



The Head of Division

DEVELOPMENT CO-OPERATION DIRECTORATE

Review, Evaluation & Engagement

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To: DAC Delegates & Observers

DAC mid-term review of Portugal: Lisbon, 17 December 2012

On 17 December I visited Portugal to conduct its mid-term review against the recommendations in the 2010 peer review. I would like to thank Prof. Ana Paula Laborinho, President of the Camões – Institute for Co-operation and Language (CICL), and her colleagues for an excellent programme of meetings and discussions. I also had the pleasure of meeting Mr. Luís Brites Pereira, Portugal's Secretary of State for Foreign Affairs and Co-operation. I found that Portugal has made progress against the 2010 recommendations and that some more work remains to be done.

While the main purpose of the mid-term review was to review progress in implementing the DAC's recommendations, we also took account of other developments since 2010. In May 2011 Portugal agreed with the European Union, the European Central Bank and the International Monetary Fund on a far-reaching reform programme to restore market confidence and raise potential growth. To meet the agreed targets, Portugal is implementing a series of structural economic reforms that are leading to cuts on public spending and adoption of austerity measures, including tax increases. One of the government programmes to reduce public spending has led to the merger of the Portuguese Institute for Development Assistance (IPAD) with the Camões Institute (which focused on language instruction), creating a new institution: *Camões - Institute for Cooperation and Language* (CICL). The new Camões is based in the Ministry of Foreign Affairs (MFA) and is tasked with co-ordinating development co-operation, as IPAD was before, as well as language instruction. The merger was completed in the end of 2012.

Developing new strategic orientations

The institutional merger delayed the implementation of many DAC recommendations. Since the new government came into power in June 2011, the priority of Portugal's development co-operation was to ensure a smooth integration of the two institutes, by adapting the legal framework, merging structures, moving into the same building and defining a new board of directors for *Camões*. During this process Portugal was careful to preserve the focus of its aid programme and avoid mixing language instruction and development co-operation objectives. The new institute was given the mandate to co-ordinate the entire aid programme, which is fundamental to ensure the coherence of its system.

In spite of this changing environment, Portugal made progress in developing a new strategy for its development co-operation. This strategy will build on the current one – *Strategic Vision for Portuguese Development Co-operation* (2005) – and will reflect the changes in the development co-operation landscape, the commitments endorsed at the IV High Level Forum on Aid Effectiveness, as well as the recommendations of the 2010 DAC peer review. The Secretary of State informed me that the new strategy will be guided by the principles of coherence, concentration and co-financing. The focus on coherence and concentration responds to the 2010 recommendation of reducing the fragmentation of Portugal's co-operation programme and system.

Portugal now needs to approve the new strategy which should set out how Portugal will make use of new aid modalities beyond technical co-operation and how gender equality and environment will be mainstreamed through its aid programme. It should also reiterate that language instruction, when funded by ODA, should only be used to promote development.

As it develops its new strategy, Portugal also wants to adopt a new approach to working with NGOs and the private sector. A good starting point would be to have more clarity on what it wants to achieve with these relationships. Portugal has already established regular dialogue with civil society organisations, but it could improve it based on a joint agenda defined by the government and NGOs. With regards to NGOs, Camões is investing in building their capacity and making them more competitive in order to obtain international funding. However, it should reflect on whether this is the best way to work with NGOs to achieve development results for partner countries. With regards to the private sector, Portugal included “private sector and development” as a topic of its new strategy and Camões is participating in international discussions on this issue. These discussions may help Camões clarify the objectives and expected development results of this engagement. Responding to the DAC recommendation to evaluate the contribution of SOFID – Portugal’s development finance institution – to development and poverty reduction in partner countries could also help develop thinking further on a private sector programme.

Within the merger little attention has been given to communications. Camões has yet to develop a communications strategy that respects the distinction between its two missions: development co-operation and language instruction. In preparing a communications strategy, Camões could explore complementarities with the existing development education strategy, which has “raising public awareness” as one of its pillars. Finally, Camões could well include working with NGOs in campaigns to build public support for development co-operation as part of its NGO programme.

Policy coherence for development

The adoption of a national law on PCD in November 2010 helped to assert political commitment to PCD, but implementation has been delayed due to government and institutional changes since 2011. Now that Camões is in place, Portugal intends to accelerate its efforts by: reviewing the mandate of the Inter-ministerial Commission for Co-operation to include promotion of PCD; create a network of national focal points to share information, discuss and propose initiatives to promote coherence with development; elaborate national reports on PCD; and establish or strengthen partnerships to raise awareness about PCD. As mentioned in the last review, Portugal should pay particular attention to monitoring, analysis and reporting on incoherence of its policies with development since it has little experience in this area.

Aid volume and allocations

Despite the economic crisis, Portugal succeeded in keeping the ODA level stable in 2011. Its ODA totalled USD 708 million in 2011, reaching an ODA/GNI ratio of 0.31%. This represents a slight increase of 2.7% in real terms compared to 2010, when ODA reached USD 649 million in total and 0.29% of GNI. However, given the current budgetary pressure, Portugal’s ODA budget will most likely be cut in the next years or maintained at the 2011 level at best. This means that Portugal will not reach the 0.7% target in the near future, but as budgetary and economic conditions improve Portugal could prepare a spending plan for reaching its ODA target, embedding multi-year binding ODA figures in the State budget as recommended in the last review.

Portugal continues to concentrate its aid on a few partner countries and now aims to limit the number of sectors in which it is engaged. Portugal’s six priority countries (Angola, Cape Verde, Guinea-Bissau, Mozambique, São Tomé and Príncipe and Timor-Leste) are consistently among its top ten recipients since 2005 and received 82% of its bilateral aid in 2010. This geographic concentration is most welcome. To enhance sector concentration, Portugal intends to focus its new development co-operation strategy on three priority sectors: education, health and security. However, the new strategy will also cover three new themes for Portuguese aid: private sector, innovation and climate change. It is not clear yet how the new thematic priorities will interplay with the three priority sectors and what the final result in terms of

sectoral concentration will be. Portugal may need to set more precise guidance in this area while being flexible enough to respond to partner country priorities and demands.

Portugal made clear progress in implementing the Committee's recommendation to reduce the aid fragmentation. The number of stand-alone small projects fell by 60% from 2009 to 2010 and it reduced a further 10% from 2010 to 2011. Portugal now invests in larger projects and aims to have four larger interventions – called “flagship projects” – per partner country.

Portugal could look for opportunities to complement its use of technical co-operation with grant modalities which involve greater financial transfers to partner countries. Finally, while Portugal has not signed new lines of credit since 2010, it should use these instruments with caution in future to protect the geographic focus of its aid programme and ensure that the average grant element of its ODA complies with the 1978 DAC recommendation on the terms and conditions of aid.

Organisation and Management

In the context of the merger, Portugal took some good steps to improve the organisation and management of Portugal's development co-operation. First, Camões introduced the possibility of staff rotation between headquarters and the field, creating more opportunities for learning and transfer of valuable experience between the two levels. In order to further improve its human resource management Camões could develop workforce planning to allocate staff according to programming needs. Second, there are some good initiatives to improve results-based management, focusing on improving the project cycle and assessment of its performance. Finally, Camões successfully decreased its administration costs from 17.2% to 11.7% of the institute's budget by reducing the number of teams and managers in the merger. The savings were re-invested in the co-operation programme and, for the next budget, Camões hopes cut more to administration costs.

Strengthening co-ordination is a constant challenge in a system that is fragmented, but Portugal is taking several actions to minimise this problem. The law that created Camões established that the new institute is responsible for definition, implementation, oversight and co-ordination of Portugal's aid. This helped reaffirm the Institute's central position in the co-operation system. In addition, Camões aims to use the new Indicative Co-operation Programmes (PICs) to support greater co-ordination: the PICs will set the overarching strategy for co-operation with each priority country, with clear sector concentration and up to four flagship projects per country. Camões plans to enforce coherence and co-ordination by not recognising as Portuguese co-operation any project conducted outside the PICs framework. Portugal should continue moving in this direction, ensuring that Camões is involved early on in the formulation of all aid activities, and using the new PICs as tools for strategic medium-term planning.

Reforms in the budget structure mean that development co-operation is not represented as a single budget line in the State budget. This continues to make financial oversight and co-ordination difficult. The State budget is now organised around programmes, each with a single implementing ministry, which means that the ODA budget is fragmented across the 11 line ministries involved in development co-operation. Portugal tries to overcome this problem by using aid reporting to obtain figures and information from line ministries. Creating a horizontal representation of ODA figures across ministries could help ensure that ODA spending is clear, visible, transparent and accounted for later on.

Aid Effectiveness

Portugal remains very committed to making its aid more effective. It recently approved the “National Action Plan for Busan Implementation” and endorsed the “New Deal for Engagement in Fragile States” and the “Initiative for Gender Equality”. Portugal made important progress towards the recommendation of ensuring that small projects are situated within or closely linked to larger programmes by giving preference to larger interventions. Portugal also works more with other bilateral and multilateral donors, particularly through delegated co-operation and co-financing mechanisms. Going forward, Portugal could build on these achievements, increase budget support and make co-ordinated approaches the norm in the longer term (e.g. use joint analytical work, joint missions, and common arrangement procedures).

More efforts are needed to increase the alignment, predictability and transparency of Portugal's aid. By 2010, Portugal channelled 79% of its aid through country procurement systems and completely avoided parallel implementation structures, yet only 32% of aid flows to governments were reported on partner countries' budgets, only 32% of its technical co-operation was implemented through co-ordinated programmes consistent with national development strategies, and Portugal used only 2% of country public financial management systems (2011 Survey on Monitoring the Paris Declaration). Portugal made progress on aid predictability, but it could increase the proportion of aid disbursed within the fiscal year for which it was scheduled (only 48% was disbursed in 2010 according to the 2011 Survey on Monitoring the Paris Declaration).

The biggest challenge to make Portuguese aid more effective is to untie it. According to the 2012 DAC Report on Aid Untying, Portugal has untied only 42.5% of its total bilateral ODA in 2010, compared to a donor average of 76%. This result is particularly due to technical co-operation and to the lines of credit extended until 2010. Portugal should pay close attention to responding to the recommendation of reviewing the tying terms of existing lines of credit and ensuring that any future lines offer untied loans only. Even if part of the lines of credit is used to finance local cost, Portugal should allow its partners to use the other part of these loans to procure goods and services internationally.

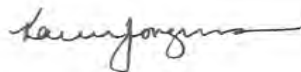
Humanitarian assistance

Portugal did not make much progress on making its humanitarian programming more co-ordinated and effective. As in 2010, Portugal still lacks funds, human resources, an overarching policy and funding guidelines for humanitarian action. However, it started developing a humanitarian assistance strategy in April 2012 incorporating the Principles and Good Practices of Humanitarian Donorship. The main goal of this strategy would be to facilitate co-ordination with line ministries, but the document would not cover disaster risk reduction and building resilience. Portugal intends to cover disaster risk reduction and resilience in the new country strategies. To realise these intentions, Portugal may need to re-allocate adequate staff and resources.

Conclusion

As this report shows, Portugal's progress towards the recommendations of the 2010 peer review was delayed due to the economic crisis as well as government and institutional changes. However, despite the disruption caused by these developments Portugal has managed to achieve some results and it should now accelerate its efforts to meeting the 2010 recommendations, particularly by agreeing a new development co-operation strategy, enhancing coherence, concentration and co-ordination of its development co-operation programme and system, and untying its aid. We look forward to reviewing its efforts in this and other areas in two years time. Finally, I wish to thank particularly Ana Paula Fernandes, Portugal's DAC Delegate, and Manuela Afonso of Camões for facilitating a most enjoyable day in Lisbon.

Yours sincerely,



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