

Summary

Lux-Development (LuxDev) is the operational arm of Luxembourg bilateral aid. In 2009, LuxDev disbursed and managed over €70 million in Luxembourg's ten bilateral aid partner countries. Within the framework established by the Convention between the Luxembourg state and LuxDev, the Agency has a certain autonomy in its choice of arrangements to grant aid for each intervention. It is also authorised to suggest new systems. The "operational partnership agreement" (OPA) system was introduced in 2009 on this basis and in order to renew practices and comply with the commitments made internationally by Luxembourg .

The OPA system is one of the set of aid arrangements based on delegated management within the project approach. By transferring responsibility for the implementation of one or more sections of the projects to the intervention countries' partners, the OPA fulfils several objectives: building partners' capacities; mutual responsibility; improving aid ownership and aligning Luxembourg aid with partner countries' procedures and systems.

The OPA takes the form of a partnership agreement, a tool already used by LuxDev before 2009. Two main elements distinguish this system from its predecessors:

- attention is focused on an analysis of the risks associated with the delegation of responsibilities (amongst others, through a prior study), and
- similar cases are given a more systematic treatment (in line with the specific guidelines in the Agency's Quality Manual).

The challenge that the system presents to LuxDev staff is to find a balance between delegating responsibilities to partners while retaining sufficient control to comply with LuxDev's obligation to be accountable to its own principal, the Luxembourg state.

An OPA is regarded as having been established when certain minimum conditions are met, especially regarding the partner's legal status, its administrative and financial management capacity, its control, evaluation and quality management systems, etc. To that end, a prior study is carried out, which both determines if the OPA is a viable solution in the case in question and identifies the required accompanying and control measures. The depth of the study depends on the planned amount of the OPA: the threshold between the two categories set out here is €50 000. The studies and text of the agreements are approved by a small committee at head office (Luxembourg), for OPAs above the threshold, or at LuxDev's regional offices, for smaller OPAs.

In principle, the prior study and design of OPAs should occur at the formulation phase of a project. This would enable the OPA to be included as a tool entirely separate from the intervention system and the level of involvement of the various actors to be established from the start in order to allow them to organise themselves better. Having said that, for almost two years since the introduction of this tool it has been used in projects which were already in progress. This has required LuxDev staff and partners to display a lot of creativity and flexibility and has had major consequences for the operation and initial results of the system. Over the 2009-2010 period, more than a hundred OPAs amounting to almost €29 million have been signed in all the countries where LuxDev is active. This suggests that the system has quickly gained an important place among the other tools in the LuxDev "toolbox".

Based on a large number of interviews with LuxDev staff and partners, a desk study and a sample of twenty OPAs and other types of agreements, the evaluation team has come to the following conclusions with regard to feasibility, compliance, effectiveness, efficiency, relevance and risk management of OPAs:

OPA tools and stages - feasibility and compliance

The phases of implementation of an OPA are properly complied with in general and the thinking behind the system is well-understood, even though the interpretation of the guidelines in the Quality Manual and the use of the forms are not uniform throughout the organisation. In general terms, the system's feasibility is deemed satisfactory.

In the sample studied, the quality of the prior studies varies in terms of the level of detail in the information presented and in its analysis, as well as in terms of the connection between this information and the conclusions and recommendations of the studies. An important reason for these variations is the level of skill of the LuxDev staff (internal or external) creating these studies. The quality of the studies also depends on the capacity of the partners to supply the information required for the studies to be created.

Model agreements are often used, despite their optional status. The reason for this is partly that LuxDev staff often have a low level of legal knowledge and prefer to use a model developed by specialists. The model includes parts of the "standard" text and clauses which can be personalised depending on the specifics of each agreement. This is not stated clearly in the model (even though it is specified in the Guide) and results in confusion and difficulties in reading documents.

There are two internal approval stages by committee in the implementation of OPAs: firstly, the approval of the prior study and then the approval of the texts of the agreements. These approvals have been systematic, especially for OPAs over €50 000 and, according to statements by key players, have resulted in constructive discussions. The recording of the key aspects of the discussions which inform the final decision can still be improved.

Implementing and monitoring the OPAs is the responsibility of LuxDev staff in the field and has not been systematically implemented in the first phase of development. Some regional offices which use the system more have developed monitoring tools (especially administrative ones), but this aspect of the OPAs needs better definition.

Effectiveness

The ability of the system to meet the targeted objectives varies depending on the objective in question. With regard to ownership, the team has discovered that, in contexts where this aspect was lacking, the delegation of responsibilities for some project activities has been beneficial. This is a mini-revolution in terms of mentality, due to the fact that the partners have realised that the success of the activities depends on them and not on the project management units. The size and importance of the activities delegated is just one of the aspects that determines the scope of the ownership effect. The partner's ability to take on new responsibilities, the confidence of the LuxDev staff in transferring control and the national context are other aspects.

The alignment of the projects with the procedures and systems of the partner country is another objective of the OPAs. Again, the examples studied show a large degree of variability, from the use of OPAs, where LuxDev rules are applied, to the almost exclusive use of national systems and procedures. Most OPAs suggest hybrid management procedures that respond both to LuxDev's and the partners' requirements. This situation reflects, among other things, the trade-off of LuxDev's risk in sometimes vague contexts and systems or where practice differs from theory.

The contribution of the OPAs to building partners' capacities is difficult to ascertain based on a desk study, and even more so considering that very little time has elapsed since the start of the system. LuxDev is aware of the fact that the transfer of responsibilities cannot occur without capacity development and has established specific accompanying systems within OPAs. These systems are rarely described in detail in the text of OPAs and often involve ad hoc measures, depending on the weaknesses discovered "along the way". This has the advantage of supplying assistance that is relevant and targeted, using various methods; however, this does not help in predicting support required and is a missed opportunity to use the conclusions in the prior studies. The first empirical conclusions arrived at by LuxDev staff in the field show that there is a difference in performance between OPAs, depending on the strength of the system of assistance put in place.

It is also difficult to grasp the effect of OPAs on the achievement of the projects' development objectives. One of the most important reasons is that no project partly implemented through an OPA has yet been concluded.

Efficiency

In the first years of its existence, efficiency was not a strong point of OPAs, since control over this aspect was not a priority for LuxDev. Major resources (especially human ones) were sometimes invested in establishing an OPA. The reason for this is partly that, during the period under investigation, the OPA was a system undergoing a phase of initiation and experimentation.

The implementation of OPAs seems to have entailed efficiency gains in some contexts but also has delayed the implementation of activities in other contexts. With regard to the internal efficiency of OPAs, the major constraint on efficiency seems to be the complexity of the control system (reporting and audit). Efficiency is above all a weak point in small OPAs.

Relevance

The OPA system is a positive step for Luxembourg development cooperation on the road to compliance with obligations made at the international level, especially mutual responsibility and aid alignment. The arrangement is less well-equipped to promote harmonisation with other donors. The OPA remains intrinsically linked to the project approach, in general, and especially to Luxembourg development cooperation projects. To the extent that the OPA is a tailor-made arrangement, the potential for harmonisation is also limited.

The introduction of the OPA will enhance the "toolbox" that LuxDev uses to manage its portfolio of interventions. OPAs have significant advantages over the tools already in existence, such as: the systematic implementation of an agreement with partners in the South in the projects; the institutionalisation of a prior study on which to base the decisions and measures taken; improved linkage of the operational levels with the general objectives and principles of Luxembourg development cooperation, etc. The risk associated with the introduction of the system is possible confusion due to the proliferation of tools available.

Risk management

Risk management is a basic element of LuxDev's activity. Although relations between the Agency and its principal (the Luxembourg Ministry of Foreign Affairs - MFA) are close and constructive, the formal document connecting the two parties (the Convention) demands that LuxDev manages the financial resources made available to it by the state, and for which it is entirely accountable and responsible. Through the OPA, LuxDev delegates the responsibility for implementing the activities (including the related financial resources) to its partners in the South, automatically losing part of the control that it was able to exercise in the "directed" mode. Thus, the OPA system, to which the MFA has given its backing, exposes certain limits of the Convention.

In OPAs, fiduciary risk and its management occupy the most central role. The prior study plays an important role in risk identification but more attention should be paid to the results of the phase where these risks are analysed. At present, LuxDev's sound knowledge of the field and the good intuition of the risks are a major added value in the decision of which risk management mechanisms to establish. However, in the long run more standard criteria should be drawn up to improve the consistency and transparency of the packages of measures planned for certain partners.

Operational and political risks have received relatively little attention so far. Operational risk is the level of probability that the partner does not implement the activities delegated to it or achieve the expected results. The tools available to LuxDev to remedy this (currently hypothetical) situation are very limited, especially when we consider that the system is deeply partnership-based, which makes the use of punitive clauses very problematic. The latter aspect is closely tied to political and reputational risks.

The political risk is generally acceptable if the actors concerned (especially the Luxembourg MFA) are kept sufficiently informed and have the power and desire to intervene to resolve situations and smooth over any tensions. In terms of information, the MFA seems to have a good overview of the system. In terms of intervention, the recent wave of audits for which the results should soon become available will be a good test bed.

Recommendations

Based on the conclusions of the study, the evaluation team has distilled 23 recommendations. The recommendations must also be as practical and precise as possible, without impinging on the political space of the Luxembourg development cooperation system (LuxDev and MFA). *To sum up*, the decisions on the future adjustment of the system should be endogenous and deeply rooted in the organisation. We set out the essence of these recommendations below (in brackets we refer to the numbering of the recommendations in chapter 6 of this study):

The OPA and its tools

- Redefine the standard for OPAs and apply it in the way in which it was originally planned (R.1);
- In addition, specify some aspects mentioned in the OPA Guide, including the use of examples of best practice and tips based on the initial experiences in the field. One of the points requiring specific attention should be the implementation of a prior study with the "obviously weak" partners (R.2, 3, 4);

- Ensure that persons called upon to undertake prior studies have the required skills to carry them out correctly (R4);
- Experiment with a stricter format of questionnaires for prior studies which shows the link between the partners' weaknesses and the risk control system proposed, and with an interactive, annotated version of the agreement models (R.6, 7);
- Accelerate the establishment of a common tool to monitor financial, administrative and operational aspects of OPAs (R.8).

Effectiveness

- To improve ownership further, consider always delegating the maximum number of activities possible (R.9);
- Pay more attention to the justification of the risk management measures proposed and include these measures more clearly in the agreement (especially accompanying measures). (R.10, 12);
- Start a dialogue with the MFA on modifying the texts governing the relationship (the Convention) in order to be able to distinguish better and redefine, where necessary, the acceptable risk limits (R.11).

Efficiency

- Define the minimum efficiency standards, linked to the concept of proportionality, and include in this calculation the cost of the accompanying measures and the control system (R.14, 16);
- Consider increasing the threshold of €50 000 between OPAs through a minor procedure and OPAs through a more advanced procedure, while also easing the procedure above this threshold (R.15);
- Explore the possibility of grouping together the maximum number of activities suitable for delegation to a partner, or of delegating the project in its entirety. (R.17, 18);
- Adopt a "critical path" approach in implementing prior studies, emphasising the determining factors in decision-making (R.19).

Relevance

- Keep in mind the potential, but also the limitations, of the arrangement as a tool to promote the principles of aid effectiveness (R.20);
- Plan training courses and exchanges of experience for LuxDev staff to improve their understanding and use of the tool (R.21).

Risk management

- Develop risk analysis more, possibly by being inspired by models already in existence
- Pay more attention to operational and political risks throughout the process of establishing and implementing OPAs.