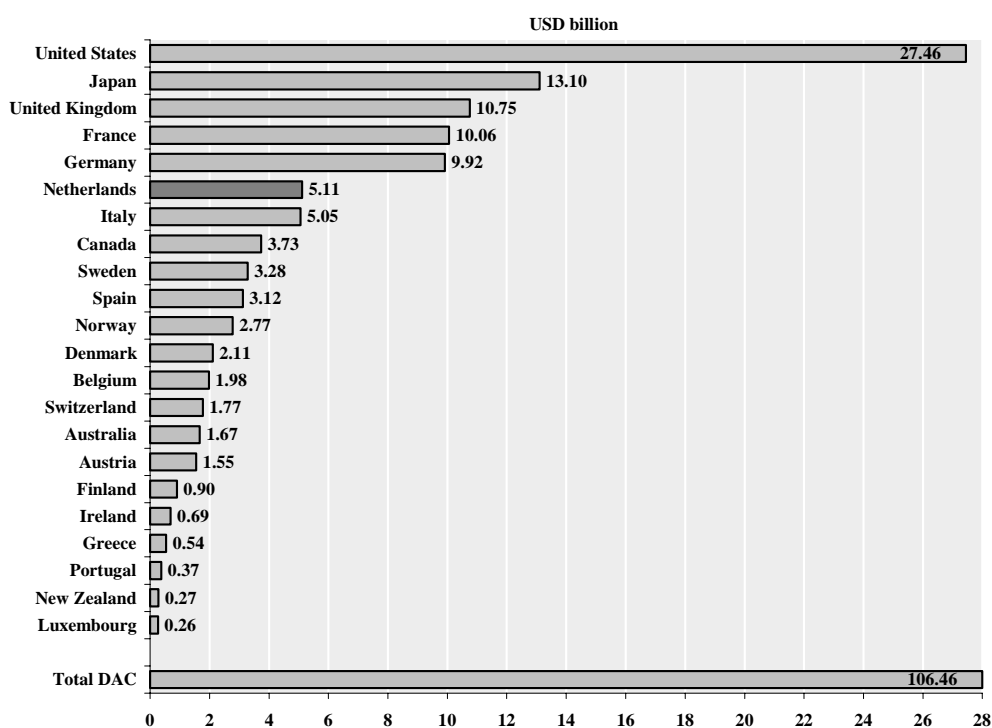
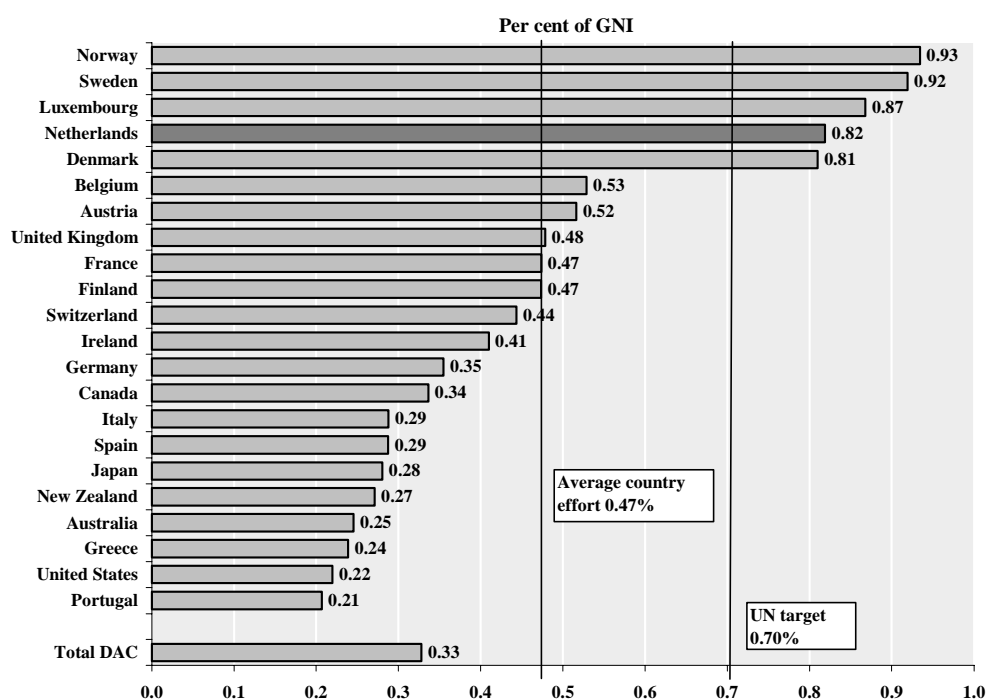
a. Excluding debt reorganisation.

b. Including EC.

c. Excluding EC.

.. Data not available.

Graph B.1. Net ODA from DAC countries in 2005 (preliminary data)



Annex C

List of Instruments to Promote the Private Sector in Developing Countries

1. **Centre for the Promotion of Imports from Developing Countries (CBI).** The CBI contributes to the economic development of developing countries by strengthening the competitiveness of companies from those countries on the EU market. CBI is working on market knowledge; product and production improvement; quality control; export marketing and management; and market entry. CBI is an agency of the MFA and had a budget of EUR 13 million in 2005.
 2. **Netherlands Senior Experts (PUM) (implemented by the Confederation of Netherlands' Industry and Employers [VNO/NCW]).** PUM sends senior experts on short missions (two to three weeks) to more than 70 developing countries. These experts work on a voluntary basis and offer their skills and experience to businesses and organisations which cannot afford commercial services. In 2005 PUM's budget was EUR 10.8 million with funding of EUR 7.6 million from the MFA.
 3. **Programme for Cooperation with Emerging Markets (PSOM) (implemented by EVD).**²⁶ PSOM offers financial support to entrepreneurs who are planning to invest in emerging markets. The programme entails pilot investments of Dutch companies and non-Dutch companies (in Mozambique, Uganda and Zambia) who set up a new business venture together with a local company. It is financed by the ministries of Foreign Affairs and Economic Affairs.
 4. **Investment Promotion and Technical Assistance Programme (IPTA) (implemented by FMO).**²⁷ IPTA programme aims at improving the knowledge base of small and medium enterprises (SMEs) in developing countries. In order to promote investment IPTA finances feasibility studies and missions. Technical assistance activities include: temporary management; short term advice; local training; job related training; education; branch training and service centres. IPTA is financed by the MFA and commitments amounted to EUR 5.6 million in 2005. The programme was closed in March 2006 and is succeeded by FMO's Capacity Development Programme, which focuses on improving the quality of the financial sector in developing countries.
 5. **Development-Related Export Transactions Programme (ORET) (implemented by FMO).** ORET reduces the costs to developing countries of eligible projects by awarding grants for the purchase of capital goods, services or works. ORET activities focus on improving infrastructure through
-
26. The Agency for International Business and Cooperation (EVD) is part of the Dutch Ministry of Economic Affairs. Its mission is to promote international co-operation and to help Dutch businesses to be successful in their international operations.
27. The Netherlands Development Finance Company (FMO), with an overall investment portfolio of EUR 2.4 billion, is a key player for encouraging Dutch companies that want to do business in developing countries but are hampered by perceptions that returns on investment may be insufficient. FMO manages various instruments on behalf of the ministries of Foreign Affairs and Economic Affairs.

non-commercially viable investments with a high economic benefit. The programme has an untied aid variant for LDCs and includes a water facility for drinking water and sanitation projects. ORET is fully funded by the MFA. In 2005 total commitments amounted to EUR 183 million and total disbursements amounted to EUR 87.9 million.

6. **The MASSIF Financial Sector Fund (implemented by FMO).** With MASSIF loans, equity, mezzanine and guarantees are provided to local banks in developing countries. The MASSIF portfolio amounted to EUR 168 million at the end of 2005 and is expected to increase with an annual average of EUR 20 million over the next five years. In four regions (Balkans, Central America, Mekong and Western Africa), the fund focuses on the bottom of the market.

7. **Netherlands Investment Matching Fund (NIMF) (implemented by FMO).** Through NIMF, FMO provides long-term risk capital and specific sector expertise. NIMF enables FMO to match corporate investments made by international companies and thus acts as a catalyst for foreign direct investment (FDI). FMO will make a direct equity investment from EUR 1 to 5 million in a local private company that demonstrates strong growth potential. NIMF applies to investments in lower and lower-middle income countries. NIMF was set up by FMO in co-operation with the MFA.

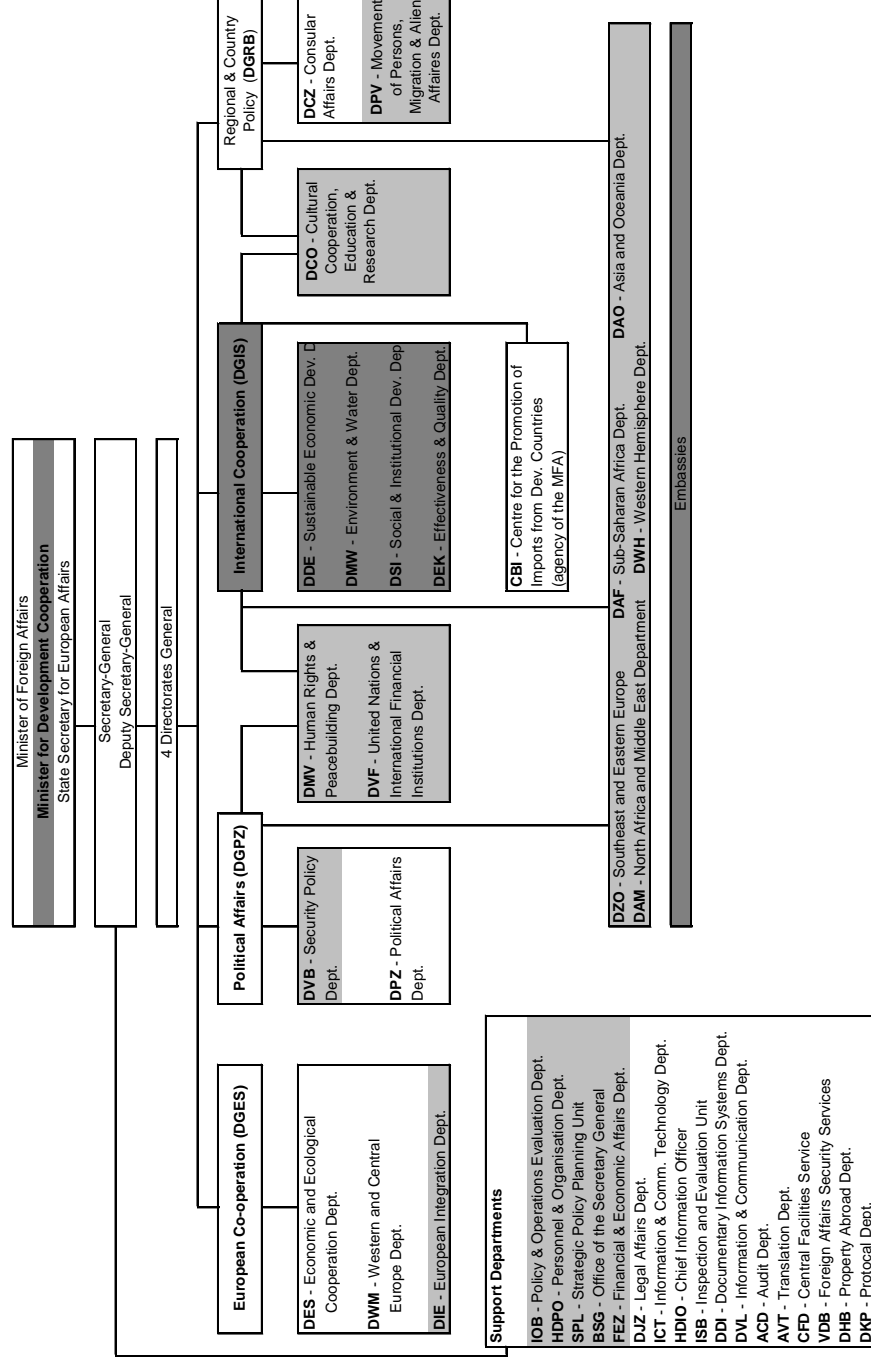
8. **Infrastructure Fund for the Least Developed Countries (implemented by FMO).** The LDC Infrastructure Fund provides long-term untied financing for projects in energy, telecom, transportation, environmental and/or social infrastructure. The fund may also participate in international or multilateral funds that facilitate infrastructure projects. The fund is fully funded by the MFA and its commitments in 2005 amounted to EUR 52 million with EUR 47 million earmarked for Africa.

9. **Netherlands Platform for Microfinancing (NPM).** Dutch organisations that support microfinance in developing countries have joined forces in NPM to co-ordinate and work together on micro-finance activities. As of mid-2004 Dutch support by government and NGOs to microfinance represented an investment of EUR 207 million in the form of loans, guarantees and participations and subsidies of EUR 18 million. The Dutch support benefits over 550 organisations, 16 regional and national funds and network organisations. The Dutch government is a party to less than half this portfolio.

10. **Netherlands Financial Sector Platform (NFX).** NFX is a public-private partnership between the government (ministries of Foreign Affairs, Economic Affairs and Finance), leading Dutch banks and FMO. The objective is to build local financial sector know-how in developing countries through capacity development, training and research.

Annex D

Organisational Chart of the Ministry of Foreign Affairs



Departments with a major role to play in development co-operation are shaded.

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.²⁸

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 List of Aid Recipients which it revises every three years. From 1 January 2000, Part I of the List 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 GNI USD 745 or less in 2001 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 746 and USD 2 975 in 2001. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 2 976 and USD 9 205 in 2001.

HICs: High-Income Countries, *i.e.* with GNI per capita (Atlas basis) more than USD 9 206 in 2001.

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

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

28. For a full description of these terms, see the *Development Co-operation Report 2005*, Volume 7, No. 1.

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** (the gross amount 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 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). It measures the concessionality of a LOAN, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* an indication of the opportunity cost to the donor of making the funds available. 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) and multilateral agencies active in development that are: undertaken by the official sector; with the promotion of economic development and welfare as the main objective; 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 a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and b) 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): The flow data are expressed in United States dollars (USD). To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. This means that adjustment has been made to cover both inflation in the donor's currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period.

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