

Development  
Co-operation  
Review Series

Germany

D e v e l o p m e n t A s s i s t a n c e C o m m i t t e e

1998  
No. 29



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Review Series

Germany

1998 No. 29

Development Assistance Committee

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to Article 1 of the Convention signed in Paris on 14th December 1960, and which came into force on 30th September 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
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*The Members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.*

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## FOREWORD

The Development Assistance Committee (DAC) conducts periodic reviews to improve the individual and collective development co-operation efforts of DAC Members. The policies and efforts of individual Members are critically examined approximately once every three years. Some six programmes are examined annually.

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, 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. Brief field visits investigate how Members have absorbed the major DAC policies, principles and concerns, and examine operations in recipient countries, particularly with regard to sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

Putting all this information and analysis together, the Secretariat prepares a draft report on the Member's development co-operation which is the basis for the DAC review meeting. At this meeting senior officials from the Member under review discuss a series of questions posed in a brief document: "Main issues for the Review." These questions are formulated by the Secretariat in association with the examiners. The main discussion points and operational policy recommendations emerging from the review meeting are set out in the Summary and Conclusions section of the publication.

This publication contains the Summary and Conclusions as agreed by the Committee following its review on 9 June 1998 in Paris, and the Report prepared by the Secretariat in association with the examiners, representing Japan and Sweden, on the development co-operation policies and efforts of Germany. The report is published on the authority of the Secretary-General of the OECD.

James Michel  
DAC Chair

## LIST OF ACRONYMS

|       |   |        |  |
|-------|---|--------|--|
| AA*   | Federal Foreign Office  | IDA    | International Development Association                            |
| AChM* | Chilean Association of Municipalities                                 | IFAD   | International Fund for Agricultural Development                  |
| AwZ*  | Committee for Economic Co-operation and Development of the Parliament | ILO    | International Labour Organisation                                |
| BMZ*  | Federal Ministry for Economic Co-operation and Development            | KfW*   | Bank for Reconstruction (Kreditanstalt für Wiederaufbau)         |
| BMWi* | Federal Ministry of Economic Affairs                                  | KZE*   | Catholic Central Agency for Development Assistance               |
| CDG*  | Carl-Duisberg Society   | NGOs   | Non-governmental organisations                                   |
| CEECs | Central and Eastern European Countries                                | NIS    | New Independent States of the former Soviet Union                |
| CGIAR | Consultative Group for International Agricultural Research            | ODA    | Official development assistance                                  |
| CIM   | Centre for International Migration and Development                    | PCM    | Project Cycle Management   |
| CPU*  | Corporación de Promoción Universitaria                                | SDR    | Special drawing right  |
| DAAD* | German Academic Exchange Service                                      | SIPs   | Sector investment programmes                                     |
| DAC   | Development Assistance Committee                                      | SSA    | Sub-Saharan Africa   |
| DED*  | German Development Service  | UN     | United Nations   |
| DEG*  | German Investment and Development Corporation                         | UNDP   | United Nations Development Programme                             |
| DG    | Directorate-General   | UNEP   | United Nations Environment Programme                             |
| DSE*  | German Foundation for International Development                       | UNESCO | United Nations Educational, Scientific and Cultural Organisation |
| EC    | European Commission   | UNFPA  | United Nations Fund for Population Activities                    |
| EDF   | European Development Fund   | UNHCR  | United Nations High Commissioner for Refugees                    |
| EU    | European Union  | UNICEF | United Nations Children's Fund                                   |
| EZE*  | Protestant Central Agency for Development Assistance                  | UNIDO  | United Nations Industrial Development Organisation               |
| FAO   | Food and Agriculture Organisation                                     | VENRO* | Association for Development Policy of German NGOs                |
| FUNAI | Brazilian Agency for Indigenous Affairs                               | WFP    | World Food Programme   |
| GDI   | German Development Institute  | WHO    | World Health Organisation  |
| GEF   | Global Environmental Facility   | WTO    | World Trade Organisation   |
| GNP   | Gross national product  | ZOPP*  | Objectives-oriented project planning                             |
| GTZ*  | Agency for Technical Co-operation                                     |        |  |
| HIPC  | Heavily-indebted poor countries                                       |        |  |

### Signs used

|      |  |
|------|--|
| ()   | 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.

\* Denotes acronym in original language.

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## SUMMARY AND CONCLUSIONS

### OVERVIEW

Germany is one of the four largest donor countries, behind Japan and almost level with the United States and France, and twice as large as the next two DAC Members, the United Kingdom and the Netherlands. Total net disbursements over recent years had been running at around \$7.5 billion, about one third channelled through multilateral agencies and the remainder through Germany's bilateral aid agencies or in the form of debt relief. Because of the significance of loans in German aid, which generate large repayments, the net disbursement figure understates the scale of new bilateral activity. With just under \$6 billion in 1996, Germany's gross bilateral aid was almost as large as International Development Association (IDA) gross disbursements. The German bilateral aid system, in terms of activity levels, therefore ranks among the largest aid delivery channels in the world, bilateral or multilateral.

Germany has a pluralistic aid system. There is a central ministry for *policies and programming* (Federal Ministry for Economic Co-operation and Development – BMZ), two major *implementing agencies*, one for *Financial Co-operation* (Bank for Reconstruction – KfW, which is essentially a German parastatal bank, one function of which is to provide concessional loans to developing countries), and one for *Technical Co-operation* (Agency for Technical Co-operation – GTZ, which has a legal status of a company). In addition, there are several agencies for providing training for developing country personnel, in particular the Carl-Duisberg Society (CDG), the German Foundation for International Development (DSE), an institute for training German development managers and specialists (German Development Institute – GDI), a volunteer service (German Development Service – DED), a personnel assistance agency (Centre for International Migration and Development – CIM) and an agency providing investments (German Investment and Development Corporation – DEG). An important role is also played by the Federal Foreign Office (AA). BMZ closely co-ordinates with the AA in elaborating and

implementing development co-operation policy and programmes. In the recipient countries the German embassies co-ordinate and represent the German development co-operation on the official level. Officials of the BMZ on secondment are present in the German diplomatic representations in 19 major recipient countries and five multilateral organisations. A unique feature of the German aid scene is the existence of five Political Foundations, each associated with a political party but operating in an independent fashion in development areas with a high political content. Several of the German provincial governments (Länder) have significant aid programmes and there is a large and diverse *non-governmental organisation (NGO) sector* which has recently, with encouragement from the BMZ, formed an umbrella organisation (Association for Development Policy of German NGOs – VENRO).

Since the last aid review of Germany in 1995, there has been further evolution in policies, priorities and institutional cultures in the German aid system, with a large degree of continuity but also some significant elements of change. The BMZ reformulated in October 1996 its *Concept for Development Policy* which was subsequently adopted as a basic reference point by all ministries and official agencies. Essentially, the concept paper sets out a guiding philosophy for development co-operation adapted to the situation and preoccupations of the post Cold War world. It sets globally sustainable development as the guiding principle, interpreted broadly to include economic, ecological, social and political dimensions. It sees the political and economic framework conditions in developing countries as central determinants of development, deriving five political and economic criteria for the deployment of German assistance to particular countries. And it sets three priority areas – poverty alleviation based on participation and self-help; environmental and resource protection; and education and training.

The scale, orientation and expertise of the German aid system are extremely impressive. Few



DAC Members have such extensive programmes drawing in the experience and knowledge of a large range of national institutions and individuals. German development assistance is also very much concerned with participation and capacity-building, this being a fundamental value of the GTZ and, in the area of political development, of the Political Foundations.

At the same time, the German aid authorities are confronting major challenges in two areas:

#### *Organisation*

The German aid system, with its multi-institutional structure and its focus on the project approach, has difficulties in adapting to the key shift in the way development co-operation is managed. Increasingly, sectoral programmes are being designed by developing countries themselves, requiring on the part of donors strong field-level capabilities for engaging in policy discussion, and the use of flexible financial instruments.

#### *Volume*

The volume of German aid has been falling almost continuously since 1990, despite frequent policy commitments to protecting the aid budget from the massive public expenditure commitment entailed by the reunification of Germany. The aid budget has in fact been reduced in line with other government expenditures in the context of the Maastricht criteria. Germany's aid effort in terms of ODA/GNP has declined from 0.42 per cent in 1990 to 0.28 per cent in 1997. The declining budget allocation has been accompanied by rising contributions to the European Commission(EC) aid programme under agreements reached at the Edinburgh Summit. This has produced an intensifying squeeze on the other components of Germany's aid, notably the bilateral programme, but also voluntary contributions to some United Nations(UN) agencies.

### **REORCHESTRATING THE MULTI-AGENCY GERMAN AID SYSTEM**

While there are almost as many different models of organising an aid system as there are Members of the DAC, usually the policy function is either incorporated within the Federal Foreign Office or forms an integral part of the implementing agency. Germany has adopted a model with an independent ministry for policy and overall programming, the BMZ, which closely co-ordinates and co-operates with the Federal

Foreign Office and the other ministries involved. As pointed out in the previous DAC review of Germany's development co-operation (*see Development Co-operation Review Series*, No. 9, 1995), the complexity of the German system results in a number of systemic and institutional redundancies and rigidities. For the most part, these have been managed rather successfully over the years, essentially through day-to-day accommodation and pragmatism on the part of those in the system. Nevertheless, the underlying tensions remain a characteristic of German aid management and they now have to be addressed if Germany is to adjust successfully to the twin challenges of budget constraints and changing development management patterns.

There is in fact a change process already underway. Although it is not at this stage a systemic effort, it is having, or will have, systemic effects. The key elements here are the following.

*Decentralisation of implementing agencies.* The GTZ is undertaking a far reaching decentralisation which gives resident Country Directors large autonomy in programming, management and procurement (including freedom to obtain technical advice and services from outside the GTZ). It is setting out to create a client-oriented, service-based culture which is keyed to working with the needs and processes of its development partners rather than its own institutional needs and processes. (How the decentralisation of the GTZ will impact on its use of German consulting firms, which currently obtain some 30 per cent of GTZ's business is as yet unclear.) Meanwhile, the KfW has created field offices for the first time and is planning to create more, adapting to what is seen as a general trend towards decentralisation in development co-operation. These offices will be housed together with the GTZ field offices to facilitate co-operation and synergy. This is an important development since the investment projects undertaken by the KfW depend critically on institutional capacity-building of the kind that GTZ specialises in. Indeed, as the German authorities themselves note, the old dividing lines between technical and financial co-operation are breaking down. The GTZ and the KfW now have 150 joint projects. There are regular management-level meetings between the two organisations to co-ordinate policies and activities. The cultural divide that has in the past characterised the two institutions, has thus been greatly reduced, although the differing perspectives produced by the disbursement thrust of a development bank operating at long distance and the capacity-building thrust of a technical assistance

agency with extensive field presence may still sometimes come to the surface.

*Changing focus of the KfW.* Since the early 1990s, the KfW has been moving towards more sectoral approaches involving more sector policy dialogue, in line with the perception that the framework conditions are central to project success. It has also been shifting its sectoral investment pattern away from commercial infrastructure sectors such as energy and power to social infrastructure such as environment, water, health and education as well as towards private sector rather than public sector counterparts. As in other DAC Members this changing pattern has been influenced by the “Helsinki disciplines” on tied aid credits, negotiated in the OECD in 1992. Moreover, the KfW is applying the guidelines laid out by the BMZ on integrating poverty and gender dimensions into project selection and design. Since project selection and design are the responsibility of KfW’s clients in developing countries this means establishing new standards and capacities in their counterpart organisations. It also involves new disciplines and capacities in KfW itself.

*Evaluation.* The BMZ has recently introduced a major change in its approach to the evaluation function. It will no longer be responsible for project-by-project evaluations but rather undertake a programme of thematic evaluations aiming to establish the nature and degree of the impact of German development assistance in its key theme areas. The implementing agencies will themselves now be responsible for designing and carrying out project-level evaluations. This shift in evaluation policy should help the German aid system, including the BMZ itself, to be more results oriented. Both the KfW and the GTZ already have evaluation capacity and experience in the conduct of internal evaluations (the GTZ uses self-evaluations as an intrinsic part of the learning processes in project implementation). The BMZ will co-ordinate an annual programme of evaluations, conducted in terms of the DAC *Guidelines on Evaluation*. Both the KfW and the GTZ also have permanent outside auditors (major international accounting and consulting firms) responsible for checking decisions and effectiveness. How these parallel auditing systems will operate to assist the effective functioning of the two agencies, rather than to add unnecessary processes and duplication, and how they will relate to the new thrust towards decentralisation and client-orientation are important issues. There is also the question of publication policy with respect to evaluations. At present the policy is to publish only evaluation synthesis reports.

*Internal review of the BMZ.* The BMZ has carried out a review of its own functions through an internal Task Force. Its report has been delivered to the Minister for Economic Co-operation and Development and is being discussed throughout the ministry. As of now, it is understood that any decisions will await the federal elections due in the autumn. The motivation in the BMZ for initiating this review was the ongoing budget squeeze, which has produced a steady decline in the number of staff. There is a view in the BMZ that existing modes of managing the German aid programme are no longer sustainable or appropriate, in particular, detailed involvement in project conception and design. A more strategic approach would be both more manageable and more in line with the BMZ role in the German system. This would involve a focus on country selection, on ensuring that project and programme portfolios are in line with German and local priorities and establishing their impact (see evaluation section above), on international policy dialogue, on involvement in overseeing the European Union (EU) aid programme through the structures established for this in Brussels and in the field, and on more effective participation in decision-making in Germany on policies affecting developing countries with the objective of improving the coherence of Germany’s overall policy settings.

*Relocation of the German Government to Berlin.* In the context of the shift of the seat of government to Berlin, it has been decided that the BMZ will remain in Bonn, to be joined by a number of development agencies now located in Berlin. The BMZ is already beginning to adapt by introducing advanced audiovisual communication technology, but this arrangement will clearly not be without its consequences both practically and perhaps on the level of visibility and priority. And the physical separation from the Federal Foreign Office may make this particular relationship more problematic.

*Relations with NGOs.* Seeking a more manageable and structured dialogue with NGOs, the BMZ encouraged the establishment of an NGO umbrella organisation, VENRO. German NGOs involved with development issues and activities are many and varied and they regard their independence as important (a weakness however is that Germany’s strong environmental NGOs, while very much concerned with environmental issues in developing countries, rarely co-operate with the development NGOs). While there is an NGO funding scheme operated by the BMZ, they are wary of becoming subcontractors to the GTZ, which

could lead to a subsidiary role. Indeed they see themselves as competing with the GTZ to some degree. The existence of VENRO as a new player on the German aid scene is hard to assess at present, but NGOs will begin to gain impact, for example by actively promoting discussions of development issues in local constituencies during the Federal elections, and through their dialogue with the BMZ

Each of the developments outlined above implies significant change in the German aid system. However, without a more comprehensive change process, the key problems in German aid administration will remain.

As outlined above, the question is how such a pluralistic aid system can deal with development co-operation modalities increasingly based on policy dialogue and local ownership at the field level. Here, the essential problem is that the BMZ is highly constrained in terms of its field presence and is, by constitution, removed from operations. At present it has just 24 posts outside of Bonn and travel by headquarters' staff seems to be underfunded. The capacity of the BMZ to engage in field level policy dialogue is therefore extremely limited. Moreover, the co-operation instruments are in the hands of the implementing agencies, and the probable trend is for the BMZ to exit from any detailed involvement in implementation. The implementing agencies, notably the GTZ, are beginning to work in the context of sector programmes and to engage in sector policy dialogue and co-ordination efforts. At the same time, the implementing agency staff do not have the authority to engage in higher level policy dialogue. The German embassy does of course have that authority and Germany does play an active part in government policy dialogue and co-ordination efforts. But the single development co-operation officer in the embassy and other embassy staff are easily overwhelmed by the scale of the co-ordination processes now emerging in many developing countries. Moreover, Germany takes a generally cautious attitude towards sector investment programmes and budget aid. Thus, where these modalities are being heavily used, for example in Mozambique, Germany finds that it is not a player on the same level as other significant donors. To these other donors, the German aid programme therefore does not seem flexible enough for full participation in sector programmes discussed and organised in the recipient country and Germany can seem less and less visible in such contexts. Only in one instance so far, the education sector programme

in Ethiopia, has Germany been able to participate in a financial pooling arrangement. Elsewhere, there seem to be significant constraints on broad sector and programme support. For example, the KfW has not been able to feed balance-of-payments support to Mozambique through the Central Bank as requested by the government, which is trying to create a market-oriented foreign-exchange allocation system.

These blockages and redundancies in the German aid system have been evident to many observers for some time. But they now constitute a basic challenge to Germany's participation in a decentralised, policy-based development co-operation system. The dividing lines between policy and implementation, between development policy and political relations with individual developing countries, between development and diplomatic expertise are all breaking down. A serious examination of the aid system as a whole, going beyond the BMZ's internal review to involve all the main actors, seems needed to identify how to adapt to the new development co-operation context.

One key instrument for achieving better articulation and concertation in the German aid system could be the Country Concept papers produced by the BMZ. However, they would need considerable sharpening of their strategic content and the definition of the roles of each of the various agencies and co-operation instruments in the context of the partner countries' own development goals and strategies and the programmes and activities of the entire donor community. The Concept Papers were evaluated recently by the GDI, which found them to be too weak in these terms. Processes for better integrating country assessments by the AA into the formulation of development co-operation plans should be encouraged.

#### **KEY THEMES IN GERMAN AID: POVERTY, GENDER AND DEVELOPMENT- ORIENTED EMERGENCY ASSISTANCE**

Since the Rio Conference in 1992, sustainable development has been the major objective of Germany's aid effort and some 30 per cent of bilateral aid is devoted to the environment. However, sustainable development is seen as a much broader concept than the environment and other components of the sustainability equation, social and political, receive much emphasis.

Poverty alleviation at the grassroots level has been a theme of German development co-operation for nearly two decades; gender issues have also received attention for some time. The BMZ has now developed guidelines for the integration of poverty and gender into all project selection and design processes. Projects are not able to progress through to approval stage unless these dimensions have been satisfactorily incorporated. The GTZ has put considerable conceptual effort into its approach to poverty and gender since the early 1990s and has an internal Advisory Team on Poverty Alleviation, Gender and Process Management, successfully mainstreaming poverty and gender issues within this organisation. As mentioned above, the KfW has also been working to mainstream poverty and gender issues.

These are very positive developments. At the same time, it remains difficult to obtain an overall measure of the degree of poverty orientation in the German aid programme. The BMZ is pioneering a system for tracking the poverty orientation of projects, a challenge which all DAC Members are facing. While the BMZ system is sophisticated, it also illustrates the difficulties of making distinctions between targeted and general poverty orientation.

At the more macro level, an overview of what is happening in the whole German aid system with regard to poverty orientation is difficult to obtain. This can lead to political controversy when there are questions about how much German aid is devoted to basic social services for example.

Germany has a particular interest in issues of political stability and conflict resolution, both in general and in specific situations where Germany is directly affected as a recipient of refugees and asylum-seekers. The Political Foundations have played crucial but often unreported roles in assisting the positive evolution of political systems in developing countries. German humanitarian assistance is governed by a Co-ordination Committee which meets frequently, chaired by the Federal Foreign Office, drawing in the German NGOs active in this field, with agreed principles and a code of conduct. More recently, the BMZ has instigated a new policy instrument for development-oriented emergency aid, which has been operationalised by the GTZ. This effort has produced some impressive thinking and programmes, including in the area of reintegration of soldiers through employment creation in microenterprises.

## **AID VOLUME, PUBLIC SUPPORT AND DEVELOPMENT EDUCATION**

The decline in Germany's aid volume and ODA/GNP ratio is essentially related to general budget discipline associated with the Maastricht criteria. Some other important DAC Members have followed the same downward path, with the result that overall ODA from DAC Members is now around 20 per cent lower than in 1992. Germany has been the largest contributor of official aid to the countries of Central and Eastern Europe and the former Soviet Union, including both debt relief and special payments associated with the repatriation of troops from East Germany.

The strains of budget constraints on the aid programme are reflected in a growing problem in matching previous commitments with a shrinking annual operating budget. To ease a difficult situation, the KfW has recently begun to capitalise future repayments of aid loans due to the government and to apply this capital as new lending.

Public support for the development budget is not strong and public concern with development issues is not especially evident, despite the large environmental movement in Germany and the direct exposure to immigration and asylum seekers. The Parliamentary Committee on Development Co-operation is not one of the strongest, especially in relation to the Budget Committee.

A more strategic programme of development education could help to produce a more informed and involved public for development co-operation in Germany. It might be most effective to work in a targeted way at the local level, including schools, using the large numbers of ex-volunteer workers and building on the interest shown in the development co-operation activities with specific developing regions and municipalities by the Länder. The Internet is an exciting new tool in these contexts. As in other DAC countries these highly concrete activities seem to be more effective in generating interest and commitment than broader campaigns.

## **CONCLUSIONS**

The German aid effort is impressive in many respects, notably its range and depth. Germany is also the main contributor to the EU aid effort and is active in shaping EU aid policies, while not especially

comfortable with the basis for defining and working with the EU's partners. It is also strongly oriented towards the goals set out in the strategy agreed in the DAC in 1996, *Shaping the 21st Century: The Contribution of Development Co-operation*. The partnership principle which is central to this strategy is shared by Germany.

With aid volume down significantly and still apparently on a declining trend, and an aid system which is in the process of adapting to the demands of the new decentralised, policy and sector-based development co-operation modalities, the German aid programme is at a turning

point. Concrete actions to address these challenges might include:

- a new public commitment to begin rebuilding aid levels in the near term, easing the squeeze on the bilateral programme and enabling Germany to play a commensurate role in financing UN development agencies.
- a comprehensive review of the German aid system to enhance its capacity for concerted adaptation to policy and programme-based approaches to co-ordinated development partnerships.

## POLICY FRAMEWORK

### BASIC POLICY AND NEW ORIENTATIONS

The *Basic Principles of Development Policy of the Federal Government* adopted in 1986, stipulate:

“The aim of the German development policy is to improve the economic and social situation of the people in developing countries and to provide scope for their creative growth. It therefore helps meet the basic needs of the people and enable them to help themselves. It contributes to the development of a viable economy and social diversity as the prerequisite for the country’s self-sufficient development. And it promotes regional co-operation and facilitates the integration of developing countries into the world economy.”

The Basic Principles are supplemented by the *Concept for Development Policy* of the Federal Ministry for Economic Development and Co-operation (BMZ), published in October 1996. In addition there are the *Guiding Principles for Bilateral Financial and Technical Co-operation with Developing Countries of 1984*, which were updated in 1996, and a large number of sector and regional concepts. Further sources of policy guidance are the *Development Policy Reports* sent by the Federal Government to Parliament. The last (and tenth) report was submitted in February 1996. In line with changing conditions in developing countries, the international environment, international agreements, Development Assistance Committee (DAC) Recommendations, and in light of experience, the different policy guidelines have been regularly updated and new ones have been added.

Frequent ethnic and other conflicts, large-scale migration, often affecting Germany directly, growing worldwide environmental threats and the breakdown of the centrally planned economic systems have significantly influenced the orientation of German aid. These developments were already mentioned in the 1995 DAC Review of German development

co-operation, but they have not lost importance. Some problems have become even more prominent in recent years. Protection of the environment, conflict prevention, human rights, democracy and good governance, private sector development, greater involvement of civil society and poverty reduction have, therefore, become important factors in German aid policy.

A special further dimension since the beginning of the 1990s is assistance for the transformation of the Central and Eastern European countries (CEECs), including the New Independent States (NIS) of the former Soviet Union, countries with several of which Germany has had close relations for centuries. In this context, Germany holds the view that less developed countries in Europe deserve the same treatment as the traditional aid recipients. Aid should be distributed on the basis of poverty criteria and not according to the geographic location of recipient countries.

The 1996 Development Policy Concept identifies poverty alleviation, environmental and resource protection, education and training as the three priority areas of German development co-operation. At the same time, faced with a very large influx of refugees, crisis prevention and emergency relief are considered increasingly important in German co-operation with developing and transition countries.

As in other DAC countries, the pressure on the government to justify the use of taxpayers’ money for foreign assistance has risen. Germany, therefore, is paying increasing attention to the economic returns of the aid programme – a development related to its difficult economic situation and growing problems with unemployment. While this aspect has not been absent in the past, it has not been mentioned so often and clearly as in the last year. In December 1997, the Minister for Development Co-operation stated: “Development co-operation contributes also to strengthening Germany as a

business location and to safeguarding employment.” Although moral considerations and a broad approach to international security remain the main motives behind Germany’s development co-operation, the positive effects on the German economy are used as an additional argument to obtain a sufficient share of the Federal budget for aid programmes. For this purpose a study was initiated that will measure the positive impact of the aid programme on the German economy and employment situation. The initial findings are expected in August 1998.

In a joint press conference with the President of the Federation of German industry, the Minister announced more co-operation between official development assistance (ODA) and the private sector. Private sector resources, in particular private investments, should supplement ODA.

German development aid is seen as assistance for self-help and Germany attaches importance to the partnership principle. In line with the DAC Strategy (*Shaping the 21st Century: the Contribution of Development Co-operation*), the recipient country should be at the centre of the joint development effort. The active participation of the local population is considered a precondition for sustained success, and women should hold an equal share in the economic and social development of the aided country. In line with these principles German projects are carried out through institutions of the partner country. The report on the visit of German aid projects in Peru, *The German Aid Programme in Peru* (Annex 1) illustrates this approach.

Seeing that the framework conditions in the partner country influence considerably success or failure, the German authorities have in recent years begun to apply stricter conditionality than in the past. The following five criteria are seen as conducive to successful development:

- respect for human rights;
- popular participation in political decisions;
- the rule of law;
- introduction of a social market economy, and
- the development commitment of the partner government.

The five criteria are considered as a whole. The German Government has not set absolute standards. Rather it is the general trend which is evaluated. It is stated that positive trends result in intensified co-operation, while negative trends have consequences for the level and nature of German aid. Particularly acute cases of failure to meet the criteria may lead to the termination of co-operation. In line with these principles, several countries (Ethiopia, the Kyrgyz Republic, Mongolia, Uganda and Yemen) will receive more aid in 1998, while others will not receive new commitments (Cuba, Iran, Iraq, Liberia and Somalia). On the other hand, these criteria do not seem to be always applied with the same rigour in the policy dialogue with all partner countries, notably when other important German interests are involved, such as trade. China is frequently cited in this respect, although the German Government and Parliament have been more critical of the human rights situation in that country than many other donors.

## **POLITICAL RESPONSIBILITY AND POLICY COHERENCE**

### **i) The Federal Ministry for Economic Co-operation and Development (BMZ)**

A special ministry for development co-operation, the BMZ, was set up in 1961. Although the BMZ has to co-ordinate certain decisions with other ministries, it clearly is the main actor at the policy-making level and has a stronger position than the aid administration in many DAC countries. The fact that development co-operation matters are defended at the highest level of government by a minister who has his own ministry has certain advantages. As a member of the Cabinet, he has the possibility to influence decisions of the government, although the degree of influence and weight of the BMZ in the government is a matter of debate. The fact that the BMZ will remain in Bonn, when the government and Parliament move to Berlin in two years time, is likely to weaken its position. On the other hand, the interest of the German authorities to turn Bonn into a centre for development co-operation should logically give the BMZ a larger role. To reduce the disadvantage of this looming geographic separation from the rest of the government and the Parliament the BMZ is developing advanced communications systems (video conferencing, e-mail).

The main tasks of the BMZ are:

- the planning and elaboration of Germany's development co-operation policy, including sectoral, regional and country concepts;
- negotiations of projects and programmes with the partner countries;
- the financing and supervision of the public implementing agencies;
- financing and co-operation with non-governmental organisations (NGOs);
- donor co-ordination and representation of Germany in most international development institutions;
- control and evaluation;
- informing Parliament, the media and the population.

Since the last DAC review of German aid in April 1995, some changes were made in the administrative structure of the BMZ. In particular a fourth Directorate-General (DG) was established. The current structure is as follows:

- DG1 deals with general administration, budget, relations with NGOs, science and culture;
- DG2 with bilateral ODA for individual regions and countries;
- DG3 is responsible for the principles and instruments of bilateral co-operation, monitoring of results, promotion of the private sector, food and emergency aid and refugees;
- DG4 is responsible for multilateral aid, donor co-ordination, EU development policy and the drafting of policy and aid concepts.

The BMZ has a staff of about 580 (including part-time staff), some 20 less than in 1995. Due to budget restrictions all Federal ministries have to reduce their staff annually by 1 per cent to 1.5 per cent.

In view of the declining human and financial resources the BMZ has conducted a comprehen-

sive review of its functions. This review should provide a basis for streamlining the organisation and operation of the BMZ and indeed for a wider re-assessment of the German aid system.

## **ii) The Federal Foreign Office (AA)**

While the BMZ has the main responsibility for the development co-operation policy, the AA is responsible for the overall German foreign relations. Thus the two ministries jointly elaborate the principles and programmes of development co-operation policy and co-operate closely in its implementation. As a result of this division of labour, the AA has an important role in framework planning, allocation of bilateral commitments and even individual projects as well as management of the programme in the field. It has direct responsibility for about 4 per cent of ODA. Several divisions of the regional departments deal with developing countries. The departments for international economic affairs, for EU relations with developing countries, for the United Nations (UN), human rights and humanitarian assistance also cover issues of aid policy.

The AA is responsible for humanitarian aid and disaster relief, while the BMZ is in charge of development-oriented emergency assistance. In 1994, implementing agencies for humanitarian aid – NGOs and government institutions – formed a Committee for the Co-ordination of Humanitarian Aid which also includes the BMZ, and the Ministries of Defense, Transport and Health. The Working Group on Humanitarian Aid of the AA convenes the committee bi-monthly or to special sessions in case of emergencies.

The AA plays an important role in development co-operation through its embassies in the developing countries which organise monthly meetings of the implementing agencies. In the multilateral area the AA leads the negotiations for the Lomé Agreement and for Germany's participation in the European Development Fund (EDF), but the budget resources for contributions to the EDF are in the BMZ and the Federal Ministry of Finance, and the Federal Ministry of Economic Affairs (BMWi) is responsible for the co-ordination of the German position in the EU.

## **iii) Broader aspects affecting developing countries and coherence in national policies**

German aid officials stress the rapidly growing globalisation of problems. They are aware that



development co-operation has to be supported by adequate measures in other domains, such as trade, finance, environmental and agricultural policies, but they have relatively little influence in these domains.

Germany is endeavouring to improve the coherence of all policies which have an influence on the developing countries. The German Government is a strong advocate of an open-market oriented trade policy in the EU and is pursuing the same policy in the World Trade Organisation (WTO). With the dismantling of trade barriers, the developing countries can take advantage of the global division of labour.

Germany has a special programme for the promotion of developing countries' exports and for the participation of these countries in German and other trade fairs. This so-called Protrade programme includes the provision of short-term advisory services and of financial support for the participation of small and medium-sized enterprises in fairs in Germany and in other countries. The activities in 1996 included, among others, the dispatch of 650 experts for product and marketing advice, a financial contribution for about 1100 enterprises in 59 countries for their participation in 40 German fairs, information on markets and publicity campaigns.

German imports of goods and services from developing countries reached \$94 billion in 1996. This amount corresponds to \$1153 per capita, a relatively large amount if compared to per capita imports by other major OECD countries.

#### **iv) European Union aid programmes**

Germany is the largest contributor to European development assistance, and has always supported it as an important element of European policy. Germany, however, advocates a more global outlook for European aid. The *Basic Principles of Development Policy of the Federal Government* state in this regard:

“The Federal Republic considers it important that the European Community should look beyond its historical ties and seek co-operation on a global basis. It should therefore intensify its relations with the developing countries of Asia and Latin America.”

The German Government has submitted a position paper along these lines to the European

Commission (EC). It proposes a reform of EU relations with the developing countries whereby preference should be given to development considerations over historical and geographical ones, to overcome post-colonial structures. The Lomé Agreement has not, in the opinion of the German Government, achieved the desired success.

Germany aims to increase the efficacy and significance of EU development co-operation through co-ordination, complementarity and coherence, as foreseen in the Maastricht Treaty. A pilot project on operational co-ordination started in 1994 during the German Presidency has meanwhile been finalised. Germany supports the preparation of country strategy papers and in-country EU co-ordination through the flow of information and informal consultation. On key questions, joint EU opinions are seen as a helpful instrument *vis-à-vis* the partner government, but in this regard, Germany sees room for improvement. Co-ordination also takes the form of specific co-operative arrangements, such as trilateral co-operation (e.g. micro finance in Mali by the EC, France and Germany). In the area of coherence, trade and agricultural policy are contentious issues. The Lomé Agreement should be brought into line with the WTO conditions.

Germany considers that the operations of the EC should be improved and that the EC should not expand its aid activities to the detriment of Member countries. Implementation of EU projects should be left to national institutions of the EU Member countries. There appears to be some sentiment among German aid officials that given the EC's problems with project planning and the utilisation of funds, more German participation in EU project implementation is warranted. This position is not surprising given that EU aid programmes are taking a growing share of German aid, at the expense of the bilateral programme.

#### **COUNTRY, REGIONAL AND SECTOR STRATEGIES**

The country concepts were introduced in the beginning of 1992 as the central management instrument of the BMZ for the planning and co-ordination of all instruments of German development co-operation. They exist for more than 50 partner countries, and replace the previous less binding and less detailed country policy papers.

The country concepts consist of four main sections:

- core problems, development potential, and the political conditions for development of the partner country;
- main areas of future development co-operation in the light of past experience and the priorities of both governments;
- issues for policy dialogue;
- co-ordination with other donors.

The papers are prepared by the BMZ and are based, among others, on regular reports by the German embassies and supplemented by an analysis of the socio-economic situation (by the Bank for Reconstruction – KfW) and an analysis of the socio-cultural conditions (by specialised research institutes) in the recipient country. Suggestions made by NGOs, international organisations and the private sector can be included in the country papers. Implementing agencies, in particular KfW and the Agency for Technical Co-operation (GTZ) – the latter has its own country-wide project implementation papers – the AA, other ministries and NGOs are convened by the BMZ in so-called “country discussions”, where they can comment on the country papers and the proposals for future co-operation. Once approved by the Minister, the country papers are binding for official financial and technical co-operation and serve as a basis for the preparation of government negotiations, policy dialogue, the selection of projects, and the co-ordination with other donors. The country desks of the BMZ follow the implementation of the country concept. In doing so they make use of reports from the implementing agencies, the embassies and other sources.

The country concepts synthesise the country situation, the priorities of both governments, German development co-operation and other donor activities into a coherent concept for future co-operation with the partner country. The concept papers are internal BMZ documents and are not shared with representatives of partner countries since they may contain sensitive issues and judgements. The contents of the concept is, however, essentially based on the results of ongoing partner dialogue. The partner country is informed about the concept, its objectives and strategies during inter-governmental negotiations and on other occasions.

In view of the different political, economic and social situation in different parts of the world the BMZ prepared in 1992 and 1993 five **regional concepts** for development co-operation: Africa South of Sahara, Asia, Latin America, the Middle East and Mediterranean countries, Central and South East Europe and the New Independent States of the former Soviet Union. These regional strategy papers serve as a link between the overall conceptual framework and the country strategies. They highlight the most important development problems of the region and their repercussions for German aid. They examine the possibilities for the implementation of cross-cutting activities such as the protection of natural resources.

For the selection, design, preparation, monitoring and evaluation of projects and programmes, the BMZ is applying a variety of **sector (and subsector) concepts**. Besides the specific sector concepts, there are a number of cross-sector concepts: poverty alleviation; socio-cultural conditions of development co-operation; promotion of women in development co-operation; rural development; utilisation of local experts; promotion of the private sector, co-operation with the Indian population in Latin America. **Cross-cutting objectives** (poverty alleviation, gender, environment) are fed into project designs through the participation of the respective sector desks in project preparation. Specific codes indicating the relevance of the project for these objectives are attributed to the project files so that the cross-cutting objectives are taken into account throughout the decision-making process. During the last ten years the BMZ elaborated and issued some 30 sector and cross-sector concepts.

**Sector investment programmes (SIPs)** provide a common and coherent sector strategy for the continuation of regular projects. SIPs should be sector or subsector programmes which are established and implemented with the recipient government and the local partners.

Germany is involved in four SIPs (agriculture in Zambia, health in Uganda, education and roads in Ghana) in the form of parallel financing. This allows Germany to apply its own rules and procedures. It is not in favour of joint financing since it wishes to verify the utilisation of funds and attaches importance to the “visibility” of its contribution. For the time being the BMZ finds it impossible to provide general purpose or budget financing under the SIPs. However, aware of the burden that different donor procedures place

on the recipient country administration, Germany is participating, on an experimental basis, in the harmonization of SIP procedures in Ethiopia. Moreover, GTZ and KfW evaluate two of the SIPs to assess advantages and drawbacks of this new instrument and to draw some conclusions for its further conceptual development and implementation.

### **FOLLOW-UP ON DAC POLICY PRINCIPLES AND RECOMMENDATIONS**

Germany regards DAC Principles and Recommendations as the common frame of reference for partnership co-operation and as in harmony with Germany's own concept of development policy which emphasizes, in particular, poverty eradication and sustainable development. Explicit and detailed references to the DAC Strategy *Shaping the 21st Century – The Contribution of Development Co-operation* are, however, rare. The field visit in Peru showed that the partnership approach was systematically pursued and that poverty alleviation and environment protection played a major role in German co-operation. However, the DAC Strategy had not been discussed with the recipient country government and German aid officials were not particularly familiar with it.

### **PUBLIC OPINION AND PARLIAMENT**

Development co-operation does not figure prominently in public debate in Germany. While there is a general desire to assist the "Third World", evidenced by substantial personal contributions, the German public in general is apparently not much interested in a detailed discussion of aid policy issues. Few are convinced that development aid contributes to reduce German unemployment. On the contrary, more than a few people fear that it creates more competition for the German economy. Nevertheless, there is strong awareness in Germany of environmental protection as an issue which requires global action, including in and with developing countries. Moreover, there are – and have always been – a number of core groups pressing to alleviate poverty in developing countries through German aid. Supporters come from NGOs, but are also found in Parliament and in the diverse range of official institutions implementing the German aid programme. Although there has been little support for a larger official aid

programme, there have been no negative attitudes either. Moreover, Germans appear to be willing to support developing countries through fair trade. Fair trade shops can be found in many German towns.

The BMZ, as well as other government bodies and institutions dealing with development issues, are active in keeping the media and the public at large informed about development co-operation in general and topical issues in particular. It produces a number of publications including the annual Development Policy Handbook for Journalists, *BMZ-Aktuell*, annual reports, reports to Parliament and brochures on different topics (*One World-One Environment, Poverty Eradication – Why and above all How, Women, Co-operation with Developing Countries*, etc.). Since the end of 1996, the BMZ is present on the Internet with a website providing information on its organisation, tasks and concepts. In consultation with the Federal President the BMZ annually awards "development policy prizes" to journalists.

The aid administration provides financial support to programmes organised by some 50 NGOs and private institutions, most of which are active nationwide. It also contributes to some 240 local and regional groups active in the field of development education under a special "Action Group Programme". However, despite the emphasis placed on development education by the German authorities, disbursements for public information on development assistance and for development education are relatively modest and declining.

The German Parliament has a Committee for Economic Co-operation and Development (AwZ) which has 32 members. AwZ organises hearings on special issues of importance for both German aid policies and developing countries, including discussions of the problems of refugees and of environmental issues which inevitably touch also upon development policy. German parliamentarians are particularly interested in matters concerning the EU and its aid programmes (see section on the EU).

Alongside the AwZ, the Parliament's Budget Committee and its rapporteurs on the BMZ budget have an important influence on the development co-operation programme through their deliberations of the overall aid budget and its structure.

## IMPLEMENTING THE PROGRAMME

Germany has multiple systems for the implementation of its bilateral aid programme. Not only is there an institutional separation for financial and technical assistance, but the latter is implemented by a large number of institutions. Financial assistance is exclusively administered by the Kreditanstalt für Wiederaufbau (Bank for Reconstruction). The main channel for technical assistance is the Agency for Technical Co-operation (GTZ), but important roles are also played by the German Foundation for International Development (DSE), the German Development Service (DED), the Centre for International Migration and Development (CIM), the German Investment and Development Corporation (DEG), the five Political Foundations, the Carl-Duisberg Society (CDG), the German Academic Exchange Service (DAAD), Protestant and Catholic organisations and other NGOs. Last but not least, the KfW also finances project-related technical assistance to its counterparts.

### **THE BANK FOR RECONSTRUCTION (KfW) AND THE AGENCY FOR TECHNICAL CO-OPERATION (GTZ)**

**KfW** which was founded in 1948 is both a bank for the German economy and an institution for financial assistance for the developing countries. Its capital of DM1 billion is 80 per cent held by the Federal Republic and 20 per cent by the Federal Länder. The bulk of its activity is located in the domestic economy and this part of its business has been rising rapidly since reunification. As a result, the share of lending to developing countries has declined to 5 per cent of the total business of the KfW. However, since lending to developing countries is far more labour-intensive, it occupies almost one third of KfW's personnel. Three hundred and eighty staff work in the field of financial co-operation with developing countries, of which 296 are specialists working in three regional departments, one technical department, the legal department and a Secretariat of International Credit Affairs. In addition, KfW relies on a pool of approximately 200 external technical and economic experts who are

employed when the need arises. Until now, the KfW has operated almost exclusively from its head offices in Frankfurt, with field offices only in Eastern Europe and the former USSR, and in two developing countries. But in a new departure more field offices are to be opened in 1998 and 1999.

Under the financial co-operation programmes, KfW finances investments and project-related consulting services to expand economic and social infrastructure. The bulk of KfW's activities in developing countries consists of project and sector aid. Structural and general commodity assistance play a secondary and declining role. A special type of project assistance is the promotion of local development banks and credit co-operatives through which support for small and medium-sized enterprises as well as for the credit sector is provided. In recent years there was a certain shift from economic towards social infrastructure projects with increased attention being given to the protection of the environment, gender, and poverty reduction. The share of social infrastructure and services almost doubled from 22 per cent of project commitments in 1992/93 to 42 per cent in 1994/95, but declined in 1996/97 to 36 per cent. Most projects are related to the supply of drinking water, sewage and waste disposal, but the increase was most noticeable in the educational sector. The share of economic infrastructure and services fell substantially from 44 per cent in 1992/93 to 33 per cent in 1994/95, but rose again to 42 per cent in 1996/97. Most projects in this category concerned energy production and supply. In addition to the changing sector emphasis KfW is moving away from isolated projects towards sector aid in line with defined policies. In this context, KfW considers a harmonization of different donor approaches to a given sector important. Consequently, it harmonized its sector strategy with France and intends to do it also with the EC and other EU donors.

KfW is working today in over 100 countries with about 1600 development projects. KfW appraises the eligibility of projects according to development-policy criteria, supports the partner countries in their

preparation and implementation, and evaluates their success after they are completed. All projects are carried out by so-called project sponsors, *i.e.* local organisations in the partner countries which are selected during the project appraisal phase. KfW shares, however, the responsibility for the success of the projects. It advises the local organisations not only during the planning and implementation of the project, but in many cases also after their completion. KfW also promotes the training of the local staff of the partner organisations who operate the project.

Finance is mainly provided in low-interest loans, but an important part is in grants. The latter are extended to the least-developed countries, and to other countries for self-help oriented measures, for social infrastructure and environment protection and for credit guarantee funds for small and medium-size enterprises. Most funds are from the budget of the BMZ, but KfW also raises funds on the capital market which are combined with budget funds in so-called composite loans and mixed credits (see section on financial terms in Chapter 5).

For the preparation of projects and programmes BMZ has established study and expert funds, administered by the KfW. About 3 per cent of the financial assistance commitments (\$36 million in 1997) are reserved for feasibility studies. These feasibility studies are not limited to the project but embrace the whole sector and consider the activities of other donors. They are financed through grants. Other grants concern advisory services (over \$10 million per year) and special funds for short-term experts (\$10million per year). Since 1996 KfW has increased information activities in a reaction to the public demand for more transparency and the declining aid budget which began to pose problems for the KfW (see section on volume in Chapter5).

In addition to its activities in the developing countries, the Bank is involved with advisory services and projects in the countries in transition in Central and Eastern Europe and the former Soviet Union.

KfW works with the multilateral agencies on policy and economic reform issues to improve the framework conditions for the success of its projects. In future KfW intends to contribute increasingly to global issues such as climate protection and conflict prevention, and to private-public partnerships.

Under terms established by the BMZ, the co-operation between KfW and the GTZ was further increased in recent years. Both institutions are co-operating and complementing each other at the country level, the sector level or in individual projects. One hundred and forty-two projects (16more than in the previous year) were supported jointly in 58 countries at the end of 1996. These were mostly projects in resource protection, primary health care, basic education and rural water supplies. Each institution contributes its specific know-how to these co-operation projects. In the future local co-operation will be even closer, following the opening of KfW field offices which will share the premises with GTZ. This closer co-operation between the two institutions with different instruments and procedures is challenging, and some scepticism exists within the GTZ. However, the degree of overlap now between financial co-operation and technical co-operation is such that the KfW and GTZ are bound to develop even closer links.

GTZ was established in 1975 under a general agreement with the BMZ as the principal executing agency for technical co-operation activities. The GTZ also carries out projects for other Federal ministries. GTZ performs its tasks on a public-benefit basis whereby surpluses are used exclusively for development-related purposes. Since 1991 the German Government also uses the GTZ to support the development and reform processes in the countries in transition. Another activity is technical assistance against payment for other bilateral and multi-lateral donors or recipient countries with the agreement of the BMZ.

In 1996 the GTZ worked in 135countries on 858projects with its own personnel. The total turnover amounted to \$1.3billion. Its activities include advisory services for the BMZ and for organisations in the recipient countries, recruitment of experts, project-related training, provision of equipment for the projects and distribution of grants. In line with BMZ's policy, GTZ places increasing emphasis on private sector development and on improving the legal and administrative environment in developing countries to facilitate synergies between development co-operation and trade and investment activities by German industry. Another increasingly important activity is development-oriented emergency and refugee aid (see below).

GTZ headquarters administration is divided into eight departments of which four are regional depart-

ments and one deals with planning and development of various sectors, including refugee and emergency assistance. It has the task of advising the BMZ on the further development of its basic principles and instruments, designing strategies into which they can be incorporated and promoting and monitoring their on-site implementation. The GTZ head office supports the field structures with sector-specific, technical, commercial and administrative know-how and services when these cannot be mobilised locally. GTZ field offices and project staff are essentially responsible for advising partner institutions on the preparation of new projects and the implementation of German project contributions.

Following the formulation of new guidelines in 1994, the GTZ began to decentralise its activities in 1996. This exercise will last three years. The decision to decentralise was taken to increase quality and cost effectiveness in the light of budget austerity and to provide greater flexibility in planning and implementation through closer relations with counterpart organisations and target groups. The decentralisation should result in: *i)* greater client orientation, *ii)* greater country-specific know-how, *iii)* more flexible structures, *iv)* greater decision-making autonomy, and *v)* greater economic efficiency. While most country specific tasks have been transferred to the field office, the head office continues to deal with GTZ's core functions (country and regional management in Germany). Decentralisation led to a new operational structure called "tandem", which consists of the office director in the recipient country and the regional director in the head office. The former has authority over the expatriate staff and can hire local personnel but he is not responsible for the country programme. Expatriate project directors have full responsibility for individual projects.

The decentralised structure should permit savings through *i)* a reduction in duplicate work due to a clear division of labour, *ii)* better use of local expertise and more employment of local experts, *iii)* faster provision of services by locating the decision-making authority to the closest operational level. It should also lead to a larger share of projects financed by non-German sources. An assessment of the efficiency achieved is not yet possible since the decentralisation process is not completed. Initial evaluation results are expected in 1999.

A significant shift of responsibilities from the head office to the field offices has so far not been accom-

panied by a corresponding shift in personnel resources. Staff at headquarters declined from 1 292 in 1994 to 1213 in 1998 and headquarters expenditures remained at 11 per cent. In the field, the expatriate staff remained at close to 1600 people, while an increasing number of local staff are employed. The latter exceeded 8500 in 1997 as compared to 5 460 in 1994, of whom 1500 in professional positions. Thus, total project personnel was around 10000 in 1997. Most project staff are recruited for the duration of the project. Only 7 per cent of project staff are GTZ officials on leave from headquarters, and another 5 per cent to 7 per cent have long-term contracts, *i.e.* moving from one project to another. Field office directors stay three to five years in this position and then move back to headquarters or to another field office. About 30 per cent of GTZ projects are sub-contracted mainly to German consultancy firms.

For the purpose of increasing the use of local personnel, in 1996 the GTZ management issued guidelines for the utilisation of this personnel and intensified the training programmes. When employing local personnel GTZ tries not to weaken local administrations. Local experts are, in principle, also involved in all *ex ante* assessments of projects, with the aim of using as much as possible the know-how available in the partner countries.

In addition, some 800 German or other EU nationals are employed by a local firm in a developing or transition country as "integrated" experts at local salaries. They receive a supplementary salary and social security coverage from Germany. The programme for "integrated" experts is administered by the CIM, a joint undertaking by GTZ and the Central (German) Employment Agency with financial support from the BMZ. Most integrated experts are engaged in education and training, protection of the environment and private sector development. Since 1996, developing country experts who completed their academic or professional training in Germany are also entitled to participate in this programme. During 1996, 38 experts returned home, mainly Palestinian doctors and teachers. Their knowledge of the situation in their home country makes them particularly well placed to contribute to the development of the partner country.

GTZ activities on behalf of other donors – mainly EU, UNHCR and the Arab Gulf States – declined in recent years to less than 7 per cent of its contracts in 1996 and were lower than planned.

## OTHER SPECIALISED AGENCIES (DED, DSE, GDI)

Besides KfW and GTZ, there are several other semi-public aid agencies carrying out different tasks. They were created by the German Government, but are legally non-governmental institutions.

The **German Development Service (DED)** was founded in 1963 primarily for the provision of volunteers. In comparison with volunteers from other donor countries DED personnel is older – on average 37 years – and more experienced. The volunteers are required to have at least two years' practical working experience after the completion of their studies before they can apply for a DED assignment. On average they work three and a half years in developing countries mainly in agriculture, technical training, health, social work and small-scale business promotion.

DED is 95 per cent government owned and 100 per cent government financed. In 1996 it had a budget of \$88 million which financed 1 000 volunteers in 42 countries, mainly in Africa, and a head office staff of 150. The personnel is not limited to Germans, but includes other Europeans and local nationals. In the case of local personnel they have to be employed by local administrations with the DED topping up the salary. This contribution declines annually and ceases after six years.

DED does not have projects of its own but works inside projects of partner organisations. To start work in a country it needs the agreement of the BMZ and the AA, but its activities are not included in government consultations. The country programmes are proposed by the resident representative – DED has 33 field offices – who is fully responsible for its implementation. He has to report annually to the head office and comment on the activities of each volunteer. DED co-operates with other German institutions including the GTZ, the CDG and the CIM, and participates together with French and Irish volunteers in the European volunteer programme. The latter is primarily engaged in rural development in Africa. DED also provides some financial assistance in support of civil society in developing countries and is engaged in information and education work in Germany.

The **German Foundation for International Development (DSE)** is an institution for development policy dialogue and training which offers advanced courses to specialists and executive personnel from developing countries and more recently also from countries

in transition. In addition, it prepares German specialist personnel for their assignments in a developing country (about 1 200 per year) and maintains the largest documentation and information centre on development co-operation issues in Germany.

The DSE is supported jointly by the Federal Government and the Federal Länder. It has a decentralised structure with centres and conference facilities in several Länder. The bulk of the DSE programmes are financed by the BMZ. The Federal Länder of Baden-Württemberg, Bavaria, Berlin, North Rhine-Westphalia and Saxony place conference and training centres at its disposal.

The DSE works with partners in Germany and abroad. A strong partner is GTZ which helps to identify partner institutions abroad. A large part of the programmes takes place in developing countries and the rest in Germany. In 1996 half of the training (measured on a person per day basis) took place in the recipient countries. Since 1960 DSE has provided advanced professional training to more than 120 000 decision makers, specialists and executives from over 150 countries. At present the training and seminars involve some 10 000 participants every year.

The training is planned together with partner institutions in the developing countries and, when they take place on-site, also implemented with them. The training includes:

- Short-term programmes lasting up to three months in Germany or abroad, *e.g.* seminars or courses for middle-management specialists and trainers. They include the secondment of programme officers to support advanced training institutions in developing countries.
- Long-term programmes lasting between three and 24 months in Germany and developing countries, focusing on practical professional advanced training in direct agreement with professional institutions of the developing countries.
- Programme packages consisting of combinations of short-term and long-term programmes mutually agreed with partner institutions and covering a time-scale of several years. Such programme packages aim at supporting structural change and sustainability. Examples of programme packages are: the promotion of local government in Chile and the Philippines; a

training programme for regional planning and project management in Indonesia; and advanced training of teaching staff for the public health sector in Tanzania.

The DSE has developed networks with former participants to follow-up its programmes, to exchange experience and to update professional knowledge. It will exploit the new forms of information technology to facilitate continuous contacts and networking.

The **German Development Institute (GDI)**, which was founded in 1964, has the following three tasks:

- i) post-graduate training of German and EU nationals for professional work in development co-operation agencies;
- ii) research on development policy issues and advice to the German Government on development co-operation issues; and
- iii) consultancy work based on its research.

GDI receives 300 to 400 applications annually for its nine-month training course of which only 18 are selected. Since the beginning of the programme in 1965, 610 post-graduate students have taken this course, most of whom are employed by GTZ, KfW and international development institutions. Several work with the BMZ and the AA. In the field of consultancy work GDI has recently produced a study on German co-operation with South Africa, a critical evaluation of German country concepts, and provided advisory services to the Bolivian Government.

## THE POLITICAL FOUNDATIONS

The Political Foundations are a unique feature of German development assistance. There are five of them, the two oldest and largest of which are the Friedrich Ebert Foundation established by the Social Democratic Party and the Konrad Adenauer Foundation established by the Christian Democratic Union. The three others are the Friedrich Naumann Foundation of the Free Democratic Party, the Hanns Seidel Foundation of the Christian Social Union and the Heinrich Böll Foundation of the "Green" Party. The Adenauer Foundation works in 108 countries and is locally represented in 82 countries. For the Ebert Foundation the situation is similar, while the Seidel Foundation and the Naumann Foundation each

have 40 offices abroad and the Böll Foundation has ten. Since 1990 the Political Foundations have activities also in CEECs/NIS.

The Foundations are autonomous in conducting their activities, and are not subject to instructions by "their" party. They focus on political education and support for all groups of society in developing countries, such as trade unions, employers' associations, co-operatives and political parties. This includes the promotion of self-help groups and counselling for the management of mass media in developing countries. The Foundations develop longer-term concepts for democratic development, and work to strengthen the respect of human rights, the rule of law, good governance, decentralisation and local administration. They support the legal institutions and various local structures. They recognised the importance of democracy and good governance for successful development co-operation well before the bilateral and multilateral donors began to pay attention to these factors. They also pay attention to social security. A major advantage is their capacity to work with the opposition parties and groups since the official aid programme can only work with the government. This permitted, for example, the German Foundations to play an important and successful role in strengthening democracy in South Africa and Chile. Support for the ombudsman in Peru is another example. Several partner countries use the German Foundations to find out how other developing countries dealt with certain problems.

While by and large the Foundations have the same approach, there are, nevertheless, some differences of emphasis. The Böll Foundation concentrates more on the lower grassroots level, in particular on ecological and feminist movements, while the Seidel Foundation emphasizes vocational training. There exists some positive competition between the Foundations, which does not prevent them from co-operating and sometimes working with the same partners.

The Foundations work on the basis of the BMZ policy concept and conform to its financial regulations. All project proposals have to be submitted to the BMZ which finances almost entirely the development activities of the Foundations, and to the AA. The Foundations provide feedback on their experience to the two ministries and the BMZ receives a final report of the projects with the financial details after three years. In 1996 the Foundations received \$236 million from the BMZ. At the end of 1996 they had 275 experts



### Box 1. The German co-operation system in action: promotion of local government in Chile

A decentralisation policy was formally introduced in Chile under the military regime, but only after the return to democracy in 1990 was this policy truly implemented through the decentralisation of decision making and the introduction of local elections. As a consequence of their increased tasks and responsibilities, local administrations felt a need for training which could not be met by existing Chilean public service training systems.

Different German organisations contribute to meet these needs. The Ebert Foundation offers advice to municipalities and organises seminars to promote an exchange of information. One of these seminars led to the foundation of the Chilean Association of Municipalities (AChM) in 1993. Five years after its foundation, all 341 Chilean cities have become members of this association. It maintains contacts with corresponding organisations all over the world and shows an active organisational life. Mayors from all political parties co-operate, and common positions on municipal policy are elaborated and defended against other political bodies.

Another focus of AChM's activities is the provision of training for mayors, councillors and members of the municipal administrations. These activities have been supported by the DSE since 1994. In a comprehensive approach, the DSE aims at the strengthening of the didactic knowledge of local trainers as well as at the direct support of the AChM seminars. The DSE offers its advice, and finances about half of the costs of the seminar courses as well as part of the association's publications; 2 220 people have participated in at least one of the 55 training courses organised so far. According to a 1998 evaluation report, the DSE programme package was highly effective in promoting the organisational development of the partner organisation, and therefore, indirectly, in promoting the Chilean democracy.

The Adenauer Foundation, in co-operation with the Chilean research and training institute Corporación de Promoción Universitaria (CPU), focuses on capacity building in municipalities. Via the CPU, the Adenauer Foundation has supported a training programme for social policy administration specialists (in particular for municipalities) since 1990, and for employees of municipal administrations since 1992. Other activities in this field are supported by the DED, and the GTZ might also expand its general training activities to training targeted at the municipal administration.

Given the large number of German organisations involved in the support of the Chilean decentralisation process through training activities, the above mentioned evaluation report strongly recommends more intensive co-operation among the different agencies.

abroad under contract, often local people, working on 573 projects. This was less than in 1995 (292 experts) and in 1994 (326 experts). Their number is likely to have declined further since 1996 since the financial support from the BMZ fell somewhat to \$200 million in 1997 and 1998. The work in the recipient country is supplemented by inviting a large number of persons to Germany for training.

A recent evaluation of the activities of the Political Foundations in Chile and South Africa concluded that important local actors relied on the Foundations in crucial situations. Thanks to the relations of trust they were able to develop, the Foundations could arrange meetings between hostile camps. Even when the situation appeared hopeless they continued to work for peaceful solutions. The study also concluded that the activities of the different Foundations complemented each other, but that more co-ordination would be useful.

The Foundations did not join the Association for Development Policy of German NGOs (VENRO) but their relations with the other NGOs are said to be good. Relations with the GTZ improved in recent years. They meet once a year with the GTZ, and have common programmes in many countries, but they do not wish to work as subcontractors for the GTZ.

### OTHER NON-GOVERNMENTAL ORGANISATIONS(NGO s)

The BMZ attaches importance to co-operation with NGOs. Germany was the first DAC Member to introduce, in 1962, a scheme for cofinancing private activities in developing countries. Over 500 German NGOs of various size and background working in the field of development co-operation are financially supported by the BMZ, but the co-operation is characterised by the special role played by large institutions. The BMZ

spends 10 per cent of its budget and 7 per cent of total ODA on support to NGO activities. But this amounts to just one half the amount collected by German NGOs from private sources, which exceeded \$1 billion per annum in recent years.

For a long time NGOs did not have a common platform due to diverging political and ideological views, but in December 1995 they established, with the encouragement of the BMZ, the Association for Development Policy of German NGOs (VENRO). VENRO has 80 members of which six are regional umbrella organisations. It has a staff of six professionals who are financed through membership fees. VENRO serves as a forum for exchange of information and joint strategic planning, but also as a platform for dialogue with the aid authorities. New accents of development policy and other fundamental issues were debated with the BMZ. A discussion was also launched on ways of improving internal quality controls and enhancing the efficiency of development work. The churches and other NGOs also contributed their own particular experience and knowledge to the BMZ country- and sector-related work.

The creation of VENRO permits better and regular contacts between the NGOs and the government. VENRO established a working group to provide inputs into the country concepts of the BMZ. In 1997 a seminar was organised in India, involving the German and Indian Governments and the NGOs of both countries. Cofinancing arrangements with the government improved considerably, but VENRO wants to simplify the procedure still further, in particular for the smaller NGOs, permitting them to decide the allocation of funds for smaller projects. While NGOs appreciate their relations with the BMZ, the same cannot always be said of its relations with the GTZ. In particular, NGOs are opposed to the idea of receiving public funds through the GTZ, and do not favour direct GTZ contacts with Southern NGOs. They consider that the Southern NGOs are not yet in a position to deal with such a strong partner.

During the forthcoming election campaign, VENRO will organise activities in favour of development aid, but does not expect its activities to generate much attention since development aid is not an important preoccupation for public opinion and the parliamentarians. While this assessment is probably correct, it is somewhat surprising that neither the BMZ nor the NGOs have carried out a public opinion poll in recent years. A more precise knowledge of the attitude of the population towards development aid would

enable them to better focus information and development education work.

The largest members of VENRO and the largest recipients of public funds are the two major German Christian churches, which also raise substantial amounts of money from private sources. Both had created already in 1962 a central agency for development co-operation, the Protestant Central Agency for Development Assistance (EZE) and the Catholic Central Agency for Development Assistance (KZE) which receive funds from the government and from the churches for their aid activities. Between 1962 and 1996 the two agencies obtained DM6.7 billion (\$4.5 billion at the 1996 exchange rate) in public contributions, of which \$198 million in 1996, for more than 10300 projects and programmes. The churches themselves raised even larger amounts, in 1996 more than twice the official contribution. In addition, since 1991 they obtained \$11 million for activities in Central and Eastern Europe. KZE entrusted its tasks to *Misereor*, the largest Catholic NGO, which already in 1962 had experience with projects in developing countries. *Misereor* makes the assessment of project requests for the KZE, supervises their implementation and audits the accounts. For these purposes it has a staff of about 160. On the Protestant side the central agency is independent of the largest Protestant charity *Brot für die Welt* (Bread for the World). It has a staff of 80 entirely financed through funds of the church.

Church development work is oriented towards solidarity with the poor. It contributes in many different ways to providing lasting relief from suffering in the developing countries and creating just social orders. Co-operation partners in developing countries are normally local church organisations, but in special cases also secular NGOs. The churches' aid programme is so designed that the local partners plan and implement projects independently and, in doing so, involve wherever possible the sections of the population concerned as beneficiaries of the development activities. Encouraging individual responsibility and self-help is a prime objective even more than in official aid. In recent years there has been a clear trend of transferring more responsibility to the partners in the developing countries. This trend was accompanied by a move from projects towards programmes. EZE and KZE mainly support education and training, health services and other social infrastructure, agriculture, community development and institution-building. Many projects have more than one purpose. Particular emphasis is placed on the participation of target groups, sustainability and respect of human rights.

In response to a recommendation by AwZ, and to reduce the workload of the BMZ, since 1991 the two agencies have received block grants and in most cases are entitled to decide themselves which projects they finance. Thus, in 1996 EZE and KZE decided more than three-quarters of their activities. The approval of the BMZ is, however, still needed for projects exceeding \$3.3 million, activities in politically sensitive countries, projects involving major risks, and fundamentally new activities and instruments. At the beginning of each year EZE and KZE discuss with the BMZ desk for relations with the churches their past and future programmes. In addition, the central church organisations are involved in discussions of BMZ sector and country concepts as well as general issues of development co-operation.

Apart from the church organisations there are numerous other NGOs, including the German Red Cross, Workers' Welfare, German Freedom from Hunger Campaign, etc. They received together \$49 million in official contributions in 1996. This support is on a project-by-project basis, a procedure which some of them consider as cumbersome, in particular for small NGOs and small projects. To qualify for such cofinancing, NGOs must justify at least three years work experience in developing countries, show sufficient technical and administrative capacity and provide proof that the project has a direct impact on poverty alleviation. They must also make a convincing case of the reliability of their partners in developing countries. The projects must correspond to the development policy of the recipient country and to the basic principles of German development aid. They also need the approval of the AA.

As a rule government support covers up to 75 per cent of the project cost, but can in exceptional cases be as high as 100 per cent. The NGO has in principle to contribute at least 10 per cent. The remaining 15 per cent can consist of other public or local contributions. Administrative costs can be financed by the BMZ up to a certain limit. EZE and KZE bear their administrative costs themselves.

## **AID CO-ORDINATION AND FIELD REPRESENTATION**

The German Government considers it essential that the aid programmes of bilateral and multilateral donors be better co-ordinated to ensure the most effective and efficient use of available funds. It sup-

ports enhanced aid co-ordination through inter-governmental bodies. This applies particularly to co-ordination within the EU, but also within the DAC, World Bank consultative groups and through the United Nations Development Programme (UNDP). Germany welcomes the full endorsement of development co-operation as a community task by the Maastricht Treaty and notes with satisfaction that the goals for European development co-operation as mentioned in the Maastricht articles correspond to the goals for Germany's bilateral development assistance. Germany declared that it supports the efforts to improve the efficiency of European aid management through better co-ordination between Member States' bilateral aid programmes and the EC aid programme, and through the application of the principle of complementarity laid down in the Maastricht Treaty. Consequently, Germany has encouraged the attempt towards operational co-operation in a number of recipient countries. One example is Peru where it took the lead in setting up a regular and well functioning local co-ordination of EU donors.

The German Government also endeavours to achieve an improvement of aid co-ordination in bilateral consultations with other donor countries, notably France. A concrete measure is the agreement between the KfW and the Caisse Française de Développement concluded in January 1998. Last but not least it supports greater coherence among the international organisations whereby each organisation should concentrate on those tasks in which it has a comparative advantage.

The number and profile of German field representation has already been an issue at previous reviews of German development co-operation by the DAC. Under an agreement with the AA, the BMZ stations 24 officials in diplomatic representations abroad. This number has not increased over the years. During their assignment abroad they are integrated in the AA. Officials on secondment from the BMZ are present in the main recipient countries (9 in Africa, 6 in Asia, 4 in Latin America) and several multilateral organisations. The bulk of professional staff in German embassies dealing with aid matters are, therefore, career diplomats. Some 90 diplomats work full-time or at least half of their time as development co-operation officers. Another 115 professional embassy staff devote some time to development issues.

In carrying out its tasks the embassy – in line with established rules and procedures of co-ordination and

co-operation – makes use of the knowledge and advice of the personnel of the implementing agencies, in particular from the GTZ. Embassies have weekly contacts with the GTZ field office and organise regular meetings with all project directors, permitting an exchange of information and preparations for consultations with the partner country. In addition to their political and co-ordinating functions the embassies are authorised to finance small-scale projects which do not exceed \$10 000. The maximum amount per country and year is \$40 000.

Contrary to the small number of BMZ personnel in the recipient countries, the GTZ is well represented. At present it has offices in 61 developing countries each staffed by several people, mainly local personnel. These offices primarily provide logistical support for the implementation of projects, as well as information for headquarters and the embassy, but are also involved in local donor co-ordination and have contacts with the administration of the recipient country. In discussions the OECD Secretariat has had with the Peruvian authorities and other donors in Lima it became evident that some considered the GTZ office rather than the embassy to be their counterpart. This situation, which reportedly exists also in other countries, can create some uncertainty as to who is in charge of the German aid programme. Relations between the embassy and the GTZ representative in Lima are close and good.

While KfW so far has only two field offices in the developing countries (but several in the countries in transition), following an evaluation of their utility KfW will open six more in 1998 and another three or four in 1999. They will be staffed by one KfW and two to three local personnel. All offices will share the premises with the GTZ, but keep their institutional independence and separate terms of reference. Nonetheless, the sharing of the premises should facilitate communication and on-the-spot co-ordination of German financial and technical co-operation.

Apart from the aid section of the embassies, the 61 GTZ offices, and the twelve (future) KfW offices, there are also 33 DED field offices of which only one is a joint office with the GTZ. Given this large number of sometimes overlapping field offices the question has to be raised whether the present situation permits the most efficient approach and the most cost-effective one. In view of the tight budget situation, and for reasons of efficiency, the possibility of setting up a single German aid office in the partner

countries is now being considered. A first modest step in this direction has already been undertaken by GTZ and KfW. Since Germany is aiming at a closer integration of its financial and technical assistance, the opportunity of facilitating this integration through the setting up of joint field offices should not be lost. A unified development co-operation office would also facilitate co-operation with the authorities of the partner countries and the co-ordination with other donors, tasks which Germany endeavours to improve further. The decentralisation of GTZ activities and the intended strengthening of its field offices would be another reason for reviewing the present set up.

### **PERFORMANCE MEASUREMENT, EVALUATION AND OVERALL EFFECTIVENESS**

The BMZ has an evaluation unit, the Division for Success Control, currently staffed with five professionals. Since its creation in 1970 more than 1 000 evaluations have been carried out. Both ongoing and recently completed development projects and programmes are examined. However, in view of the large number of projects, the BMZ is only able to carry out spot checks. Every year approximately 60 projects, *i.e.* about 2 per cent of the measures financed by the BMZ are assessed. These evaluations form part of a comprehensive system of efficiency controls which the implementing organisations themselves carry out (project progress reviews, project completion evaluations and *ex post* evaluations).

BMZ evaluation results are made available to all responsible units within the Ministry, as well as to the implementing agencies. Partners in developing countries receive a translation of summaries of the evaluation reports. Moreover, the Ministry's evaluation division is responsible for the supervision of the implementation of the recommendations made by the evaluators. After approximately one year, the units of BMZ responsible for individual projects report about compliance or give reasons why certain recommendations have not (yet) been followed. The implementing agencies report regularly in compliance with these recommendations through their respective reporting mechanisms. Furthermore, general recommendations and criteria derived from the evaluation findings are incorporated into the BMZ's policy and sector papers, which serve as guidelines and a basis for decisions concerning the selection, planning and implementation of similar projects in the future.

The projects to be evaluated during the course of a year are included in an annual plan. Independent expert evaluators are engaged in order to evaluate the projects in accordance with a standardized evaluation scheme, taking into account both developmental and essential technical aspects. This scheme is based on a framework of criteria which has been developed by the DAC Expert Group on Aid Evaluation in order to make evaluation results as comparable with those of other donors as possible. About half of the evaluation teams are led by a member of the BMZ.

While a number of DAC countries publish full evaluation reports, the German evaluation reports are confidential. They are primarily intended for the internal use of the agencies responsible for the projects, so that they will improve planning and preparation of future projects and programmes. The Parliament and the general public are, however, kept informed through the publication of condensed cross-section analyses of all evaluations. The German Parliament has been interested in these yearly synthesis reports and has in the past suggested improvements on that basis. The report covering BMZ evaluations carried out in 1994/95 was published in the series "BMZ aktuell" in February 1997. The most recent study covering BMZ evaluations of 1995/96 is available as a draft.

According to both reports, the developmental impact of the projects has been mainly positive. Negative impacts reportedly occurred only in very few cases. However, comparing the impact achieved with the projects' objectives lead to disappointing results in about one quarter of the cases evaluated. As regards sustainability, the 1994/95 study reports serious problems in about 40 per cent of the cases evaluated, and the draft report on 1995/96 evaluations states that only in at maximum one third of the projects sustainability can be expected. For about onequarter of the cases, evaluators see no way in which the projects could attain sustainable results.

Different factors are influencing these results. While project implementation is generally considered to be a strength of German development co-operation, problems are encountered regarding the definition of objectives and project planning. Although some improvements are reported, much remains to be done, in particular regarding targeting and setting up the conceptional base of the projects. In the 1994/95 report, monitoring, especially impact

monitoring, is also considered to be a main weakness. The later report, however, does not see major problems in this field any more. Among external factors influencing project results, inefficiencies and organisational shortcomings of the local project executing agencies are considered most important.

Currently the above described evaluation system is undergoing some major changes. In April 1997, the BMZ decided to shift the responsibility for single project evaluations to the implementing agencies KfW and GTZ which have been instructed to apply the DAC *Principles for Evaluation of Development Assistance*. From 1998 onwards, the Ministry's evaluation division will concentrate on sectoral, thematic or instrument related evaluations. Individual projects will be evaluated only in this broader strategic context or if they are of particular political importance. This reorientation of BMZ evaluation activities towards politically and strategically important issues corresponds to the recommendations made during the last DAC Peer Review.

The implementing agencies follow their own quality control systems. These systems rely heavily on self-evaluations. Decentralisation of GTZ activities brought about some changes in the organisation of these self-assessments: the responsibility for project evaluation has been moved from headquarters to the field. The evaluation team is now selected by the project director, a practice which could give rise to questions concerning the rigour and objectivity of the evaluation. However, projects implemented by GTZ and KfW undergo a multiple check, first through internal quality control managed by the operational departments, and then through external control by leading German auditing companies, the BMZ and the Federal Court of Audit. Furthermore both GTZ and KfW have independent evaluation functions. In the KfW the Sector Policy Department has the responsibility to discuss the results of final evaluation reports with the responsible operational departments which had carried them out. The department's special evaluation unit, staffed with six professionals, mainly deals with intersectoral and methodological issues. In the GTZ the Quality Assurance Unit got direct evaluation responsibilities following the delegation of individual project evaluations by the BMZ in 1997. It is equipped with a staff of eight professionals who supervise and organise evaluations of selected projects, especially when particular problems arise.

Self-assessments of KfW and GTZ do not only cover the monitoring of the progress of the projects,

but also include a final assessment of all operations. Besides final inspections of the investments, the KfW carries out *ex post* evaluations of each operation three to five years after the completion of the investment phase, and a few long-term assessments as much as 20 years later

Both KfW and GTZ publish summary reports on their evaluations. The KfW has published four reports since 1991 based on the verdict of the independent auditing company. The most recent report published in December 1997 covers all 177 projects and programmes that underwent an *ex post* evaluation in 1994/95. In two-thirds of the cases, development results were rated very good, good, satisfactory, or at least altogether adequate ("successful"), while one-third of the operations were considered to show inadequate or clearly insufficient results or to be complete failures ("unsuccessful"). The previous report covering the *ex post* evaluations carried out in 1992/93 showed some slightly better results. The differences do not appear to be significant, however.

The criteria of the rating system are: achievement of objectives, economic, social and environmental impacts, commercial viability and sustainability, whereby the weight given to the individual criteria varies depending on the projects' objectives. The problems to achieve sustainable results which represent a major concern in the BMZ evaluation reports, appear to be less prevalent for the KfW financed operations.

As in the previous report, the main reason stated for unsuccessful operations was the inadequate fulfilment of obligations and tasks by the partner government and the local project-executing agency. KfW expectations were too optimistic in these cases. In other cases, expectations were too optimistic regarding the demand for the services provided. The previous study furthermore observes some planning deficiencies. In both reports the manufacturing industry achieved the poorest results. Above-average results were obtained by the operations in social and economic infrastructure.

For almost twenty years the KfW has co-operated with the Caisse Française de Développement. This has also resulted in joint evaluation efforts. In 1997 both agencies developed common evaluation criteria in the financial sector and applied them to their co-operation programmes for the promotion of rural financial systems in Mali. Since the experiences were positive, further joint evaluations are planned for the future.

GTZ has so far undertaken three major cross-section analyses of the effectiveness of its activities in 1994, 1996 and 1997. The third report covered all 88 projects completed in 1995 and a random sample of 81 ongoing projects. The results are based on the GTZ's self-evaluations checked and confirmed, however, by the independent auditing company on the basis of a random sample comprising 25 per cent of the completed projects. Overall, four-fifths of the completed and ongoing technical co-operation projects were considered successful or satisfactory. This compares well to the result of the previous study where about three-quarters of the evaluated projects got a corresponding rating. Comparing the three cross-section studies completed so far, no general trend appears, however.

The German contribution to achieving the project purpose was considered successful or at least sufficient in 93 per cent of the evaluated projects. The partner country's contribution was, however, regarded as unsatisfactory in more than one-quarter of the cases. Just like the KfW, the GTZ admits that the capacity of partner organisations was sometimes overestimated: "in 16 per cent of the ongoing projects, the project design was not tailored to the performance capacity of the partner organisations." Sustainability, defined as "the extent to which the partner organisations and target groups are willing and able to self-reliantly continue and further develop the innovations effected by the project" was considered to be achieved with a high degree of probability in 58 per cent of the cases. In 30 per cent of the projects, this probability was perceived as moderate, and in 12 per cent of the projects, it appeared to be low.

Successful projects generally achieved high target group identification. The designation of suitable project partners and eventually their gradual capacity development turned out to be key requisites for project success. Flexible adaptation of the project concept and the project objective to the partner country's situation – particularly the changing frame conditions – proved to be another important feature of successful projects.

The GTZ's characteristic strength is seen in the provision of services, inputs of resources and technical solutions. "The appropriateness of applied technology and the inputs to the completed technical co-operation projects in form of seconded and local personnel, materials and equipment were given very

positive ratings.” This finding is in line with the positive scoring of implementation as compared to the definition of objectives, planning and monitoring in the BMZ evaluations.

Other institutions implementing development projects or programmes financed through the BMZ budget also have to carry out monitoring and evaluation activities. According to the BMZ guidelines revised in January 1998, they have to report on the progress of the project once a year. In this exercise as well as in a final project completion report, objectives and achievements of the projects have to be compared. Furthermore, the implementing institutions have to undertake evaluations and the BMZ carries out spot checks.

Among the numerous evaluations carried out by the BMZ in this context in recent years, two country evaluations regarding the activities of the German Political Foundations are of particular interest since they represent the first comprehensive studies of this particular kind of activity. Both evaluations were completed in 1995. They were carried out as an overall appraisal of the activities of the different foundations over the whole period of their work in the country and not as a project-by-project evaluation. South Africa and Chile, the two countries chosen for the evaluation exercise, both went through a successful democratisation process. In both cases the work of the foundations was considered very helpful in strengthening the different opposition groups, promoting political dialogue, reducing ideological barriers and contributing to a common understanding of basic democratic values through a pluralistic and very flexible approach.

Besides project/programme effectiveness, training activities are also evaluated. The DSE assesses the success of its training activities through a follow-up of the career of the participants. Participant surveys indicate for instance, whether the trained experts found a corresponding job in their home country and how they rate the practical applicability of the techniques and skills acquired in the course.

Thus, besides administrative and purely research-oriented activities, the activities financed through the BMZ all undergo a more or less systematic evaluation. It is not clear, however, to what extent this is true for that part of the German development co-operation programme which is financed out of other budgets, *i.e.* the budgets of other ministries, of the Länder and of the cities.

Concerning the overall effectiveness of the German aid programme, the BMZ states that:

“... trends are clearly pointing upwards. Two major evaluation exercises on objectives-oriented project planning (ZOPP) and the country programming approach have demonstrated that greatly improved planning techniques influence the whole project cycle in a positive way. The annual synthesis reports of all evaluations point in the same direction. Nevertheless, further improvements are called for, particularly in the area of institutional analysis and more realistic goal-setting and time frames. The interaction between the overall framework conditions at the macro-economic and sectoral levels and aid performance, particularly at the project level, continue to remain unclear in many ways.”

## POVERTY REDUCTION AND GENDER

Poverty reduction is a prime objective of German development policy. Already in 1983, the BMZ created a special staff panel for poverty reduction co-operating with NGOs which already had considerable experience in this field. Since 1989 the "Working group on promoting poverty reduction by promoting help for self-help" has provided a regular forum for the exchange of ideas and experiences among the BMZ, the implementing agencies and NGOs. As indicated by the name of the working group, from the beginning a high priority was given to participatory and self-help approaches. In 1990, this resulted in a first policy paper *Fighting Poverty through Self-Help*. This paper was complemented in 1992 by a second paper *The Main Elements of Poverty Reduction* clearly establishing poverty reduction as a cross-cutting task of all German development activities. The paper further focused on structural reforms as the means to address causes rather than simple outward manifestations of poverty. Other strategic policy papers followed in the course of the 1990s, setting a sound strategic base to the poverty alleviation efforts of German development co-operation.

The concept of poverty reduction through self-help was discussed and adopted by the German Parliament. In 1991 and in 1995 the BMZ and a number of German governmental and non-governmental organisations reported on the progress of poverty reduction to the Parliamentary Committee for Economic Co-operation and Development. In January 1998, the Parliament reinforced all previous decisions on the issue and requested the government to implement the strategy through an even stronger focus on self-help projects and programmes in co-operation with self-help groups of the poor and local NGOs. At the same time, traditional basic-needs strategies as followed in the 1970s were rejected as having proved to be ineffective.

The BMZ "Guideline for assessing the poverty orientation of development co-operation projects" which came into effect in January 1998 also emphasizes the importance of a participatory approach. For a project

to be considered as involving poverty reduction, some degree of participation of the poor must be guaranteed. Furthermore, poor people must be a significant part of the target group and the project has to improve their living conditions as well as their productive potential. Finally, the project has to operate in a poverty-oriented environment. The indicators for the fulfilment of these criteria differ between "direct poverty reduction" and "comprehensive poverty reduction" projects (see below).

As the majority of the poor are women, the BMZ looks upon the consideration of gender roles as a prerequisite for successful and sustainable poverty reduction. Specific conceptual papers, closely related to the cross-sectoral concept papers on poverty alleviation, have been developed on the *Promotion of Women in Developing Countries* in 1988 and on *Gender Equality* in 1997. The latter constitutes a binding guideline for the formulation of official German development co-operation by the BMZ and its implementing agencies. It provides specific guidance on how to "en-gender" development co-operation. More than the former WID approach, the concept on gender equality focuses on the need to address the relationship between sexes, rather than to target women alone.

Just as for poverty alleviation, the goal of equal opportunities for women and men is recognised as a significant cross-sectional task in the 1996 Concept for Development Policy of the BMZ. This implies that for all conceptions and measures under German development co-operation, the impact on women must be investigated. Since 1992, all project reports, whether women-specific or not, have to specify the anticipated effects on women (specifically positive, risky or negative). If no gender-effects can be recorded, this has to be stated explicitly. The officials responsible for women and youth in the BMZ obtain all project documents of technical and financial co-operation during the planning phase, permitting verification that gender aspects are being taken into account.



### Categories for projects involving poverty reduction

| Criteria                     | Direct Poverty Reduction<br>(target group clearly identified and reached directly)                   |   | Comprehensive Poverty Reduction  |
|------------------------------|--|---|--|
|                              | Self-help projects   | Other direct poverty reduction                      |  |
| 1. Targeting                 | Proportion of poor in target group 50 per cent or as high as in the region (lower limit 30 per cent) |   | Poor in the region/country benefit from indirect impact of the project |
| 2. Expected impact           | Project improves living conditions for the poor and promotes their productive potential              |   |  |
| 3. Participation of the poor | Ownership and self-organisation  | Contribution to and identification with the project | Participation mechanisms present in principle                          |
| 4. Project environment       | Favourable local framework conditions<br>Guaranteed scope for NGOs to act                            |   | Plausible causal chain to improved living conditions for the poor      |

Source: BMZ, *Guideline for assessing the poverty orientation of development co-operation projects*, p. 4 (shortened).

In terms of administration, the interrelation between the goals of poverty alleviation and gender equality is reflected by the merger, in 1996, of the individual units into a larger division on “poverty alleviation and gender issues”. This division is responsible for the mainstreaming of both issues within the development co-operation programme. Besides its conceptual work, the division thus contributes to the preparation of country and sectoral concepts as well as to the selection of individual projects and has the final word on particular questions of major interest.

Building on the basic understanding of poverty alleviation and gender as cross-cutting issues, the major German implementing agencies are also working to mainstream their efforts in these fields. To this end the GTZ created an innovative organisational structure. In the mid-1990s, know-how on poverty and gender was re-allocated on a cross-departmental basis to different units of the organisation. While the overall responsibility remains in the Strategic Corporate Development Unit, direct consultancy is provided by special advisors on poverty reduction, gender, and process management in individual country departments. In addition, two officers in charge of the special gender and poverty reduction pilot programme support the country departments and the Planning and Development Department through the development of technical concepts and country strategies and provide assistance for their implementation. As part-time members of “Thematic Teams”, officers from the sectoral divisions and the Personnel Department as well as co-workers in the field co-operate with those permanently responsible for poverty and gender advisory services.

Further, the GTZ is integrating the cross-cutting issues of poverty and gender into its strategic tools such as the Project Cycle Management (PCM) and ZOPP. Since ZOPP was found to be too inflexible and often to neglect the participation of the target group, new guidelines on PCM(1996) and ZOPP(1997) now emphasize flexibility and partnership. A cross-departmental “Advisory Team on Poverty Alleviation, Gender and Process Management” was created in August 1997 to ensure the integration of poverty and gender aspects in all co-operation principles and standard procedures.

The efforts to integrate these issues into all fields of the agency’s work are reflected in comprehensive GTZ documentation on gender and poverty reduction. While the elaboration of general policy papers is left to the BMZ, the GTZ focuses on directly project-oriented strategy papers, training manuals for project management and sector-specific documents.

In the KfW, although not reflected in the administrative structure, poverty and gender issues are mainstreamed. Poverty and gender-related assessments form part of target group analyses. These issues are being dealt with in one of KfW’s Sector Policy Departments. Similarly to the BMZ and the GTZ, the agency aims to familiarise its staff with these issues through training, e.g. via exposure and dialogue programmes or the participation in pilot schemes. In their 1997 evaluation synthesis reports, both KfW and GTZ report specifically about the effects of their work on poverty reduction as well as about the women-specific impact of their projects. In a recent assessment the KfW observed a tangible impact on the

situation of women in only 29 per cent of the projects. This impact was reportedly positive in all but three (out of forty) cases.

Among the projects assessed by the GTZ upon completion, almost 80 per cent explicitly include women as part of the target group. In 38 per cent of the projects the impact on women was reported to be very good or good, in 35 per cent of the projects it was satisfactory. The evaluation of ongoing projects led to even better results. It is interesting to note, however, that for both completed and ongoing projects, the evaluation shows a clearly stronger positive impact for men.

Concerning poverty alleviation, the GTZ evaluation reported very good or good results in about half, and satisfactory results in about one quarter of the ongoing projects. The KfW holds that 64 per cent of the projects helped to alleviate poverty. In both agencies, direct as well as indirect effects were taken into account. The relevance of indirect effects is particularly high for the KfW since only about one fifth of the projects directly affect the poor.

Since a detailed analysis of the causal chain which can lead to an indirect impact on poverty alleviation is extremely complicated, the KfW evaluations generally rely on the assumption of some plausible cause-and-effect links. However, for selected countries and sectors, external experts have been in charge of an in-depth analysis. They investigated the contribution of railway projects to poverty alleviation in Tanzania and Bangladesh, as well as in the contribution of electricity projects to poverty reduction in Egypt and Indonesia. The results of those studies vary considerably. While a contribution to poverty-alleviation could be deduced for Indonesia, this was not the case for Egypt and Bangladesh, and only to a rather limited extent for Tanzania. As the main reasons for unsatisfactory results, the studies point to the inefficient sector policies of the partner countries as well as the insufficient integration of poverty aspects in general government policies. The study on Tanzania further emphasizes that even though some positive impact on poverty alleviation can be reached through railway projects, this impact will always remain modest in comparison to a contribution to other sectors such as education, health or social security.

Besides GTZ and KfW, other governmental and non-governmental organisations also follow specific poverty and gender policies. The DSE for instance,

developed particular gender guidelines in 1997. The selection of participants for DSE seminars and the choice of training materials are based on these guidelines. Among the Political Foundations, the Heinrich Böll Foundation follows the most direct poverty approach with a strong emphasis on gender issues. Other Political Foundations rather emphasize the structural effects of their general democratisation policies. Many NGOs seek direct effects in combination with a structural impact through the promotion of the organisation of the poor. Some German NGOs further consider advocacy in Germany itself to be part of indirect poverty alleviation. They focus on reforms in industrialised countries, especially regarding trade and foreign policy, to create the necessary international frame conditions for successful poverty alleviation efforts.

The share of poverty and/or gender-oriented projects in German ODA is difficult to determine due to the lack of precise internationally agreed criteria. The BMZ's own efforts to identify and classify projects or programmes dealing with poverty alleviation led to the 1998 Guideline mentioned above. This guideline could help to more clearly demonstrate Germany's efforts to reduce poverty. However, the criteria used still seem to be too subtle to allow consistent judgements on the classification of projects.

Thus, estimating the share of German aid which impacts directly or indirectly on poverty is, as for other DAC Members, not easy. Self-help poverty reduction oriented projects doubled from 8 per cent of ODA in 1991 to 15.8 per cent in 1996, but fell short of the original budgetary planning figure of 18.6 per cent. The planning figures for the following years declined significantly to 14.2 per cent in 1997 rising slightly to 15.1 per cent in 1998. It is therefore not clear that increased priority is going to these projects, in terms of the policy declaration. More broadly, according to data supplied to the DAC, only 4 per cent of German bilateral commitments in 1995 concerned basic education and 1.4 per cent basic health, so a total of 5.4 per cent of Germany's development assistance was allocated to these basic social services. Given the high-leverage impact of basic social services on well-being and poverty reduction, a review of the allocation of aid flows might be appropriate. However, it should be noted that since 1995 the BMZ statistics show a share of bilateral ODA for basic needs above 50 per cent. This reporting problem is unfortunate as it creates confusion and controversy.

Germany supported the 20:20 initiative at the 1995 World Summit for Social Development in Copenhagen. 20:20 has since then been integrated as a political goal in some agreements with developing country governments. However, there has been no rising commitment to basic social programmes in general and much remains to be done in order to operationalise the initiative.

Germany also made a number of commitments in the context of the 1995 World Conference on Women in Beijing. For the years 1996-2000, \$40 million are set aside for legal and socio-political advisory services for women, of which \$9million were committed in 1996. Under this scheme, Germany supports local organisations in Africa, Asia and Latin America. In Namibia, Cameroon and Guatemala, Germany advises the government on legislation for women's rights. In Kenya, Germany has a project to fight prostitution through training for other sources of income.

German NGOs are disappointed about the implementation of the commitments made at these major international conferences. They hold for instance, that the scheme developed following the Beijing Conference lacks strategic elements. They further point out that between 1995 and 1997, the BMZ budget indi-

cated a reduction rather than an increase of the share of basic education and basic health.

In general, it appears that there are divergent views in the German aid administration between those who want to keep poverty reduction as a priority goal of development co-operation and those who prefer to gear German aid increasingly towards private sector development. To reconcile the two tendencies it is sometimes stated that private sector development can be a useful way of reducing poverty. Evaluation reports indeed suggest that, for instance, support for small and medium-sized enterprise development in addition to rural development, has been successful in reducing poverty. It has to be kept in mind, however, that private sector development does not by itself take care of the problem of poverty.

A detailed analysis of the poverty issue is available in a study of the German Development Institute entitled *German Aid Policies for Poverty Reduction*. The study concludes that "poverty reduction as a priority of German development co-operation is a realistic aim. What matters is to concretise the overall concept [...] and to give poverty reduction the priority stated in the policy papers". The same seems to be true for the gender approach which has been well conceptualised, but will need some more effort before it is fully implemented.

## OTHER DEVELOPMENT PRIORITIES

Apart from poverty alleviation, the other main focal areas of German aid are environmental protection and resource conservation, and education and training. Another important area is the promotion of the private sector.

### ENVIRONMENT

German public opinion is particularly sensitive when it comes to the protection of the environment and of natural resources. It is therefore not surprising that environment protection and resource conservation is the second focal area of German development co-operation. According to internal BMZ guidelines at least one quarter of bilateral ODA should, on average, be used for projects which serve primarily and directly environment and resource protection. This target has been met. Between 20 per cent and 27 per cent of German bilateral aid commitments were annually devoted to this sector during the years 1990 to 1996. Moreover, environment protection which is interrelated with sustainable development, is not only a key sector, but permeates all sectors of German co-operation, notably through environmentally sensitive design and environmental impact assessments of most development co-operation projects and programmes. Environmental objectives and concerns are taken into account at the earliest possible moment in the project design phase, and are monitored during the implementation phase through regular reports. They play a major role in country concepts and in the policy dialogue with the partner countries. There is no doubt that the German aid programme is largely shaped by environmental considerations.

Germany aims at placing economic development in the partner country on an ecologically sustainable basis. This is done through promoting national environmental policies, legislation and control, concentration on projects which have a major environmental impact, development and provision of environmentally friendly technology, support for the international and regional initiatives and efforts.

The projects concern, among others, measures to reduce air pollution, sewage, elimination of garbage, biological plant protection, ecological agriculture, environmentally compatible power stations, irrigation systems and industrial plants, fight against desertification and reforestation.

Germany pays particular attention to the conservation of tropical forests notably in Brazil. It is the largest contributor towards the protection of tropical forests, with annual payments in recent years of between DM 250 million and DM 300 million (\$133 million and \$200 million). The International Pilot Programme for the Conservation of the Tropical Rain Forest in Brazil goes back to an initiative of the German Federal Chancellor at the 1990 G-7 Summit meeting. Germany contributes 60 per cent of the resources. Started in 1992, this programme had a slow start and so far little headway has been made in preventing the continuing destruction of large areas of tropical forest. Destruction of the Amazon rain forest nearly tripled between 1990-91 and 1994-95, surpassing the years of deforestation that set off the international programme. However, this is a complex undertaking and results will take time.

In the context of debt relief negotiated in the Paris Club, Germany offered many developing countries the possibility to forego part of its claims if the amounts are used by the beneficiary country for environment-related projects. In 1996, this possibility was broadened to include poverty alleviation projects. An amount of DM 200 million (\$133 million) is allocated in the 1996 aid budget for this purpose.

Germany actively supported the creation of the Global Environmental Facility (GEF) and is in favour of using this Facility as the central financing mechanism of the global environment conventions. It emphasizes the link between development co-operation and the initiative for the protection of the global climate for which \$50 million are made available.

### Box 2. The protection of indigenous communities and natural resources

The protection of indigenous communities and natural resources in Brazil is an example of German aid for the protection of the environment and for poverty reduction. To safeguard the survival of ethnic minorities in the tropical rain forest and to protect their habitats from further settlement, KfW and GTZ are supporting the demarcation of indigenous lands. In around 80 areas, swaths are being cut into the forest to identify the boundaries, and signposts are being erected. The conspicuous identification of the lands is the basis for the legal recognition of indigenous settlement areas. The respect for these boundaries, which must not be trespassed by settlers or enterprises, is being monitored by the indigenous communities with the support of the Brazilian Agency for Indigenous Affairs (FUNAI). For this purpose observation points are set up along the demarcation lines. At present, the demarcation is being carried out in 30 indigenous lands. By the end of 1997 a total area of around 205 000 square kilometres is scheduled to be demarcated. An estimated 40 000 to 50 000 indigenous people live in these protected areas.

The project touches a politically delicate issue in Brazil. Already when it was being prepared, great political resistance had to be overcome. Numerous legal objections were raised against the demarcation. However, the worldwide attention and pressure from the countries which are supporting the Pilot Programme to Conserve the Brazilian Rain Forest helped to bring about a rapid denial of the objections, so that demarcation could begin.

## EDUCATION AND TRAINING

Measures in the field of education and training aim at building up the necessary manpower capacity for sustained development in the partner countries. German activities concentrate on basic education, vocational training and institution building. Technical/vocational training is a sector in which Germany possesses great experience. Priority is given to technical training, but the service sector is receiving increasing attention. Technical and vocational training is often provided by German enterprises not only in Germany but also in developing countries and by integrated experts. A description of a vocational training programme is contained in "The German Aid Programme in Peru". Support for basic education is mainly provided through NGOs. In this sector Germany also co-operates with the United Nations Educational, Scientific and Cultural Organisation (UNESCO) and the World Bank. Programmes to reduce illiteracy are used to disseminate basic knowledge in the fields of health, hygiene, agriculture, environment protection, etc.

The real importance of primary education in German aid is difficult to determine due to partly contradictory data. According to information submitted by the BMZ to Parliament, the share of primary education rose from 1.3 per cent of bilateral commitments in 1992 to 8.5 per cent in 1995, but declined in the following years to 4.2 per cent in 1997, while, according to DAC statistics, primary education obtained only 4 per cent of bilateral commitments 1995. In the Handbook for Journalists it is indicated that half of the \$573 million provided by

the BMZ for education was for primary education and one quarter for vocational training.

German activities in the field of education and training also include teacher training, advisory services for ministries and institutions in developing and transition countries as well as university partnerships and scholarships for studies and training in Germany. As regards advisory services, Germany, among others, supports the Ministry of Education in Peru, and is in charge of co-ordinating the assistance of EU countries and the EC in the education sector in this country.

The Minister for Economic Development and Co-operation has stated several times the importance of attracting more students from developing countries to German universities. He considers the availability of persons educated in Germany important for the sustainability of German aid projects and for the creation of appropriate frame conditions for development co-operation.

## PRIVATE SECTOR DEVELOPMENT AND PUBLIC/PRIVATE PARTNERSHIPS

About one fifth of German bilateral aid is directed towards private sector development. The German aid administration considers private sector development to be a key factor in poverty alleviation. It also believes that the German private sector has an important role in developing adequate structures in the partner country, and that the interests of German aid coincide with those of the German economy. As stated

in the Memorandum, "German development co-operation performs the function of a mediator and catalyst. ... It thus contributes in large measure to strengthening Germany as a business location and to safeguarding jobs in Germany".

In view of the increasing orientation of development co-operation towards this sector, the BMZ elaborated in 1996 a concept for the promotion of the private economy in the partner countries. This activity employs a broad range of instruments, developed with the participation of German business and industry, in training, advisory services, finance, twinning arrangements, etc. Particular attention is given to the promotion of crafts, small and medium-sized enterprises, the development of savings and credit institutions, notably in the co-operative sector, and to market reforms. Training is often provided by German enterprises in developing countries and "integrated" experts. Another important contribution is advisory services for recipient country governments and administrations with a view to strengthening the partner countries' own efforts.

One of the instruments of German co-operation in this sector is the German Investment and Development Corporation. The DEG which is wholly government owned, provides finance and advice for the private sector in developing and transition countries. It promotes co-operation between German and European enterprises and enterprises in partner countries. It facilitates and participates in joint ventures. In 1996, the DEG committed DM676 million (\$450 million) for 77 projects in 40 countries.

Another instrument is the Senior Expert Service which puts retired professionals of German industry at the disposal of developing and transition countries. These experts work on a voluntary unpaid basis, but receive a subsistence allowance and travel costs. They are sent for a period of up to six months to solve technical and management problems and to train local personnel. In 1996, 920 senior expert missions took place of which 200 in China.

The German aid administration attaches importance to establishing a development-oriented public-private partnership. The introduction of a social market economy is one of the five criteria of German development co-operation. Germany assists the developing and transition countries in decentralising the state administration – an area in which it is particularly competent due to its own

federal structure– in strengthening the judiciary and in supporting indigenous forms of social security. With the help of the Political Foundations, the church organisations and other NGOs, it supports the participation of the civil society in decision-making processes.

The KfW, which has considerable experience in privatising East German enterprises, has begun to enlist more private participation in the administration of its projects in developing and transition countries. In doing so, it experienced difficulties in funding private partners in certain areas. KfW considers that the sharing of risks, the supervision of the private company, the right regulatory system and the necessary infrastructure are important issues in public-private partnership.

#### **CRISIS PREVENTION AND DEVELOPMENT-ORIENTED EMERGENCY ASSISTANCE**

In its latest (1996) report to Parliament, the Federal Government stressed the importance of crisis prevention. Germany aims at reducing natural and man-made disasters and the flow of refugees in co-operation with the countries concerned. Attention is given to fighting the root causes of the flow of the crisis. This implies fighting poverty, economic and social disparities and resource degradations, support for regional integration and the promotion of good governance in all relevant sectors. It further implies the introduction of early warning systems. The instruments for analysis and planning of German co-operation are currently being reviewed to better introduce aspects of crisis prevention.

Crisis prevention is seen as part of a comprehensive approach ranging from short-term emergency actions to longer-term co-operation activities. Emergency and refugee aid should lead into long-term development aid. The return of refugees to their home countries should be closely linked in an integrated approach to development projects and to the activities of the emergency and refugee programme. In 1996 the Federal Government published a conceptual framework entitled *Development-Oriented Emergency Aid* and in 1997 *Development Co-operation and Crisis Prevention*. The GTZ, which carries out the emergency assistance, has elaborated a concept for technical assistance for development-oriented emergency and refugee aid.

Germany attempts to convert emergency and refugee aid into the rehabilitation and reconstruction measures of classical development co-operation and thus to make a contribution to disaster control that is not only comprehensive and sustainable but also complementary to that of other organisations. GTZ services for development-oriented emergency assistance include the entire spectrum from disaster prevention through emergency aid and refugee programmes to rehabilitation and reconstruction and the reintegration of ex-combatants. An important goal of German emergency relief and refugee aid is to contribute to disaster prevention and preparedness through strengthening the self-help capacities of people and organisations. It includes measures for social, physical and economic rehabilitation following disaster. Individual measures are thus integrated into an overall international concept for disaster control. A guiding principle is – whenever possible – to work through development programmes that pre-date the disaster. Including disaster victims in project planning and implementation also helps avoid dependency and strengthens both individual and organisational initiative. In 1996 GTZ spent \$164 million on development-oriented emergency assistance, mainly in Africa and the former Yugoslavia, of which \$48 million on behalf of non-German institutions. In 1995 the activities reached the same volume.

Many activities concerned the reintegration of refugees and demobilised soldiers, an activity in which GTZ has acquired considerable experience. Germany recognises that a crucial development co-operation task is to turn ex-combatant potential to productive purposes. Targeted programmes are needed to support the reintegration of ex-combatants and thus reduce the risk of renewed violence. For this reason, demobilisation and reintegration programmes have high priority in the field of development-oriented emergency aid. GTZ has evolved a range of specific instruments to reintegrate them. Close co-operation with local and regional NGOs and with other development organisations has produced a number of successful

projects. Projects aim to strengthen the self-help potential of ex-combatants. Literacy courses and on-the-job training give them a chance to develop the skills that are needed for reconstruction. Reintegration programmes promote employment and support small and medium-sized businesses. Germany views its programmes as an integral part of crisis prevention in post-war situations. They often run parallel to democratisation efforts and reconstruction programmes. Demobilisation and reintegration programmes exist in six African countries (Angola, Eritrea, Ethiopia, Mozambique, Somalia and Uganda) and in Bosnia-Herzegovina. In the latter country the activities concern only the reintegration of refugees.

To support the comprehensive approach a new budget line was created in 1995 which contains the funds for conflict prevention measures, emergency, food and refugee aid. It was endowed with \$219 million in 1996, but disbursements seem not yet to have reached that level (see composition of bilateral aid).

## **HUMAN RIGHTS AND THE RULE OF LAW**

Respect for human rights and the rule of law are among the five basic criteria for German aid. They are considered not only a vital condition for successful development co-operation, but also for crisis prevention, security and peace in the world. Germany has made important contributions to DAC work on participatory development and good governance. During recent years Germany has made available over DM200 million (\$133 million at the 1996 exchange rate) annually for this purpose and for good governance. The scope and nature of the measures depend on the willingness of the recipient country to carry out the necessary reforms. They include advice to the government, assistance for elections, support for the judiciary and promotion of the participation of civil society in the political process. Activities in this area are largely carried out through the Political Foundations and church organisations.

## VOLUME, COMPOSITION AND TERMS

### ODA VOLUME AND OUTLOOK

Traditionally the fourth largest donor, Germany became in 1995 and 1996 the third largest source of ODA. This development was, however, more the result of a decline in aid from other major donors than a larger German effort. Although the German authorities have often stated that aid for the developing countries should not suffer from the large commitments *vis-à-vis* the former Soviet Union, substantial aid for Central and Eastern European countries and the huge burden of German reunification, German ODA has consistently declined in relation to gross national product (GNP) from 0.42 per cent in 1990 to 0.31 per cent in 1995. It rose again in 1996 to 0.33 per cent, reflecting extraordinary rises in debt relief and subscriptions to multilateral funds, but then fell substantially in 1997 to 0.28 per cent. Like many other DAC countries, Germany faces a difficult economic and budget situation. In this context, it has to be acknowledged that the rehabilitation of the East German economy is taking longer than expected with major repercussions for the German taxpayer and the employment situation in Germany. Faced with the highest number of unemployed people since the 1930s, it is not surprising that senior aid officials pay growing attention to possible benefits for the German economy from the aid programme. Moreover, of all OECD countries, Germany had and still has to finance by far the largest number of refugees. DAC reporting instructions only allow the inclusion of the expenses for refugees during the first year. A recent German request to include expenses in the following years was not accepted by the Committee.

In the light of the above-mentioned circumstances, it was difficult to maintain aid performance at its pre-unification level. In 1996 the German aid effort was still well above the DAC average, but below the average of EUMembers and the average country effort of DAC Members. Over the five-year period 1990/91-1995/96, German ODA declined on average 2.2 per cent in real terms, while during the preceding five-year period it had risen by 2.4 per cent.

Following the substantial reduction of German aid in 1997, it is likely that the percentage decline in real terms during the last five years was close to the average decline in DAC Members' ODA. Germany's share in total DAC ODA has thus remained much the same since 1990/91 at between 12 per cent and 13 per cent.

The bulk of German ODA is financed through the budget of the BMZ, the share of which is, however, decreasing. While in 1980 BMZ's budget accounted for 83 per cent of ODA financing and in 1990 for 76 per cent, its share fell to 69 per cent in 1996. The change is essentially due to an increase of contributions to EU programmes, aid to refugees, and debt reorganisation. These components are not included in the BMZ budget and now represent about one quarter of ODA disbursements. Rising disbursements by the Federal Länder also contributed to the decline of the BMZ share in German ODA. The Länder contributed 7 per cent in 1995 and 1996. The Federal Foreign Office provides less than 4 per cent (primarily for humanitarian and cultural activities). About 70 per cent of the BMZ budget is disbursed bilaterally, 10 per cent goes to the EDF and 20 per cent to other multilateral funds and institutions. In the coming years the bilateral share is expected to decline somewhat, while that of the EDF will increase. The decline of the bilateral share is also related to loan repayments which rose from less than \$1 billion in 1994 to almost \$1.3 billion in 1997.

Contributions to EU programmes are included in German ODA figures, as for other EUMembers, on the basis of gross contributions. In view of the difficult economic, social and budget situation in Germany, the high share of Germany's net contributions to the overall European budget (54 per cent) has become an important issue in German public opinion and the Parliament and hence for the government. This preoccupation became apparent during the negotiations concerning the latest replenishment of the EDF. Germany negotiated a smaller share, 23.4 per cent compared to 26 per cent for EDFVII, but this was mainly the result of enlarged EUMembership.



Table A. **The budget of the BMZ**  
in DM million

|  | 1993         | 1994        | 1995         | 1996         | 1997         | 1998         |
|--|--------------|-------------|--------------|--------------|--------------|--------------|
| <b>Commitment authorisations</b>                   | <b>8 896</b> | <b>6329</b> | <b>5 302</b> | <b>7 620</b> | <b>4 924</b> | <b>5104</b>  |
| <b>Cash appropriations</b>                         |              |             |              |              |              |              |
| Bilateral  | 5 764        | 5076        | 5494         | 5522         | 5377         | 5301*        |
| Multilateral                                       | 2442         | 2752        | 2466         | 2277         | 2385         | 2535         |
| Administrative costs                               | 74           | 79          | 91           | 90           | 80           | 80           |
| <b>Total</b>                                       | <b>8280</b>  | <b>7906</b> | <b>8052</b>  | <b>7889</b>  | <b>7842</b>  | <b>7916*</b> |
| Increase or decrease (%)                           |              | -4.6        | 1.8          | -2.1         | -0.6         | 0.9          |
| As a share of total federal budget expenditure (%) | 1.8          | 1.7         | 1.7          | 1.7          | 1.8          | 1.7          |
| BMZ budget as a share of total ODA (%)             | 72.0         | 71.5        | 74.6         | 69.0         | ..           | ..           |

\* including DM 250 million financed by KfW.

Under the German budget system, forward planning is possible through the instrument of "commitment authorisations", as opposed to cash appropriations which are for disbursement during the fiscal year. Commitment authorisations are the basis for aid pledges by the aid administration at the annual or biennial negotiations with recipient countries or for negotiations concerning the replenishment of resources of the international institutions. Based on these pledges, ODA commitments over the next three or more years are made for individual projects or programmes. The development of commitment authorisations and cash payments in the BMZ budget in recent years is given below.

The Federal Government uses a five-year rolling plan as a basis for its budget proposals. The most recent plan covers the years 1997-2001. The first year's figures tally with the current year's budget as passed by Parliament, including any supplementary budgets. The second year's figures correspond to the government's draft budget for the coming financial year, as presented to Parliament. For the following three years purely indicative data are given. This medium-term financial plan is progressively adapted every year to changing economic and political conditions. Such changes have occurred relatively frequently in recent years. They were due either to expenditure blocks affecting the whole Federal budget, or to additional budget votes in response to new spending requirements, such as emergencies and peace operations. The budget proposed by the Federal Government for the BMZ is discussed by the AwZ which gives its opinion to the Budget Committee of the Parliament.

The share of the BMZ in the Federal budget declined substantially from on average 2.5 per cent in the second half of the 1980s, to 2 per cent during 1990-92 and 1.7 per cent in recent years. On the other hand, the BMZ has succeeded in maintaining its share of the Federal budget at 1.7 per cent since 1994. Some

attribute this fact more to support for the BMZ by German industry than to the influence of public opinion and Parliament. It should also be kept in mind that ODA disbursements outside the BMZ budget, notably the aid through the EC budget, rose over this period.

The decline of budget appropriations is posing problems for the KfW and the GTZ since they had signed project commitments on the basis of higher commitment authorisations in previous years. KfW, therefore, had to prefinance its disbursements to the tune of \$145 million in 1997 and again in 1998. This amount is equal to 10 per cent of KfW gross disbursements. KfW will recuperate the funds by keeping the repayments of the loans during the next ten years. No decision has so far been taken as to how the shortfall in 1999 will be covered, but it is very likely that the German Government and KfW will have to rely increasingly on capital market funds through mixed and composite financing (see section on financial terms). GTZ has very limited possibilities to prefinance its activities. It will, therefore, be very difficult to cover the project expenditure in 1998.

ODA contributions by the Länder which in 1990 were below DM600 million reached almost DM 800 million in 1995 and 1996. This rising trend is, however, unlikely to continue. The bulk of these amounts concern imputed costs for students. Direct development aid rose until 1993 when it reached DM 172 million and declined afterwards to DM141million in 1996 (see Table B). Baden-Württemberg and North Rhine-Westphalia have the largest programmes in developing countries among the German Länder. Together they provided about half of direct aid disbursements in 1995 and 1996. Other relatively important contributions were made by Bavaria and Berlin. Aid activities by the Länder concern education and training in Germany and in the developing countries, dispatch of personnel and goods, financial support for NGO projects and development education in Germany.

Table B. **ODA from the Federal Länder**  
In DM million

|   | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996  |
|---|------|------|------|------|------|------|-------|
| A. (excluding imputed student costs)                          | 114  | 137  | 139  | 172  | 148  | 142  | 141   |
| <i>Of which:</i>  |      |      |      |      |      |      |       |
| Baden-Württemberg   | 35   | 43   | 42   | 42   | 40   | 40   | 35    |
| North Rhine-Westphalia  | 17   | 31   | 31   | 59   | 34   | 34   | 34    |
| B. Imputed students' costs                                    | 454  | 461  | 553  | 589  | 573  | 647  | (646) |
| <i>Of which:</i>  |      |      |      |      |      |      |       |
| Baden-Württemberg   | 64   | 77   | 98   | 86   | 71   | 78   | (78)  |
| Berlin  | 133  | 97   | 113  | 127  | 126  | 142  | (142) |
| North Rhine-Westphalia  | 110  | 112  | 134  | 141  | 140  | 158  | (158) |
| C. Total  | 568  | 598  | 692  | 761  | 721  | 789  | (787) |
| In \$ million   | 351  | 360  | 444  | 460  | 444  | 550  | (523) |
| as a share of net ODA (%)                                     | 5.6  | 5.2  | 5.8  | 6.6  | 6.5  | 7.3  | 6.9   |
| of which imputed students' costs as<br>a share of net ODA (%) | 4.4  | 4.0  | 4.7  | 5.1  | 5.2  | 6.0  | 5.6   |

Unless development co-operation becomes a higher priority after the general elections in September 1998, or even more capital market funding is used to finance the loan programme, the volume of German aid is likely to decline further in the coming years, in particular as a ratio of GNP. The sharp decline of commitment authorisations in 1997 and 1998 to less than 60 per cent of their 1993 level will severely curtail the possibilities for new commitments. During the budget debate in Parliament the main opposition party drew the attention to the

repercussions of this situation for future German aid. Moreover, GNP is forecast to rise by 4.5 per cent annually in nominal terms until 2001 while Federal budget expenditures will only rise by 1.1 per cent annually according to the latest medium-term budget planning. In addition, loan repayments will rise further by about 10 per cent over the 1997 level, and thus reduce the net amount of German ODA. The cessation of large financial transfers to the former Soviet Union in 1997 had no positive effects on the aid budget for developing countries.

### Box 3. Aid from Baden-Württemberg

Baden-Württemberg in 1997 was active in 37 countries. Projects concerned primarily education and training, health, handicraft, agriculture and forestry. Among the financed projects in 1996 are the construction of a school in Eritrea, a health service for young women and girls in Kenya, irrigation in Sri Lanka and a literacy programme in Haiti. Six Land (regional) ministries are involved in the provision of development assistance. In its recent report to the regional Parliament, the regional Ministry of Economic Affairs stressed the continued commitment of the administration to sustainable development in the developing countries, but admitted that the aid activities had to be curtailed considerably already in 1996. It is not envisaged to start new projects in 1998 and 1999.

## COMPOSITION OF ODA

The composition of aid is characterised by a decline of bilateral aid and a corresponding rise in the share of multilateral contributions. In 1996 a special factor was the doubling of subscriptions to IDA, but this was a non-recurring situation. The declining trend is due rather to the rise in aid provided through the EC and the more "locked in" nature of multilateral aid through international replenishment mechanisms. The decline of bilateral aid is most likely to continue in the coming

years due to the shrinking budget and the fact just noted that a large part of multilateral contributions is protected by firm multi-year commitments. This situation already poses serious problems for the bilateral programme as evidenced by the insufficient funds for KfW and GTZ described above.

### i) Bilateral aid

By far the largest part of bilateral aid has been in grants, of which roughly half concerned expenditures

for technical co-operation. In comparison with the average composition of DAC aid, the share of technical co-operation expenditure is larger. This is largely explained by the inclusion of imputed costs for students. Germany is one of the seven DAC countries which include indirect costs for students from developing countries in their ODA statistics. These costs have been rising in absolute terms and as a share of total net ODA from 4.4 per cent in 1990 to 6.0 per cent in 1995 and 5.6 per cent in 1996. This is the second highest percentage among the seven countries. The share in the German aid programme of project and programme aid, of food aid and administrative costs was lower. (Administrative costs include the BMZ, the AA, including the costs of the embassies in the developing countries, the KfW, the DSE, the DED, the DIE, the CDG and the DEG, but not the GTZ.) The amounts for debt reorganisation varied from one year to another. The share of emergency aid, other than food aid, corresponded by and large to the DAC average. This fact is somewhat surprising in view of the large number of refugees which account for the bulk of expenditure reported under emergency aid (87 per cent in 1995, 59 per cent in 1996). It implies that Germany provided less emergency assistance abroad than other DAC countries. Assistance for refugees in Germany (during the first year of stay) amounted to 5 per cent of ODA in 1995, but to only 2 per cent in 1996. The share of loans declined substantially until 1996, but rose again in 1997. Detailed figures are available in Annex Table 2.

The distribution of bilateral ODA commitments by major purposes is shown in Annex Table 3. The most important changes during the last five years concern a rise in the share of education, water supply and sanitation, other social infrastructure services, transport and storage. Aid for energy, industry, commodity aid and programme assistance declined during this period.

In comparison with the DAC average, Germany provided more aid for education. This higher share is mainly the result of the inclusion of imputed costs for students. Excluding these costs, aid for education would not be much higher than the DAC average although Germany selected education and training as one of the three priority areas for its aid. Aid for the health sector is half the DAC average, although it increased.

The changes in the sectoral distribution of commitments reflect largely shifts in the KfW loan

portfolio which became even more apparent in 1997. The share of social infrastructure projects rose from 9 per cent in 1990 to 28 per cent in 1996 and 40 per cent in 1997. In particular, water supply and sanitation rose during this period from 7 per cent to 23 per cent. There was also a major increase in the share of education and health. More aid is directed towards environment and resource protection, and poverty alleviation projects. However, half of the commitments still concern economic infrastructure and services.

## **ii) Debt re-organisation and forgiveness**

As a large creditor, Germany is one of the major players in the Paris Club, and is one of the countries which has forgiven most debt within that framework. The amounts of debt rescheduled or forgiven in individual years fluctuated widely. In 1996 reported debt forgiveness reached \$774 million. In 1997 the Paris Club restructured a further six countries' debt on Naples terms. Germany's share of this was \$153 million of which Tanzania was the main beneficiary (\$79 million). Altogether, the German Government so far waived or promised to waive ODA debt for an amount of DM9.1 billion (\$6.1 billion at the 1996 exchange rate).

It should be noted, however, that reporting practices on debt re-organisation are not uniform among DAC countries. While most DAC countries agree not to report future interest after debt is forgiven, the German administration considers that renunciation of future interest represents a loss to the national budget and should, therefore, be included in ODA.

For several years the German Government has also waived or rescheduled part of its claims on the condition that the debtor country uses local currency funds equivalent to 20 to 50 per cent of the amount waived for projects related to environment protection and/or poverty reduction. In 1996 such debt conversion agreements were concluded with eight developing countries for an amount of over \$90 million. The funds for this debt conversion facility in the budget more than quadrupled from \$30 million in 1993 to \$140 million in 1997.

Germany has made contributions to the IDA debt reduction facility to enable countries to buy back commercial bank debt, but is not known to have made a contribution to the HIPC Trust Fund.

### **iii) Geographic distribution**

German aid is worldwide, and the number of recipient countries increased further from 141 in 1990/91 to 156 in 1995/96. Its distribution changed over the years as regards regions, income groups and individual countries. In particular the share of Asia, of North Africa and the Middle East fluctuated significantly from one year to another, while that of Sub-Saharan Africa (SSA) remained fairly stable, although it was marginally lower in 1995/96 than in 1990/91 and during the 1980s. SSA remained the main recipient region with almost one third of bilateral ODA followed by Asia, Latin America, North Africa and Middle East and Europe. Europe's share which had been exceptionally high compared to the DAC average fell sharply in 1996 to 4 per cent, but will rise again according to 1998 budget allocations. As to income groups, the share of the least-developed countries fell from one third during the 1980s to below 30 per cent of bilateral ODA in recent years, while that of the other low-income countries rose substantially. The lower middle-income countries obtained significantly less. Aid for the high income countries became negative in 1996. The share of geographically unallocated aid rose to almost 20 per cent, but was still small compared to the DAC average (see Annex Table4).

In spite of the large number of recipient countries, ten countries obtained almost half of bilateral allocable ODA in 1995/96. This was primarily due to China, which obtained 15 per cent of bilateral allocable ODA. Such a high share is unusual for the German programme and occurred probably for the first time. Egypt (8 per cent), Nicaragua (7 per cent) and Bosnia-Herzegovina (5 per cent) were the other main recipients in 1995/96. At the beginning of the decade, the largest beneficiaries had been Egypt, Israel, India and Turkey. Thus, only Egypt maintained its share in German aid, but India and China have long been among the main recipients although not with the same share. Except for these three countries, there were major changes among the ten largest aid recipients (see Annex Table5).

Germany was the largest donor for about a dozen countries. Over the five-year period 1992-96, it was the source of about half of DAC countries' gross ODA disbursements to Croatia, Iran, Turkey and Uzbekistan. It contributed 43 per cent of gross ODA disbursements for ex-Yugoslavia, which probably resulted from the large number of refugees, and about one third for

Liberia. Slovenia obtained almost two-thirds of its aid from Germany, but the amount involved was small. Since Germany considers Slovenia as a more advanced country in transition, the responsibility for aid to this country was shifted in 1997 from the BMZ to the Federal Ministry of Economics. On the other hand, Bulgaria and Romania are treated like developing countries on account of their low per capita GNP.

### **iv) Multilateral aid**

The share of multilateral contributions in German net ODA has been rising in recent years from 31 per cent in 1990/91 to 37 per cent in 1997. This is the result of firm multi-year commitments for many international finance institutions and for the European aid programmes which cannot be adjusted downwards in times of falling aid budgets. The Budget Committee of the Bundestag (lower house of Parliament) requested some years ago that a ceiling of 30 per cent for multilateral contributions should be introduced in the budget of the BMZ. This limit has been largely, although not entirely, respected. The multilateral share in the BMZ budget amounted to 33 per cent in 1997 and 1998. The higher share in total ODA is mainly due to EU aid which, apart from the EDF, falls outside the BMZ budget. While on the whole a positive attitude towards multilateral assistance still exists, the German Government has in recent years taken a more demanding stance regarding the efficiency of this aid. In particular, it considers that UN organisations and the EC programme should become more cost effective.

Roughly one half of Germany's multilateral aid goes through the European aid programmes for which Germany is the largest contributor. In 1997 contributions to EU aid programmes reached 60 per cent of multilateral ODA and almost one quarter of total ODA. Most of the remaining multilateral aid concerned the IDA for which Germany is the third largest contributor with a share of 11.4 per cent. Contributions to the regional development banks are much smaller. They had declined sharply to less than 1 per cent of German ODA in 1995 and 1996, but reached 3 per cent in 1997. Contributions to UN agencies which as a share of ODA have always been below the DAC average, declined further from 5 per cent of ODA to 4 per cent in recent years, about half the DAC average. In view of the budget situation this decline is most likely to continue since the contributions to UN agencies and funds are not protected by multi-year commitments, but are on a voluntary basis. Indeed, 1998 budget allocations for

the UNDP were more than one third lower than in 1996. This situation is, however, difficult to reconcile with Germany's desire to attract UN agencies and programmes to Bonn. Contrary to UN contributions, Germany's 12 per cent share in the GEF for the three-year period 1994-97 is in line with Germany's emphasis on environment protection.

The BMZ is responsible for most multilateral institutions. In particular it is in charge of relations with the World Bank group, GEF, CGIAR, IFAD, the regional development banks and funds, UNDP, UNIDO, UNFPA and the WFP. The Federal Foreign Office deals with UNESCO, UNHCR and UNICEF. UNEP, FAO, WHO and ILO are the responsibility of the respective sector ministries. For European programmes, four Federal Ministries are jointly responsible: Economics, Finance, AA and the BMZ.

#### **FINANCIAL TERMS, TYING, PROCUREMENT AND ANTI-CORRUPTION POLICIES**

German aid commitments are in conformity with the DAC Terms Recommendation. With an overall grant element of 91.7 per cent in 1996 (91.4 per cent in 1995), German terms corresponded to the DAC average. The grant element of commitments for the least developed countries is 100 per cent since Germany has extended only grants to this group of countries since 1978.

As regards loans, their average grant element in 1995/96 was 60.4 per cent which was lower than the DAC average. The average is the result of different kinds of loans. Apart from two sets of standard conditions for its ODA loans, Germany has mixed and composite credits the terms of which vary. For the poorer IDA eligible countries Germany applies IDA terms, i.e. a maturity of 40 years including 10 years of grace and 0.75 per cent interest (grant element 81 per cent). For all other countries, the standard ODA loans have a maturity of 30 years including 10 years of grace and a rate of interest of 2 per cent. These conditions have a grant element of 66 per cent, but in practice the grant element was often somewhat higher or lower.

To mobilise additional resources mainly for large infrastructure and industrial projects, the German authorities introduced during the 1980s a "mixed financing" scheme. Under this scheme, the KfW combines funds from the aid budget with its own funds raised on capital markets and extends the blend as tied ODA loans. This blend of budget and capital

market funds inevitably results in harder financial conditions than those of the traditional German ODA loans. The market fund component, which is tied to German exports, is guaranteed by the German Government through the Hermes credit insurance.

Following the OECD agreement on stronger disciplines for tied financial aid, including mixed credits, the so-called "Helsinki agreement", the volume of German ODA committed in the form of mixed credits dropped markedly from 1992 onwards, but the facility remained available. In 1995 mixed credits totalled \$314 million, of which \$153 million in budget funds, for nine projects. This was only half the amount which had been made available in 1994. In 1996 mixed financing declined further to \$100 million for three projects, of which \$79 million was from the BMZ budget.

In order to compensate for this fall in mixed credits, Germany created another mixed credit scheme in 1994, called "composite financing". This scheme also allows for blended ODA loans, but it differs from mixed financing in that it is not mandatorily tied to German exports and the KfW market fund component is guaranteed (90 per cent) by the BMZ rather than by Hermes. KfW carries the remaining risk of 10 per cent. Most composite loans (eleven out of fifteen) were untied, in which case the "Helsinki disciplines" do not apply. Whether and at which stage a tying decision is taken, varies from case to case.

The shift of guarantee responsibility to the BMZ for this scheme should help to ensure full attention to the aid quality of the projects to be financed. In cases where the Helsinki agreement allows the provision of tied aid (i.e. for non-commercially-viable projects), composite financing transactions may also be tied. Like the mixed financing scheme, this alternative is supposed to allow for promoting German exports as a by-product of development-oriented initiatives.

In the 1996 budget law a ceiling of \$900 million was established for official guarantees for the capital market portion of composite financing transactions. The ceiling was increased by \$175 million in the 1997 budget law. Eligible recipient countries are those with a relatively high credit rating, in particular those without debt problems. Agreement on composite financing projects was reached with China, India, Indonesia, Pakistan, Thailand and Tunisia for a total value of about \$1.65 billion. The loans are for projects in transport, energy and environment, sectors in which German industry is in a strong competitive position.

Table C. **KfW co-operation with developing countries in figures**

DM million

|  | 1992         | 1993        | 1994        | 1995        | 1996        | 1997        |
|--|--------------|-------------|-------------|-------------|-------------|-------------|
| <b>Commitments</b>                           |              |             |             |             |             |             |
| Funds from the budget                        | 2 963        | 3038        | 3098        | 3519        | 3507        | 2885        |
| <i>of which:</i> for projects and programmes | 2274         | 2825        | 2879        | 2986        | 3337        | 2826        |
| for structural and commodity aid             | 689          | 214         | 219         | 533         | 171         | 59          |
| Capital market funds                         | 436          | 477         | 289         | 311         | 482         | 512         |
| <i>of which:</i> composite financing         | –            | –           | –           | 80          | 449         | 357         |
| mixed financing                              | 436          | 477         | 289         | 231         | 33          | 155         |
| <b>Total</b>                                 | <b>3 399</b> | <b>3515</b> | <b>3387</b> | <b>3830</b> | <b>3990</b> | <b>3397</b> |
| <i>of which:</i> grants                      | 1085         | 987         | 1432        | 1606        | 1400        | 1333        |
| <b>Disbursements*</b>                        | <b>2 723</b> | <b>2786</b> | <b>2194</b> | <b>2527</b> | <b>2592</b> | <b>2766</b> |
| Repayments*                                  | 1459         | 1445        | 1377        | 1492        | 1705        | 1773        |
| <b>Net disbursements</b>                     | <b>1929</b>  | <b>1836</b> | <b>1281</b> | <b>1271</b> | <b>1200</b> | <b>994</b>  |

\* including capital market funds.

Source: KfW.

Composite financing contains different blends of public and private funds (fifty/fifty, one third/two-thirds, two-thirds/one third, etc.). In addition to different blends the maturity and the grace period of the capital market part also vary from one loan to another, while the official part is provided on IDA conditions. The recipient countries, therefore, try to reduce the share of capital market funds. The average interest rate of composite loans is 3 per cent.

To conform with the rules of the Helsinki agreement on tied aid credits the concessionality level of mixed and tied composite financing has to reach at least 35 per cent. Many credits are just above this threshold. KfW considers that terms should be more diversified. It considers that there is an important gap between grants and market-related loans which can be met by aid loans with different concessional terms.

While the difference between mixed and/or composite lending and exclusively budget financed ODA loans consists essentially in their financing rather than in their development orientation, domestic considerations can play a more prominent role in mixed financing than in traditional ODA.

Germany is in favour of cofinancing with other bilateral and multilateral donors, in particular for structural adjustment programmes, provided it can maintain its criteria for development co-operation. The volume of cofinanced projects varies from year to year. In 1996 one quarter of project agreements for financial assistance concerned cofinancing. The agreement between the KfW and the Caisse Française de Développement in January 1998 is intended to increase cofinancing with France.

Germany's **tied aid** as a share of bilateral ODA commitments declined from an average 55 per cent during 1990-92, to 37 per cent in 1994. In this regard, the German authorities have described their position to DAC as follows:

"In view of the problems in the German labour market, the government endeavours to ensure in all developmentally suitable cases that due consideration is given to bidders from Germany, without neglecting the principles of international competition.... The requirement that projects financed by the Federal Republic of Germany must be selected according to development criteria continues to apply. The German Government is also keen that there should be competition for the awarding of contracts and that the developing countries should not suffer any price disadvantages. When contracts are awarded directly, prices are subject to scrutiny. The German Government makes sure that the 'Minimum Conditions for Effective International Competitive Bidding' continue to be applied."

The decision whether a loan will be tied to procurement in Germany or in the EU is taken by the BMZ. If the loan is tied, up to 50 per cent of the amount can still be procured outside Germany, although in practice this is rare.

In 1996, Germany notified the largest volume of "Helsinki"-type aid credits: SDR 709 million, an increase of 72 per cent over the 1995 level of SDR 413 million. It was thus the largest source of "Helsinki"-type notifications among the OECD countries in 1996. Since the coming into force of the agreement on tied aid disciplines

in February 1992 to the end of 1996, Germany notified the second largest amount (SDR 2.6 billion) after France. It also was the second largest source, after Japan, of non-“Helsinki”-type credits, mostly untied loans.

Germany has agreed to the principle of untying aid to the least developed countries provided all DAC Members are involved, but has set out a number of conditions. First, the focus should only be on “procurement-related aid”, over SDR2million and should specifically exclude all technical co-operation, including investment-related technical co-operation. Second, Germany wants a common understanding of when international competitive bidding should be compulsory, based on a review of completed country procurement profiles. Third, the agreement should not lead to an additional administrative burden.

Germany is one of the few countries which has information on **procurement**. Such information is available for \$1.5 billion of the \$1.7 billion of bilateral financial aid disbursements in 1996. Of the former amount, 70 per cent concerned foreign currency costs and 30 per cent local costs. German enterprises accounted for 84 per cent of the foreign currency costs.

As regards multilateral aid, the information collected by Germany shows that the German share in procurements differs very much depending on the institution. In 1996 the German economy obtained orders from the World Bank/IDA and the regional development banks to the tune of \$1.5billion. Most of the orders came from the World Bank/IDA where Germany secured 13per cent of the orders. On the other hand, orders from the 7thEDF amounted to only 6per cent of total procurements .

As regards **anti-corruption** measures the German Government has introduced since September1997 a clause based on the DAC Recommendation of May1996. It sets out the negative effects of corruption and underlines the political will of both governments to work together to guarantee transparency, accountability and probity in the use of public funds and to eliminate opportunities for corrupt practices in their development co-operation. In the summary record of negotiations the two governments agree upon the following assessment of the negative effects of corruption:

- it undermines good governance;
- it wastes scarce resources and has a far-reaching negative impact on economic and social development;

- it undermines the credibility of, and public support for, development co-operation and compromises the efforts of all who work to support sustainable development;
- it compromises open and transparent competition on the basis of price and quality.

The implementing agencies involved in German development co-operation have also been requested to review their internal control procedures in order to increase protection against corruption in addition to existing precautions and monitoring requirements.

While Germany’s actions can be regarded as within the letter of the recommendation, they are different from what virtually all other DAC Members have delivered – an explicit clause in contract documentation. Germany has, however, given support to review in the DAC experience of the measures taken under the recommendation at an appropriate time.

## OFFICIAL AID TO COUNTRIES IN TRANSITION

An assessment of the German aid effort has to take into account the outstanding contribution Germany has been making in assisting the countries in transition in Central and Eastern Europe and the NIS. Germany has been by far the largest donor to the more advanced countries in transition, the so-called Part II countries on the DAC List of Aid Recipients. During the period 1990-96, Germany was the source of 39per cent of all official net aid disbursements by DAC Member countries. It is true that a large part of the \$18billion in official aid resulted from commitments undertaken *vis-à-vis* the former Soviet Union in the context of German reunification. These obligations have come to an end and this is reflected in a substantial decline of German aid to PartII countries in 1996 and 1997. Nonetheless, the volume of German aid remained well above all other DAC countries, except the United States. Another major portion of German aid concerned debt relief for Poland but this is typical also for many other DAC countries. In relation to GNP, German aid for these countries has been a multiple of the DAC average.

Even excluding aid to Russia, Germany’s financial and technical contribution for the countries in Central and Eastern Europe is remarkable in comparison with

Table D. **Official aid to Part II countries (CEECs/NIS)**  
Percentage of GNP

|           | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|-----------|------|------|------|------|------|------|------|
| Germany   | 0.07 | 0.16 | 0.17 | 0.13 | 0.12 | 0.19 | 0.05 |
| Total DAC | 0.01 | 0.04 | 0.04 | 0.04 | 0.04 | 0.04 | 0.02 |

the efforts of other countries. It is true that Germany's leading position is related to geographic proximity, historical links and security considerations, including migratory pressure, environmental concerns and exposure to organised crime. However, other DAC countries, which are geographically close to CEECs/NIS and have historical links, have not made the same effort, except Austria. Germany is among the few DAC countries which have developed an overall strategy and country concepts for aiding the countries in transition, and which have a separate budget for this purpose. Most of the budget funds are in the Ministry of Economic Affairs, but the BMZ, the AA and other ministries and institutions also have funds for activities in these countries. The aid activities are co-ordinated by the Ministry of Economic Affairs, the AA and the BMZ, assisted by the KfW which has established several field offices for this purpose.

In its co-operation with the CEECs/NIS Germany makes use of its own experience in transforming the economy of the Eastern part of Germany. The transformation of a centrally planned economy into a market economy requires time and a change of mentality of the population. It also involves economic and social hardship. For this reason Germany pays attention to those strata of the population which are much affected by the changes and pursues a partnership approach defining projects jointly with the target groups. The transfer of knowledge is facilitated by the dispatch of "integrated experts".

The amounts disbursed by Germany and the other DAC countries over the period 1990-96 are shown in Annex Table 7. In 1998 and the next few years, German

aid to this region will be affected by budget austerity and is expected to decline below the 1996 level. Budget appropriations for the so-called Transform Programme which finances a large part of Germany's technical assistance activities in CEECs/NIS, were reduced by more than half to \$81 million.

The geographic distribution of official aid for Part II countries is characterised by a high concentration in three countries. **Russia** obtained by far the largest amount, almost half of bilateral allocable aid during the period 1990-96. **Poland** was the second largest recipient with over one quarter and the **Ukraine** the third largest with 12 per cent. Together the three countries obtained almost 90 per cent of geographically allocated aid. Another 5 per cent was extended to Belarus. (The percentages shown in Annex Table 8 differ since they include geographically unallocated amounts and multilateral contributions.) In 1995/96, Poland and Russia obtained larger amounts than China and Egypt, but this situation will not continue in future.

## TOTAL RESOURCE FLOWS

Non-ODA flows to developing countries and multilateral institutions which had been exceptionally high in 1994, exceeding \$17 billion, declined to less than \$14 billion in 1995 and 1996. As a share of GNP they declined from 0.84 per cent in 1994 to 0.58 per cent in 1996, but still remained well above the level of earlier years. By far the largest amounts concerned private flows at market terms, in particular bilateral portfolio investment. Private grants increased to

Table E. **Total net flow of resources to Part I and Part II countries (CEECs/NIS)**  
In \$ million

|             | 1990   | 1991   | 1992   | 1993   | 1994   | 1995   | 1996   |
|-------------|--------|--------|--------|--------|--------|--------|--------|
| Part I      | 13 560 | 13 098 | 8 921  | 15 366 | 23 948 | 21 197 | 21 175 |
| Part II     | 6 293  | 11 965 | 14 352 | 13 412 | 9 435  | 7 425  | 6 334  |
| Total       | 19 853 | 25 063 | 23 273 | 28 778 | 33 383 | 28 622 | 27 509 |
| as % of GNP | 1.32   | 1.47   | 1.17   | 1.51   | 1.64   | 1.19   | 1.18   |



\$1 billion in recent years. Other official flows became small, primarily on account of negative net transactions with multilateral institutions (see Annex Table6).

In 1994, for the second time in the last ten years, total net flows to developing countries exceeded 1 per cent of GNP reaching 1.18 per cent. In 1995 and 1996 they declined to 0.88 per cent and 0.91 per cent of GNP, but still remained above the DAC average. In this regard, Germany occupied rank six in 1995 and rank eight in 1996 among the 21 DAC countries.

Total net flows to PartII countries reached almost \$70 billion during the period 1990-96 which corresponded to close to 60 per cent of total resources from all DAC countries. After a substantial increase from \$6 billion in 1990 to \$14 billion in 1992 they declined continuously in the following years to \$6 billion in 1996. The composition of non aid flows changed from one year to another. Whereas in 1993 and 1994 private flows at market terms had been the main component, these flows became negative in 1995. Nonetheless, direct investments kept rising and reached \$2.8 billion in 1995 which was twice the amount provided by German investors in 1993.

## Annex 1

# THE GERMAN AID PROGRAMME IN PERU

Peru is one of the four priority countries for German aid in Latin America. During the period 1987 to 1996 it received \$614 million from Germany which was the third largest donor of aid to Peru over this period. In 1997 Germany had 21 financial assistance and 35 technical co-operation projects in Peru, and the number will increase further in 1998. German aid activities are facilitated by good bilateral relations. The relatively large number of Germans who live in Peru and who have established enterprises there also contribute to this situation. (German-owned or managed enterprises in Peru offer annually 35-45 training places in business management in co-operation with the German-Peruvian Chamber of Commerce.

As determined through the 1996 intergovernmental negotiations, the main thrusts of co-operation are:

- social development, including basic education and health; drinking water and sewage;
- rural development;
- small and medium-sized enterprises including vocational training;
- decentralisation and strengthening of local administration;
- environment and sustainability.

German aid projects are carried out through Peruvian counterpart organisations which share the responsibility for the projects. They are concentrated in the Central and Southern Andean region and Northeast Peru, and on certain sectors. One major sector is drinking water and sewage. The German officials consider that German aid in this sector has been very positive and successful, reflecting the particular know-how that the KfW possesses in this field. Other major activities are advisory services for Peruvian ministries, natural resources and rural development, including irrigation. Activities in the fields of educa-

tion and environment have been less successful. Frequent changes of personnel in the counterpart institutions pose problems in these and other sectors. Germany attaches importance to greater participation of local groups but encounters some resistance from the Peruvian counterpart organisations.

Since German projects are normally carried out through local counterpart organisations they consist of a financial contribution frequently, but not always, combined with the provision of one or two experts. The German approach to have the projects carried out by local counterpart organisations is very much in line with the DAC principle that the recipient country should be at the centre of the development effort.

Germany supports several *integrated rural development programmes*. Scarce water resources, limited arable land and harsh climatic conditions are significant limiting factors for the extension of agriculture in the Andes. The German projects are directed at helping poor farmers to increase their productivity and incomes in these difficult conditions. The "Plan Meriss Inka" programme comprises a series of small and medium-scale irrigation projects in the Southern Andes. It comes under the responsibility of the regional government and is carried out by a specialised and rather autonomous organisation (Plan Meriss – *Plan de Mejoramiento de Riego en la Sierra y Selva*). The German contribution is a combination of soft loans extended by the KfW and technical assistance provided through GTZ. The KfW has just committed its third loan to the project. It is likely that the technical assistance component will be phased out at the end of 1998 since Germany believes that Plan Meriss is now able to take over these aspects and assume ownership of the programme.

The purpose of the project is to help the local organisations responsible for irrigation systems to use the scarce arable land and water resources in an efficient and sustainable way for agricultural activities and thus improve the living conditions of the farmers and

the economic development of the region as a whole. To achieve this the programme is aiming at increasing the availability of water through the construction or upgrading of water reservoirs, dams and irrigation canals and at strengthening local rural organisations through training and advisory services put at the disposal of farmers' associations. The emphasis is on sustainable irrigation and farming methods in order to prevent soil erosion, and on the participation of the farmers in the planning and the execution of the projects. It is planned to raise farmers' participation from some 2.5 per cent of the cost of the projects at present to 10 per cent.

The programme involves over a thousand farmers thought to have the potential to increase their output. Most are poor, or even very poor, in particular those living high up in the mountains. Eighty-seven per cent possessed less than one hectare of irrigated land, often located on steep hills at high altitude with very short vegetation periods. The upgrading of a water reservoir has allowed improved irrigation of the existing fields and an increase of irrigated land by close to 100 hectares. It also allows more and better harvests and a diversification of products. Many who used to migrate to towns to earn an additional income no longer need to do this, since their income has increased significantly as a result of the project. However, the water fees levied at present are far too low to cover the cost of maintenance and repair works. These fees are usually determined at governmental level and although it is envisaged to raise them, this seems difficult.

A second integrated rural development programme visited by the OECD Secretariat is in the ecologically-fragile Colca Valley. It has many points in common with Plan Meriss, largely focusing on poverty alleviation through improved irrigation systems and agricultural techniques and through training activities.

At present the main activities of the project, carried out in co-operation with the regional and communal administrations and with local NGOs, consist in introducing new and better varieties of crops and other products for which the peasants can find a market. Seminars are organised on innovative farming methods and on intermediate or simple technology for food processing (cheese, yoghurt, jam, aromatic plants, etc.). In addition to the training activities included in the project, agreements have been concluded with two local agricultural training centres, where participants in the project can take courses.

Regarding the improvement of the irrigation systems, the project mainly focuses on the rehabilitation and upgrading of the existing infrastructure, the organisation of water committees and the introduction of more rational water distribution plans. In the highlands, where the income of farmers is based on livestock (llamas, alpacas) and potatoes, the project focuses on simple irrigation devices to extend available pastures, and on the improvement of fodder crops.

*Vocational training* is an area where Germany has particular expertise to offer and which has been singled out in the country concept as one of the main sectors for German assistance to Peru. Thus the *Servicio Nacional de Adiestramiento en Trabajo Industrial* (SENA TI), one of the main Peruvian technical training centers, has been supported by Germany through GTZ for many years. SENATI, which works in close co-operation with the Association of Peruvian Industrialists, has been providing general education and special technical skills to youths, who are already working as trainees in factories or smaller workshops, to improve their technical skills and offer better employment perspectives. The programme, which is largely based on the German system of "Dual Education", has proved very successful. Despite the high rate of unemployment in Peru, SENATI students are always sure to find a job once they finish their courses.

Since 1987, Germany has been supporting a new programme for the advanced training of foremen in metalwork, electricity and automotive engineering. Courses are established in close co-operation with partner enterprises and take account of their practical needs. Germany provides assistance for the establishment of adequate curricula and familiarises local teachers with new technologies.

From 1992 to 1995 Germany, the Netherlands, Spain and Switzerland financed jointly with Peru a *social rehabilitation* scheme in the Cusco region. This project was co-ordinated by the UNDP. Germany also finances with the EC a local action plan for poverty reduction. In 1993 it provided DM 30 million (\$19 million) to FONCODES (Peru's social fund) for poverty reduction. In addition, Germany forgave Peru DM30million of debt on the condition that the equivalent of DM9million in local funds be made available for environment protection projects, and it intends to forgive another DM50million (\$32million) provided the equivalent of DM20million (\$13million) in local funds is used for poverty reduction.

Peru is one of six pilot countries selected by the EU for *enhanced co-ordination of the bilateral aid activities of its Members' and the European Commission's aid programme*. EU Members and the Commission have intensified their exchange of information and meet monthly. Individual donors accept responsibility for particular sectors: Germany is responsible for the education sector. Sector meetings take place in addition to the monthly co-ordination meetings. Switzerland and Canada decided to participate in this EU co-ordination (the two largest bilateral donors – United States and Japan – the World Bank and the Inter-American Development Bank have remained outside these arrangements).

In the *German embassy* two officials deal with development co-operation. The more senior, who is seconded from the BMZ, deals with policy matters. Since 1995, he has been organising bi-monthly meetings of all German aid institutions, consultant firms and NGOs to exchange information, prepare consultations with the Peruvian Government, discuss project evaluations, etc. The second official deals with the scholarship programme and micro-projects. The

embassy has almost DM300 000 (\$190 000) annually at its disposal for micro-projects related to poverty reduction.

In addition to the embassy, *the GTZ* has an *office in Lima* which, apart from the German director, employs nine local staff. This office is responsible for the supervision of the numerous technical co-operation projects. The director participates in the local donor co-ordination meetings and maintains contacts with the different line ministries. Following GTZ's decision in 1996 to transfer responsibility for projects from headquarters to its field offices, the responsibility and the workload of the Lima office increased significantly, so far without an increase in staff resources. The director of the GTZ office assembles all directors of technical co-operation projects every two months for an exchange of information. The GTZ also established two working groups: one on gender and one on rural development. The *KfW* does not have an office in Peru, but is considering establishing one. Nonetheless, financial and technical assistance appears to be well co-ordinated. There is also an office of the *German Volunteer Service* (DED) in Lima.

*Annex 2***GERMAN DEVELOPMENT CO-OPERATION IN ETHIOPIA**

(Note by the Japanese Examiner)

Ethiopia remains one of the poorest countries (its GNP per capita in 1996 was US\$110) and has a formidable task ahead in achieving steady and sustainable development in the years to come. But the Ethiopian Government is committed to carrying out its programme to facilitate such development. Since the downfall of the military regime in 1991, Ethiopia has endeavoured to build a democratic and decentralised society. It has also made strenuous efforts to rehabilitate its war-struck economy and then to transform the economy into a market-oriented one.

Germany has a 90-year history of co-operation with Ethiopia. In recent years, it has provided substantial assistance in the wake of the epochal changes of 1991. From 1992 to 1996, the German ODA for Ethiopia amounted to around DM 480 million (commitments). Consequently, since then, it has become the biggest recipient of German ODA in Sub-Saharan Africa and Germany is one of the largest donors to Ethiopia.

The German Government dialogues on development policies and negotiates specific programmes and projects with the Ethiopian Government, based on its "country concept". In the last negotiations, both sides agreed to concentrate their co-operation on areas such as 1) economic and social restructuring, 2) agriculture and rural development, 3) environmental protection and resource management, 4) water supply and sanitation, 5) primary education and vocational training, and 6) development of federal structures. These sectors are in line with priority areas of German development co-operation. Germany, as a federal nation, is in a position to make a particularly useful contribution to Ethiopia's challenge of decentralising its system of government.

In the German Embassy, one staff member seconded from the BMZ is in charge of development assistance, together with a Foreign Office staff member who devotes half of his time to it. The GTZ has a

local office with a German head and 20 local staff members. There is no KfW local office. The Embassy and the GTZ Office are in close contact with each other and seem to have fairly good communication with local representatives of the DED and German NGOs. In accordance with the GTZ policy of decentralisation, the GTZ office in Addis Ababa is being given greater responsibilities for managing local GTZ projects (largely by strengthening its local staff). While this could render German assistance more flexible to the needs of the field, it may take some time to come to terms with problems such as identifying and fostering local potentials and improving communication channels between Germany and those responsible for the projects in Ethiopia.

The Government of Ethiopia finds that its own development policies basically coincide with the OECD Partnerships Strategy. It has its five-year development programme and scrutinises its development projects, including those assisted by donors. However, Ethiopia needs to further strengthen both its institutional capacity and the capacity of its people in order to make steady economic and social progress according to its development programme.

Donors in Ethiopia are fairly active in co-ordination on development assistance. Although they mainly exchange information on development issues and projects, there are some cases of substantial co-ordination. In the road sector, for instance, the Ethiopian Authority and four donors, including Germany, decided to repair five main roads extending from Addis Ababa, with each donor assisting one (or two) different road(s). Donors also have co-ordination meetings in several areas like education, health and food security. (But the recipient side is not necessarily involved in all those meetings.) Germany is actively participating in these co-ordination efforts, though it may sometimes overload those involved in the management of German development assistance to Ethiopia.

## Annex 3

## GERMAN CO-OPERATION AND PARTICIPATORY DEVELOPMENT AND GOOD GOVERNANCE

(Note by the Japanese Examiner on the findings of a mission to Bolivia and Costa Rica)

In the discussion to determine the directions which the Development Assistance Committee (DAC) should take in participatory development and good governance (PD/GG), Germany has always taken a leading role. After the endorsement of a policy note on country co-ordination and a related guidance note on possible first steps by donors, Germany agreed to lead a country exercise in Bolivia.

In summer 1997, a meeting with the donor representatives took place in La Paz, organised by German authorities, in order to present the PD/GG co-ordination exercise as an opportunity to institute a dialogue for analysing and implementing the processes already initiated with the Bolivian authorities.

The challenge was how to operationalise the dialogue, at different stages, with the involvement of the Bolivian people. To have a systematic and practical discussion, *four working groups* were set up. They are: Popular Participation Law; Democratisation; Good Governance; and Human Rights. The groups are headed by the Netherlands, Sweden, the United Nations Development Programme and the European Commission. Germany works as a moderator.

The mission learned that both the donors and the Bolivian people found this exercise exciting and useful. For example, the four groups were used to prepare the donor paper for the CG meeting in April 1998, since the four issue groups are related to the topics covered in the CG, such as rule of law, public administration, corruption etc.

For donors, it gave a chance to interact among themselves, to identify duplication of effort and to reach a consensus before the meeting. And for the Bolivian Government, the study of the donor consensus paper helped it to see its weak points as well as expressing the interest of donors in Bolivia's national development plan.

Positive movement towards participatory development is evident in both **Bolivia** and Costa Rica. In Bolivia two kinds of decentralisation are being pursued. One is handing power and resources to 313 municipalities; the other is strengthening the representation of the central government at the level of the 9 prefectures to achieve better communication with the people. In **Costa Rica**, also, the trend is to strengthen the municipalities as stakeholders in development. With their high literacy rate, the Costa Rican people take a strong interest in social and political issues. The increased role of local organisations (*e.g.* by occupation, by community, by ethnic groups) and the strengthening of capacity for people to be involved in development at this level are considered as top priorities by Germany.

Germany has adopted the "self-help approach" as a core of its development co-operation policy. The mission was able to confirm that this idea was incorporated into German projects and programmes in both Bolivia and Costa Rica, in which not only municipalities and governments, but also individuals or group of individuals at the community level are key players. For example, in Costa Rica, GTZ supports the municipal efforts to take the community (including indigenous groups) into account. In Bolivia, GTZ's programme was made up of projects at every social-structure level, from the local community to the central government.

The mission believes that the key to the continuation of these efforts lies in the hands of both Bolivians and Costa Ricans (government and public) and the donor community. Those governments, through the waves of change to come in the government majority parties, need to continue their development efforts according to the spirit of participatory development, with the empowerment of the people and their organisations at every level. Bolivia's Popular Partici-

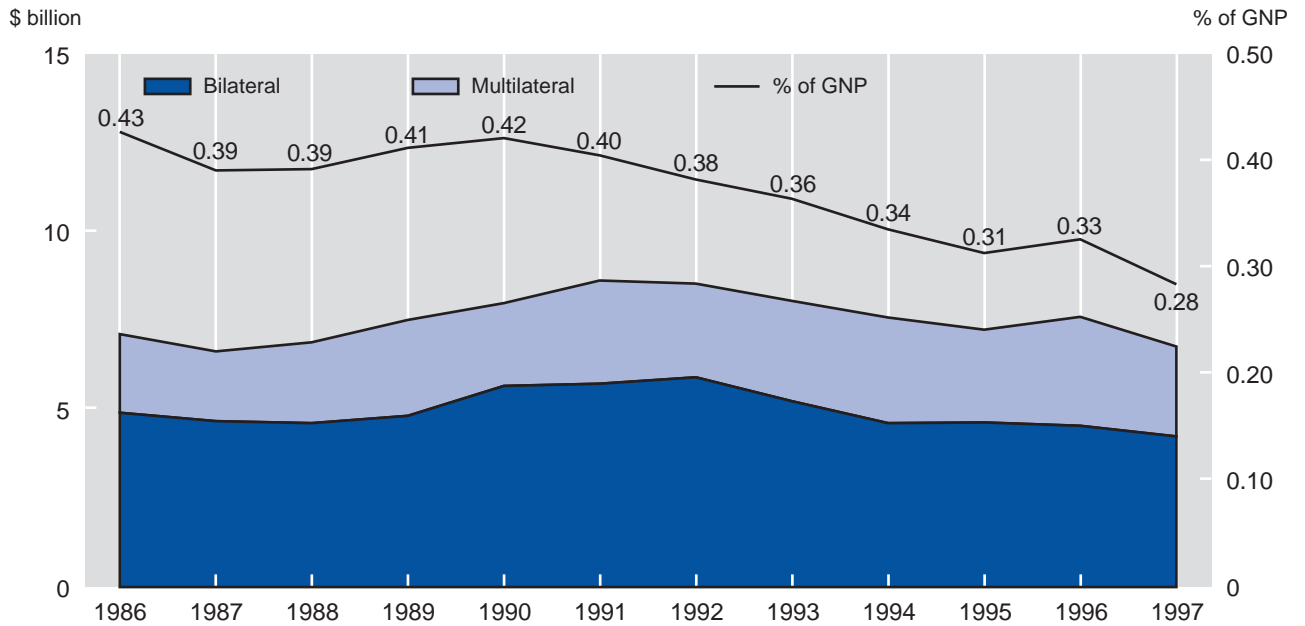
pation Law is one promising sign in this context, but more could be done to ensure that tangible results are felt within society. On the occasion of the Consultative Group(CG) Meeting on Bolivia in April 1997, Germany, together with other donors, expressed its concern that any change of government subsequent to the election scheduled that summer, might affect the Bolivian political reforms, in particular the Popular Participation Law, introduced in 1994, under which considerable progress had been made. This led to declarations by the major political parties that they would pursue the reform, and subsequently the new government formed after the elections announced that it would maintain this commitment.

As for the donors, they need to stand on the consensus ground that they will pay full respect to the decision by their partner country, once they have agreed to the principal idea of the partner's development plan. Moreover, they are expected to speak with one voice to the partner country on the promotion of participatory development. Also, they may undertake complementary analysis among themselves on the comparative advantage of various co-operation mechanisms and schemes at the field level. With this aim, the mission thinks that the donors could take advantage of systems such as the four working groups currently being tested in Bolivia.

*Annex 4*  
**GRAPHS, TABLES AND CHART**



Graph 1. **ODA net disbursements**  
At constant 1996 prices and as a share of GNP



Source: OECD.

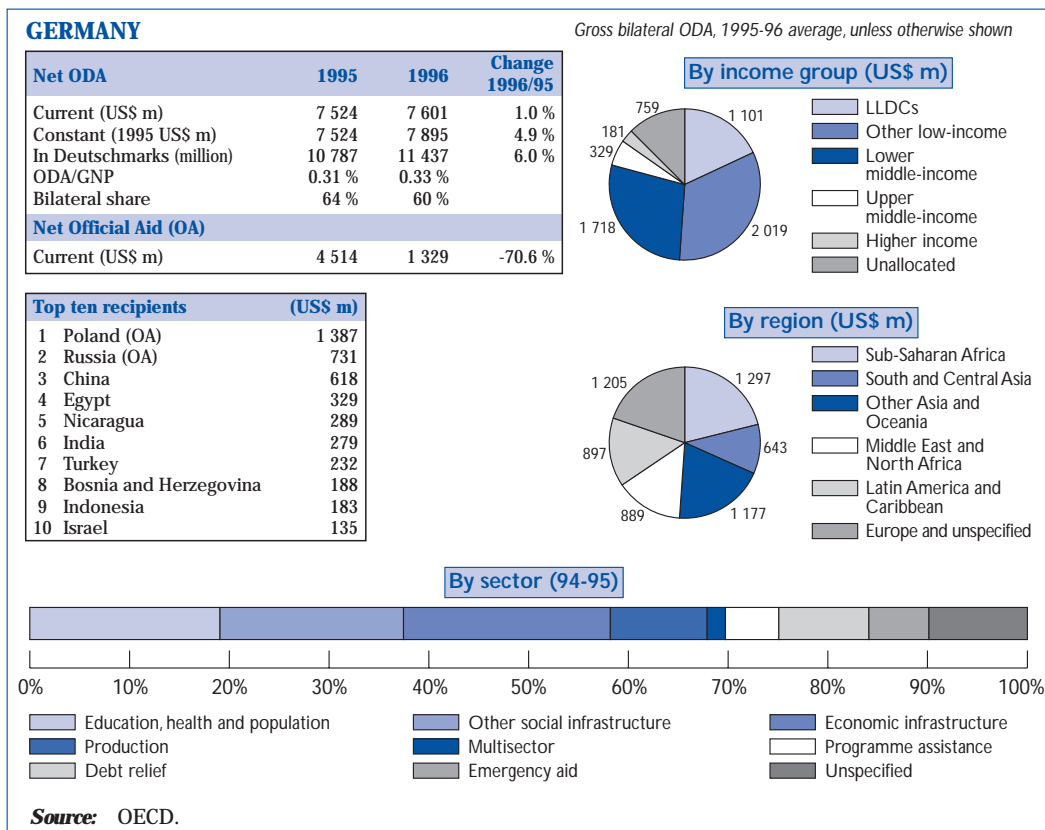


Chart 1. The German aid system

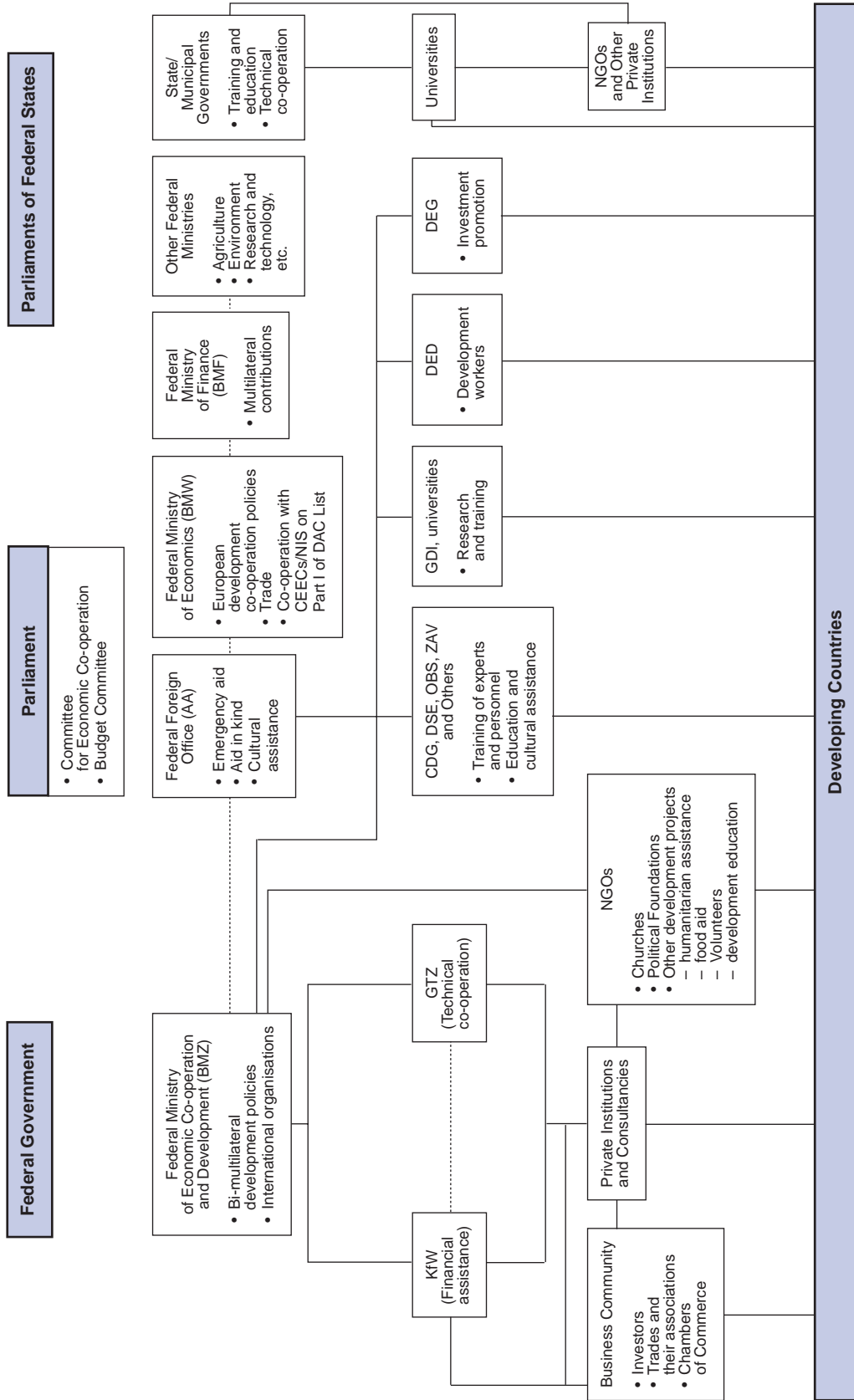


Table 1. Main ODA volume indicators

|   | <i>i) Disbursements and commitments</i> |                     |                     |                          |                     |                     |
|---|---|---------------------|---------------------|--------------------------|---------------------|---------------------|
|   | Two-year averages over ten-year period  |                     |                     | 1995                     | 1996                | 1997                |
|   | 1986/87                                 | 1991/92             | 1996/97             |                          |                     |                     |
| <b>ODA net disbursements</b>  |   |                     |                     |                          |                     |                     |
| Current prices and exchange rates (\$ million)                            | 4 111                                   | 7 236               | 6 757               | 7 524                    | 7 601               | 5 913               |
| Bilateral   | 2 866                                   | 4 909               | 4 117               | 4 815                    | 4 535               | 3 699               |
| Multilateral  | 1 245                                   | 2 328               | 2 640               | 2 709                    | 3 066               | 2 214               |
| 1996 prices and exchange rates (\$ million)                               | 7 028                                   | 8 726               | 7 186               | 7 241                    | 7 601               | 6 772               |
| Bilateral   | 4 895                                   | 5 912               | 4 386               | 4 634                    | 4 535               | 4 236               |
| Multilateral  | 2 133                                   | 2 814               | 2 800               | 2 607                    | 3 066               | 2 535               |
| National currency (DM million)  | 8 105                                   | 11 636              | 10 845              | 10 787                   | 11 437              | 10 254              |
| Bilateral   | 5 645                                   | 7 888               | 6 619               | 6 903                    | 6 824               | 6 415               |
| Multilateral  | 2 459                                   | 3 748               | 4 226               | 3 884                    | 4 613               | 3 839               |
| GNP ratios (%)  | 0.41                                    | 0.39                | 0.30                | 0.31                     | 0.33                | 0.28                |
| Bilateral   | 0.28                                    | 0.27                | 0.19                | 0.20                     | 0.19                | 0.18                |
| Multilateral  | 0.12                                    | 0.13                | 0.12                | 0.11                     | 0.13                | 0.11                |
| <b>ODA commitments</b>  |   |                     |                     |                          |                     |                     |
| Current prices and exchange rates (\$ million)                            | 5 232                                   | 8 988               | ..                  | 11 476                   | 10 747              | ..                  |
| Bilateral   | 3 820                                   | 6 333               | ..                  | 7 261                    | 7 349               | ..                  |
| Multilateral  | 1 412                                   | 2 655               | ..                  | 4 215                    | 3 398               | ..                  |
| GNP ratios (%)  | 0.52                                    | 0.49                | ..                  | 0.48                     | 0.46                | ..                  |
| Bilateral   | 0.38                                    | 0.34                | ..                  | 0.30                     | 0.32                | ..                  |
| Multilateral  | 0.14                                    | 0.14                | ..                  | 0.18                     | 0.15                | ..                  |
| <b>ii) Average annual growth rates of ODA disbursements in real terms</b> |   |                     |                     |                          |                     |                     |
|   |   |                     |                     | For reference: Total DAC |                     |                     |
|   | 1985/86-<br>1990/91                     | 1990/91-<br>1995/96 | 1985/86-<br>1995/96 | 1985/86-<br>1990/91      | 1990/91-<br>1995/96 | 1985/86-<br>1995/96 |
| Percentages   |   |                     |                     |                          |                     |                     |
| Total ODA   | 2.4                                     | -2.2                | 0.1                 | 3.1                      | -3.2                | -0.1                |
| Bilateral   | 2.5                                     | -4.2                | -0.9                | 3.7                      | -4.0                | -0.2                |
| Multilateral  | 2.1                                     | 1.7                 | 1.9                 | 1.7                      | -1.2                | 0.2                 |
| <i>For reference:</i><br>GNP growth in real terms                         | 4.2                                     | 2.9                 | 3.5                 | 3.4                      | 2.4                 | 2.9                 |
| <b>iii) Share in total DAC</b>  |   |                     |                     |                          |                     |                     |
|   | Two-year averages over ten-year period  |                     |                     | 1994                     | 1995                | 1996                |
|   | 1985/86                                 | 1990/91             | 1995/96             |                          |                     |                     |
| Percentages   |   |                     |                     |                          |                     |                     |
| Total ODA   | 10.5                                    | 12.0                | 13.2                | 11.5                     | 12.8                | 13.7                |
| Bilateral   | 9.9                                     | 11.1                | 11.7                | 10.0                     | 11.9                | 11.6                |
| Multilateral  | 12.0                                    | 13.3                | 16.8                | 15.0                     | 14.8                | 18.8                |
| Gross national product  | 7.8                                     | 9.7                 | 10.7                | 10.2                     | 10.9                | 10.5                |

Source: OECD.

Table 2. ODA net disbursements by main categories

|  | At constant 1996 prices<br>and exchange rates<br>\$million |              |              |              | % of total net ODA |              |              |              | <i>For reference:</i><br>Total DAC: Share of<br>total net ODA (%) |              |              |      |
|--|--|--------------|--------------|--------------|--------------------|--------------|--------------|--------------|---|--------------|--------------|------|
|  | 1991/92  | 1995         | 1996         | 1997         | 1991/92            | 1995         | 1996         | 1997         | 1991/92   | 1995         | 1996         | 1997 |
| <b>Bilateral</b>                       | <b>5 912</b>   | <b>4 634</b> | <b>4 535</b> | <b>4 236</b> | <b>67.8</b>        | <b>64.0</b>  | <b>59.7</b>  | <b>62.6</b>  | <b>71.1</b>   | <b>68.9</b>  | <b>70.5</b>  | ..   |
| Grants                                 | 5 043  | 4 227        | 4 507        | 3 919        | 57.8               | 58.4         | 59.3         | 57.9         | 58.8  | 61.4         | 65.9         | ..   |
| Project and programme aid              | 806  | 635          | 715          | ...          | 9.2                | 8.8          | 9.4          | ...          | 16.2  | 14.2         | 17.9         | ..   |
| Technical co-operation                 | 2 242  | 2 386        | 2 396        | 2 266        | 25.7               | 32.9         | 31.5         | 33.5         | 21.3  | 24.3         | 25.5         | ..   |
| Food aid                               | 149  | 121          | 44           | 101          | 1.7                | 1.7          | 0.6          | 1.5          | 2.8   | 2.3          | 1.5          | ..   |
| Emergency aid<br>(other than food aid) | 653  | 422          | 294          | 170          | 7.5                | 5.8          | 3.9          | 2.5          | 4.1   | 5.2          | 4.9          | ..   |
| Debt reorganisation                    | 674  | 375          | 774          | ...          | 7.7                | 5.2          | 10.2         | ...          | 7.4   | 6.4          | 6.3          | ..   |
| Administrative costs                   | 268  | 278          | 273          | ...          | 3.1                | 3.8          | 3.6          | ...          | 3.8   | 4.9          | 5.2          | ..   |
| Other grants                           | 252  | 10           | 10           | ...          | 2.9                | 0.1          | 0.1          | ...          | 3.0   | 4.1          | 4.7          | ..   |
| Loans                                  | 868  | 407          | 29           | 318          | 10.0               | 5.6          | 0.4          | 4.7          | 12.3  | 7.5          | 4.7          | ..   |
| <b>Multilateral</b>                    | <b>2 814</b>   | <b>2 607</b> | <b>3 066</b> | <b>2 535</b> | <b>32.2</b>        | <b>36.0</b>  | <b>40.3</b>  | <b>37.4</b>  | <b>28.9</b>   | <b>31.1</b>  | <b>29.5</b>  | ..   |
| UN agencies                            | 434  | 298          | 313          | 291          | 5.0                | 4.1          | 4.1          | 4.3          | 7.5   | 7.2          | 7.9          | ..   |
| <i>of which:</i> WFP                   | 35   | 30           | 30           | ...          | 0.4                | 0.4          | 0.4          | ...          | 1.3   | 1.4          | 1.0          | ..   |
| UNDP                                   | 99   | 89           | 88           | ...          | 1.1                | 1.2          | 1.2          | ...          | 1.7   | 1.5          | 1.6          | ..   |
| UNICEF                                 | 14   | 6            | 8            | ...          | 0.2                | 0.1          | 0.1          | ...          | 0.7   | 0.6          | 0.7          | ..   |
| UNFPA                                  | 30   | 31           | 31           | ...          | 0.3                | 0.4          | 0.4          | ...          | 0.4   | 0.5          | 0.6          | ..   |
| World Bank group                       | 737  | 723          | 1 170        | ...          | 8.4                | 10.0         | 15.4         | ...          | 9.9   | 9.5          | 7.8          | ..   |
| <i>of which:</i> IDA                   | 737  | 712          | 1 159        | ...          | 8.4                | 9.8          | 15.2         | ...          | 9.1   | 9.2          | 7.2          | ..   |
| Regional development banks             | 110  | 22           | 63           | 195          | 1.3                | 0.3          | 0.8          | 2.9          | 2.5   | 2.2          | 2.8          | ..   |
| EC                                     | 1 461  | 1 518        | 1 355        | 1 519        | 16.7               | 21.0         | 17.8         | 22.4         | 7.2   | 9.1          | 8.3          | ..   |
| Other multilateral                     | 73   | 46           | 166          | ...          | 0.8                | 0.6          | 2.2          | ...          | 1.9   | 3.0          | 2.6          | ..   |
| <b>Total ODA net disbursements</b>     | <b>8 726</b>   | <b>7 241</b> | <b>7 601</b> | <b>6 772</b> | <b>100.0</b>       | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>  | <b>100.0</b> | <b>100.0</b> | ..   |
| <i>of which:</i> Food aid              | 463  | 348          | 203          | ...          | 5.3                | 4.8          | 2.7          | ...          | 5.8   | 4.5          | 3.1          | ..   |

Source: OECD.

Table 3. **Distribution of bilateral ODA commitments by major purposes**

|   | 1985/86      |              | 1990/91      |              | 1995/96      |              | <i>For reference:</i><br>Total DAC 1995/96<br>% of total |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--|
|   | \$ million   | % of total   | \$ million   | % of total   | \$ million   | % of total   |  |
| <b>Social infrastructure and services</b>   | <b>1 035</b> | <b>35.9</b>  | <b>1 400</b> | <b>24.8</b>  | <b>2 512</b> | <b>34.4</b>  | <b>28.9</b>  |
| Education                                   | 573          | 19.9         | 765          | 13.5         | 1 215        | 16.6         | 9.8  |
| Health                                      | 51           | 1.8          | 70           | 1.2          | 161          | 2.2          | 4.4  |
| Population programmes                       | 10           | 0.4          | 12           | 0.2          | 99           | 1.4          | 1.5  |
| Water supply and sanitation                 | 219          | 7.6          | 239          | 4.2          | 473          | 6.5          | 6.1  |
| Government and civil society                | 116          | 4.0          | 149          | 2.6          | 208          | 2.8          | 3.1  |
| Other social infrastructure and services    | 67           | 2.3          | 165          | 2.9          | 356          | 4.9          | 4.1  |
| <b>Economic infrastructure and services</b> | <b>736</b>   | <b>25.5</b>  | <b>1 382</b> | <b>24.5</b>  | <b>1 734</b> | <b>23.7</b>  | <b>24.1</b>  |
| Transport and storage                       | 251          | 8.7          | 610          | 10.8         | 1 104        | 15.1         | 11.5   |
| Communications                              | 46           | 1.6          | 103          | 1.8          | 50           | 0.7          | 1.6  |
| Energy                                      | 264          | 9.1          | 586          | 10.4         | 375          | 5.1          | 9.0  |
| Banking and financial services              | 127          | 4.4          | 72           | 1.3          | 158          | 2.2          | 0.9  |
| Business and other services                 | 49           | 1.7          | 10           | 0.2          | 47           | 0.6          | 1.3  |
| <b>Production sectors</b>                   | <b>471</b>   | <b>16.3</b>  | <b>655</b>   | <b>11.6</b>  | <b>786</b>   | <b>10.8</b>  | <b>12.0</b>  |
| Agriculture, forestry and fishing           | 295          | 10.2         | 377          | 6.7          | 541          | 7.4          | 8.5  |
| Industry, mining and construction           | 173          | 6.0          | 245          | 4.3          | 114          | 1.6          | 1.9  |
| Industry                                    | 49           | 1.7          | 235          | 4.2          | 101          | 1.4          | 1.2  |
| Mining                                      | 96           | 3.3          | 8            | 0.1          | 5            | 0.1          | 0.1  |
| Construction                                | 28           | 1.0          | 2            | 0.0          | 9            | 0.1          | 0.1  |
| Trade and tourism                           | 3            | 0.1          | 33           | 0.6          | 74           | 1.0          | 1.5  |
| Trade                                       | 3            | 0.1          | 33           | 0.6          | 74           | 1.0          | 0.2  |
| Tourism                                     | –            | –            | –            | –            | 1            | 0.0          | 0.0  |
| Other                                       | –            | –            | –            | –            | 56           | 0.8          | 0.1  |
| <b>Multisector</b>                          | <b>3</b>     | <b>0.1</b>   | <b>154</b>   | <b>2.7</b>   | <b>286</b>   | <b>3.9</b>   | <b>5.2</b>   |
| <b>Total sector allocable</b>               | <b>2 245</b> | <b>77.9</b>  | <b>3 590</b> | <b>63.6</b>  | <b>5 317</b> | <b>72.8</b>  | <b>70.3</b>  |
| Commodity aid and                           |              |              |              |              |              |              |  |
| general programme assistance                | 92           | 3.2          | 511          | 9.0          | 293          | 4.0          | 5.1  |
| Action relating to debt                     | 250          | 8.7          | 612          | 10.8         | 619          | 8.5          | 6.7  |
| Emergency assistance                        | 20           | 0.7          | 230          | 4.1          | 367          | 5.0          | 5.4  |
| Administrative costs of donors              | 43           | 1.5          | 187          | 3.3          | 281          | 3.8          | 4.8  |
| Other                                       | 193          | 6.7          | 219          | 3.9          | 6            | 0.1          | 0.9  |
| Unallocated                                 | 40           | 1.4          | 297          | 5.3          | 422          | 5.8          | 6.8  |
| <b>Total</b>                                | <b>2 882</b> | <b>100.0</b> | <b>5 648</b> | <b>100.0</b> | <b>7 305</b> | <b>100.0</b> | <b>100.0</b>   |

Source: OECD.

Table 4. Allocable ODA net disbursements by major groupings and regions

|                                  | ODA disbursements at constant 1995 prices and exchange rates |              |              |              | Average annual change in real terms |                 | Share of bilateral ODA |              |              |              | <i>For reference:</i> Total DAC: share of bilateral ODA |              |              |              |
|----------------------------------|--|--------------|--------------|--------------|-------------------------------------|-----------------|------------------------|--------------|--------------|--------------|---|--------------|--------------|--------------|
|                                  | \$ million   |              |              |              |                                     |                 | Per cent               |              |              |              |   |              |              |              |
|                                  | 1985/86  | 1990/91      | 1995         | 1996         | 1985/86-1990/91                     | 1990/91-1995/96 | 1985/86                | 1990/91      | 1995         | 1996         | 1985/86   | 1990/91      | 1995         | 1996         |
| Sub-Saharan Africa               | 1 501  | 1 782        | 1 258        | 1 249        | 3.5                                 | -6.8            | 34.4                   | 34.1         | 30.9         | 31.6         | 30.7  | 31.5         | 31.6         | 30.6         |
| Low-income countries             | 1 457  | 1 720        | 1 182        | 1 177        | 3.4                                 | -7.3            | 33.4                   | 32.9         | 29.0         | 29.8         | 29.5  | 29.9         | 29.0         | 28.0         |
| Other                            | 44   | 63           | 76           | 72           | 7.2                                 | 3.4             | 1.0                    | 1.2          | 1.9          | 1.8          | 1.2   | 1.6          | 2.6          | 2.6          |
| North Africa & Middle East       | 615  | 1 156        | 412          | 693          | 13.4                                | -13.7           | 14.1                   | 22.1         | 10.1         | 17.6         | 23.1  | 22.5         | 12.8         | 20.5         |
| Low-income countries             | 28   | 40           | 42           | 45           | 7.5                                 | 1.6             | 0.6                    | 0.8          | 1.0          | 1.1          | 0.5   | 0.6          | 0.3          | 0.4          |
| Other                            | 587  | 1 116        | 370          | 648          | 13.7                                | -14.5           | 13.5                   | 21.4         | 9.1          | 16.4         | 22.6  | 21.9         | 12.4         | 20.1         |
| Asia                             | 1 480  | 1 295        | 1 382        | 975          | -2.6                                | -1.9            | 33.9                   | 24.8         | 33.9         | 24.7         | 27.2  | 27.2         | 32.7         | 26.6         |
| Low-income countries             | 1 051  | 881          | 1 197        | 869          | -3.5                                | 3.2             | 24.1                   | 16.9         | 29.4         | 22.0         | 17.9  | 15.9         | 22.6         | 19.2         |
| Other                            | 429  | 415          | 184          | 106          | -0.7                                | -19.0           | 9.8                    | 7.9          | 4.5          | 2.7          | 9.3   | 11.3         | 10.1         | 7.4          |
| America                          | 614  | 671          | 580          | 852          | 1.8                                 | 1.3             | 14.1                   | 12.9         | 14.3         | 21.6         | 12.8  | 12.3         | 13.6         | 13.3         |
| Low-income countries             | 54   | 84           | 196          | 441          | 9.2                                 | 30.6            | 1.2                    | 1.6          | 4.8          | 11.2         | 2.2   | 2.9          | 4.0          | 3.7          |
| Other                            | 560  | 587          | 384          | 411          | 1.0                                 | -7.5            | 12.8                   | 11.2         | 9.4          | 10.4         | 10.6  | 9.4          | 9.6          | 9.6          |
| Oceania                          | 19   | 17           | 9            | 4            | -1.5                                | -18.6           | 0.4                    | 0.3          | 0.2          | 0.1          | 4.9   | 3.4          | 5.2          | 5.3          |
| Europe                           | 137  | 302          | 431          | 176          | 17.2                                | 0.1             | 3.1                    | 5.8          | 10.6         | 4.5          | 1.3   | 3.1          | 4.1          | 3.6          |
| <b>Total bilateral allocable</b> | <b>4 365</b>   | <b>5 225</b> | <b>4 072</b> | <b>3 949</b> | <b>3.7</b>                          | <b>-5.2</b>     | <b>100.0</b>           | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>  | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |
| <i>Memo items:</i>               |  |              |              |              |                                     |                 |                        |              |              |              |   |              |              |              |
| Least-developed countries        | 1 445  | 1 449        | 1 083        | 1 124        | 0.1                                 | -5.3            | 33.1                   | 27.7         | 26.6         | 28.5         | 30.2  | 26.9         | 28.2         | 25.7         |
| Other low-income countries       | 1 148  | 1 296        | 1 893        | 1 486        | 2.5                                 | 5.4             | 26.3                   | 24.8         | 46.5         | 37.6         | 20.2  | 23.2         | 30.6         | 28.3         |
| Lower middle-income countries    | 1 378  | 1 939        | 944          | 1 122        | 7.1                                 | -11.8           | 31.6                   | 37.1         | 23.2         | 28.4         | 31.4  | 38.5         | 31.2         | 31.9         |
| Upper middle-income countries    | 250  | 180          | 147          | 256          | -6.4                                | 2.4             | 5.7                    | 3.4          | 3.6          | 6.5          | 4.1   | 4.4          | 5.4          | 3.9          |
| High-income countries            | 144  | 361          | 4            | -39          | 20.1                                | n.a.            | 3.3                    | 6.9          | 0.1          | -1.0         | 14.0  | 7.1          | 4.6          | 10.1         |
| Unallocated                      | 853  | 775          | 742          | 761          | -1.9                                | -0.6            | 19.5                   | 14.8         | 18.2         | 19.3         | 18.8  | 21.4         | 28.2         | 29.9         |
| (additional to total shown)      |  |              |              |              |                                     |                 |                        |              |              |              |   |              |              |              |

Source: OECD.

Table 5. Major recipients of bilateral ODA net disbursements

| Rank | 1985/86                                 |                          |                          | 1990/91                             |                                       |                          | 1995/96                  |                                     |                                       |                          |                          |                                     |
|------|---|--------------------------|--------------------------|-------------------------------------|---------------------------------------|--------------------------|--------------------------|-------------------------------------|---------------------------------------|--------------------------|--------------------------|-------------------------------------|
|      | Recipient                               | Constant 1995 \$ million | % of bilateral allocable | Cumulative % of bilateral allocable | Recipient                             | Constant 1995 \$ million | % of bilateral allocable | Cumulative % of bilateral allocable | Recipient                             | Constant 1995 \$ million | % of bilateral allocable | Cumulative % of bilateral allocable |
| 1    | India                                   | 277                      | 6.4                      | 6.4                                 | Egypt                                 | 348                      | 6.7                      | 6.7                                 | China                                 | 582                      | 14.5                     | 14.5                                |
| 2    | Egypt                                   | 266                      | 6.1                      | 12.4                                | Israel                                | 301                      | 5.8                      | 12.4                                | Egypt                                 | 315                      | 7.8                      | 22.3                                |
| 3    | Indonesia                               | 239                      | 5.5                      | 17.9                                | India                                 | 282                      | 5.4                      | 17.8                                | Nicaragua                             | 297                      | 7.4                      | 29.7                                |
| 4    | China                                   | 181                      | 4.1                      | 22.1                                | Turkey                                | 272                      | 5.2                      | 23.0                                | Bosnia & Herzegovina                  | 188                      | 4.7                      | 34.4                                |
| 5    | Pakistan                                | 172                      | 3.9                      | 26.0                                | China                                 | 220                      | 4.2                      | 27.2                                | India                                 | 111                      | 2.8                      | 37.2                                |
| 6    | Sudan                                   | 150                      | 3.4                      | 29.4                                | Jordan                                | 192                      | 3.7                      | 30.9                                | Philippines                           | 89                       | 2.2                      | 39.4                                |
| 7    | Sri Lanka                               | 143                      | 3.3                      | 32.7                                | Congo, D. Rep.                        | 160                      | 3.1                      | 34.0                                | Bolivia                               | 89                       | 2.2                      | 41.6                                |
| 8    | Turkey                                  | 137                      | 3.1                      | 35.9                                | Indonesia                             | 153                      | 2.9                      | 36.9                                | Viet Nam                              | 88                       | 2.2                      | 43.8                                |
| 9    | Bangladesh                              | 131                      | 3.0                      | 38.9                                | Pakistan                              | 133                      | 2.5                      | 39.4                                | Ethiopia                              | 80                       | 2.0                      | 45.8                                |
| 10   | Myanmar                                 | 109                      | 2.5                      | 41.4                                | Kenya                                 | 129                      | 2.5                      | 41.9                                | Mozambique                            | 77                       | 1.9                      | 47.7                                |
| 11   | Peru                                    | 108                      | 2.5                      | 43.9                                | Zambia                                | 125                      | 2.4                      | 44.3                                | Zambia                                | 77                       | 1.9                      | 49.6                                |
| 12   | Morocco                                 | 106                      | 2.4                      | 46.3                                | Ghana                                 | 124                      | 2.4                      | 46.7                                | Bangladesh                            | 74                       | 1.9                      | 51.5                                |
| 13   | Brazil                                  | 98                       | 2.3                      | 48.5                                | Bangladesh                            | 114                      | 2.2                      | 48.9                                | Iran                                  | 70                       | 1.8                      | 53.2                                |
| 14   | Kenya                                   | 88                       | 2.0                      | 50.6                                | Syria                                 | 94                       | 1.8                      | 50.7                                | Tanzania                              | 64                       | 1.6                      | 54.8                                |
| 15   | Tanzania                                | 88                       | 2.0                      | 52.6                                | Morocco                               | 91                       | 1.7                      | 52.4                                | Iraq                                  | 59                       | 1.5                      | 56.3                                |
| 16   | Zimbabwe                                | 76                       | 1.7                      | 54.3                                | Bolivia                               | 90                       | 1.7                      | 54.1                                | Mali                                  | 57                       | 1.4                      | 57.7                                |
| 17   | Thailand                                | 70                       | 1.6                      | 55.9                                | Tanzania                              | 89                       | 1.7                      | 55.8                                | Côte d'Ivoire                         | 55                       | 1.4                      | 59.1                                |
| 18   | Somalia                                 | 70                       | 1.6                      | 57.5                                | Peru                                  | 75                       | 1.4                      | 57.3                                | Kenya                                 | 54                       | 1.3                      | 60.4                                |
| 19   | Israel                                  | 68                       | 1.6                      | 59.1                                | Thailand                              | 73                       | 1.4                      | 58.7                                | Croatia                               | 54                       | 1.3                      | 61.8                                |
| 20   | Congo, D. Rep.                          | 65                       | 1.5                      | 60.6                                | Kazakhstan                            | 72                       | 1.4                      | 60.1                                | Jordan                                | 53                       | 1.3                      | 63.1                                |
|      | <b>Total bilateral allocable</b>        | <b>4 365</b>             | <b>100.0</b>             | <b>100.0</b>                        | <b>Total bilateral allocable</b>      | <b>5 225</b>             | <b>100.0</b>             | <b>100.0</b>                        | <b>Total bilateral allocable</b>      | <b>4 011</b>             | <b>100.0</b>             | <b>100.0</b>                        |
|      | Unallocated (additional to total shown) | 853                      | 19.5                     |                                     | Unallocated (additional total shown)  | 775                      | 14.8                     |                                     | Unallocated (additional total shown)  | 752                      | 18.7                     |                                     |
|      | Memo item: Total number of recipients   | 136                      |                          |                                     | Memo item: Total number of recipients | 141                      |                          |                                     | Memo item: Total number of recipients | 156                      |                          |                                     |

Source: OECD.

**Table 6. Total financial flows**  
 Net disbursements in \$ million at 1995 prices and exchange rates

|  | 1985/86       | 1990/91       | 1994          | 1995          | 1996          |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>Official development assistance</b> | <b>7 663</b>  | <b>8 628</b>  | <b>7 881</b>  | <b>7 524</b>  | <b>7 895</b>  |
| <b>Other official flows</b>            | <b>2 332</b>  | <b>2 600</b>  | <b>4 091</b>  | <b>879</b>    | <b>202</b>    |
| Official export credits                | 688           | 303           | 278           | 324           | 606           |
| Equities and other bilateral assets    | 1 663         | 2 297         | 3 999         | 836           | -59           |
| Multilateral                           | -19           | 0             | -186          | -280          | -345          |
| <b>Private non-concessional flows</b>  | <b>4 270</b>  | <b>5 198</b>  | <b>14 575</b> | <b>11 683</b> | <b>12 812</b> |
| Direct investment                      | 203           | 803           | 3 403         | 4 694         | 3 590         |
| Bilateral portfolio investment         | 2 276         | 2 670         | 7 513         | 3 480         | 7 250         |
| Multilateral portfolio investment      | 967           | -409          | 210           | 296           | 194           |
| Private export credits                 | 824           | 2 134         | 3 449         | 3 213         | 1 778         |
| <b>Private grants</b>                  | <b>1 097</b>  | <b>992</b>    | <b>1 134</b>  | <b>1 112</b>  | <b>1 084</b>  |
| <b>Total non-ODA flows</b>             | <b>7 699</b>  | <b>8 790</b>  | <b>19 800</b> | <b>13 673</b> | <b>14 098</b> |
| <b>As share of GNP (%)</b>             | 0.45          | 0.42          | 0.84          | 0.57          | 0.58          |
| <b>Total flows</b>                     | <b>15 362</b> | <b>17 418</b> | <b>27 681</b> | <b>21 197</b> | <b>21 993</b> |
| <b>As share of GNP (%)</b>             | 0.90          | 0.83          | 1.18          | 0.88          | 0.91          |

Source: OECD.



Table 7. Official aid and total net flows to Part II countries (CEECs/NIS)

| OA net disbursements rates, US\$ millions |                 |                  |                  |                  |                  |                  |                  |                   |               |
|---|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|---------------|
|   | 1990            | 1991             | 1992             | 1993             | 1994             | 1995             | 1996             | Total             | %             |
| Australia                                 | 5.50            | 8.63             | 5.32             | 5.55             | 3.99             | 4.23             | 9.57             | 42.79             | 0.09          |
| Austria                                   | 83.87           | 289.86           | 349.10           | 389.11           | 261.09           | 313.40           | 225.72           | 1912.15           | 4.22          |
| Belgium                                   | 20.70           | 274.40           | 148.30           | 81.40            | 86.26            | 89.49            | 69.75            | 770.30            | 1.70          |
| Canada                                    | 11.42           | 137.95           | 258.43           | 79.41            | 72.85            | 249.60           | 180.22           | 989.88            | 2.19          |
| Denmark                                   | 14.67           | 65.07            | 82.11            | 175.51           | 123.89           | 170.03           | 119.69           | 750.97            | 1.66          |
| Finland                                   | 16.76           | 115.80           | 44.21            | 38.50            | 51.13            | 76.46            | 43.88            | 386.74            | 0.85          |
| France                                    | 75.64           | 456.97           | 363.81           | 605.58           | 649.51           | 769.88           | 292.86           | 3214.25           | 7.10          |
| <b>Germany</b>                            | <b>1 014.03</b> | <b>2 637.26</b>  | <b>3 344.15</b>  | <b>2 427.09</b>  | <b>2 526.99</b>  | <b>4 514.24</b>  | <b>1 274.10</b>  | <b>17 737.86</b>  | <b>39.16</b>  |
| Ireland                                   | 4.65            | 15.30            | 10.36            | 8.49             | 15.56            | 20.61            | 1.19             | 76.16             | 0.17          |
| Italy                                     | 128.02          | 382.49           | 333.64           | 242.19           | 195.73           | 286.30           | 294.25           | 1862.62           | 4.11          |
| Japan                                     | 153.04          | 109.70           | 238.33           | 529.60           | 247.17           | 250.46           | 167.99           | 1696.29           | 3.74          |
| Luxembourg                                | 0.70            | 4.50             | 5.34             | 7.03             | 6.93             | 6.57             | 2.05             | 33.12             | 0.07          |
| Netherlands                               | 61.60           | 152.20           | 163.05           | 249.64           | 117.70           | 305.14           | 13.10            | 1 062.43          | 2.35          |
| New Zealand                               | 0.00            | 0.70             | 0.86             | 0.75             | 0.70             | 0.79             | 0.00             | 3.80              | 0.01          |
| Norway                                    | 21.11           | 24.48            | 65.82            | 73.97            | 78.91            | 60.50            | 50.12            | 374.91            | 0.83          |
| Portugal                                  | 3.60            | 21.60            | 17.46            | 12.77            | 28.49            | 21.71            | 17.96            | 123.59            | 0.27          |
| Spain                                     | 24.10           | 162.57           | 101.63           | 86.60            | 157.25           | 119.98           | 2.35             | 654.48            | 1.44          |
| Sweden                                    | 2.41            | 61.69            | 336.17           | 64.97            | 91.22            | 151.67           | 178.02           | 886.15            | 1.96          |
| Switzerland                               | 9.08            | 50.85            | 87.60            | 93.06            | 119.19           | 101.72           | 97.16            | 558.66            | 1.23          |
| United Kingdom                            | 258.78          | 326.56           | 336.49           | 285.08           | 292.06           | 406.14           | 361.54           | 2 266.65          | 5.00          |
| United States                             | 338.00          | 1 832.00         | 683.00           | 1 646.00         | 2 422.00         | 1 280.00         | 1 694.00         | 9 895.00          | 21.84         |
| <b>Total DAC</b>                          | <b>2 247.68</b> | <b>7 130.58</b>  | <b>6 975.18</b>  | <b>7102.30</b>   | <b>7 548.62</b>  | <b>9 198.92</b>  | <b>5 095.52</b>  | <b>45 298.80</b>  | <b>100.00</b> |
| Total net flows, US\$ millions            |                 |                  |                  |                  |                  |                  |                  |                   |               |
|   | 1990            | 1991             | 1992             | 1993             | 1994             | 1995             | 1996             | Total             | %             |
| Australia                                 | 5.50            | 91.54            | 5.32             | 156.26           | 3.99             | 4.23             | 9.57             | 276.41            | 0.23          |
| Austria                                   | 413.09          | 650.35           | 875.59           | 893.53           | 705.61           | 850.90           | 527.89           | 4 916.96          | 4.17          |
| Belgium                                   | 29.46           | 114.00           | 67.20            | 75.70            | 322.23           | 389.16           | 753.38           | 1 751.13          | 1.48          |
| Canada                                    | 184.84          | 766.05           | 665.17           | 77.41            | 122.85           | 240.72           | 58.37            | 2 115.41          | 1.79          |
| Denmark                                   | 23.73           | 51.80            | 123.59           | 230.83           | 172.16           | 362.40           | 392.89           | 1 357.40          | 1.15          |
| Finland                                   | 42.49           | 146.21           | 167.21           | -36.44           | 33.34            | 114.54           | 208.91           | 676.26            | 0.57          |
| France                                    | 269.36          | 618.97           | 1 095.99         | 477.36           | -1 081.79        | 2 970.16         | 1 901.41         | 6 251.46          | 5.30          |
| <b>Germany</b>                            | <b>6 263.39</b> | <b>11 964.84</b> | <b>14 352.15</b> | <b>13 411.75</b> | <b>9 435.70</b>  | <b>7 424.99</b>  | <b>6 333.50</b>  | <b>69 186.32</b>  | <b>58.61</b>  |
| Ireland                                   | 4.65            | 15.30            | 10.36            | 8.49             | 15.56            | 20.61            | 1.19             | 76.16             | 0.06          |
| Italy                                     | 128.02          | 382.49           | 2 847.87         | -830.03          | -850.74          | -49.26           | 334.87           | 1 963.22          | 1.66          |
| Japan                                     | 153.04          | 70.20            | 160.49           | 1 443.34         | -757.88          | 847.77           | 973.84           | 2 890.80          | 2.45          |
| Luxembourg                                | 0.70            | 4.50             | 10.47            | 7.03             | 6.93             | 6.57             | 2.05             | 38.25             | 0.03          |
| Netherlands                               | 71.60           | 720.50           | 837.85           | 249.64           | 117.70           | 289.51           | 7.89             | 2 294.69          | 1.94          |
| New Zealand                               | 0.00            | 0.70             | 0.86             | 0.75             | 0.70             | 0.79             | 0.00             | 3.80              | 0.00          |
| Norway                                    | 62.81           | 55.48            | 321.72           | 86.89            | 80.51            | 112.83           | 60.19            | 780.43            | 0.66          |
| Portugal                                  | 3.60            | 21.60            | 34.54            | 40.20            | 23.60            | 187.62           | 17.02            | 328.18            | 0.28          |
| Spain                                     | 24.10           | 162.57           | 436.36           | 86.60            | 1 57.25          | 138.01           | 17.95            | 1 022.84          | 0.87          |
| Sweden                                    | 27.61           | 119.39           | 268.77           | 60.47            | 1 31.83          | -78.46           | 121.98           | 651.59            | 0.55          |
| Switzerland                               | 9.08            | 95.29            | 108.99           | 105.23           | -62.67           | 794.45           | 376.44           | 1 426.81          | 1.21          |
| United Kingdom                            | 258.78          | 326.56           | 336.49           | 2.45             | 980.66           | 1 421.93         | 388.22           | 3 715.09          | 3.15          |
| United States                             | 1 178.00        | 1 049.00         | 2 049.00         | 3 542.00         | 2 654.00         | 2 991.00         | 2 865.00         | 16 328.00         | 13.83         |
| <b>Total DAC</b>                          | <b>9 153.85</b> | <b>17 427.34</b> | <b>24 775.99</b> | <b>20 089.46</b> | <b>12 211.54</b> | <b>19 040.46</b> | <b>15 352.56</b> | <b>118 051.21</b> | <b>100.00</b> |

Source: OECD.

Table 8. **Geographic distribution of German official aid and total net flows to Part II countries (CEECs/NIS)**

| OA net disbursements, US\$ millions    |                 |                  |                  |                  |                 |                 |                 |                  |               |
|--|-----------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|------------------|---------------|
|  | 1990            | 1991             | 1992             | 1993             | 1994            | 1995            | 1996            | Total            | %             |
| Russia                                 | 254.00          | 520.00           | 1 501.60         | 1 461.20         | 1 444.20        | 987.40          | 474.90          | 6 643.30         | 37.50         |
| Poland                                 | 294.10          | 219.40           | 339.40           | 105.30           | 92.70           | 2676.40         | 96.90           | 3 824.00         | 21.60         |
| Ukraine                                | 289.00          | 364.90           | 538.80           | 233.40           | 138.60          | 55.90           | 67.60           | 1 688.10         | 9.50          |
| Belarus                                | 0.00            | 184.00           | 244.00           | 109.50           | 77.70           | 136.00          | 17.90           | 769.10           | 4.30          |
| Romania                                | 67.80           | 110.10           | 22.50            | 28.10            | 15.60           | 20.30           | 28.70           | 293.00           | 1.70          |
| Hungary                                | 5.60            | 66.40            | 22.50            | 28.70            | 24.20           | 20.90           | 39.80           | 208.20           | 1.20          |
| Czech Republic                         | 3.20            | 8.00             | 20.00            | 18.40            | 15.10           | 26.80           | 32.00           | 123.50           | 0.70          |
| Lithuania                              | 0.00            | 1.70             | 5.30             | 14.40            | 11.10           | 65.60           | 11.50           | 109.50           | 0.60          |
| Bulgaria                               | 1.50            | 11.00            | 8.60             | 14.90            | 20.20           | 14.70           | 25.00           | 95.80            | 0.50          |
| Latvia                                 | 0.00            | 1.40             | 6.20             | 12.40            | 10.90           | 9.80            | 12.00           | 52.80            | 0.30          |
| Slovak Republic                        | 1.60            | 4.00             | 9.90             | 7.10             | 6.00            | 8.00            | 12.90           | 49.40            | 0.30          |
| Estonia                                | 0.00            | 1.80             | 5.80             | 10.50            | 6.40            | 6.40            | 9.40            | 40.20            | 0.20          |
| Moldova                                | 0.00            | 0.00             | 0.00             | 0.20             | 0.70            | 2.60            | 3.20            | 6.70             | 0.00          |
| Multilateral                           | 97.30           | 504.60           | 350.10           | 323.60           | 560.00          | 406.90          | 442.50          | 2 684.90         | 15.10         |
| CEECs/NIS/Unallocated                  | 0.00            | 640.00           | 269.50           | 59.60            | 103.60          | 76.60           | 0.00            | 1 149.30         | 6.50          |
| <b>Total</b>                           | <b>1 014.00</b> | <b>2 637.30</b>  | <b>3 344.20</b>  | <b>2 427.10</b>  | <b>2 527.00</b> | <b>4 514.20</b> | <b>1 274.10</b> | <b>17 737.90</b> | <b>100.00</b> |
| Total net disbursements, US\$ millions |                 |                  |                  |                  |                 |                 |                 |                  |               |
|  | 1990            | 1991             | 1992             | 1993             | 1994            | 1995            | 1996            | Total            | %             |
| Russia                                 | 254.00          | 520.00           | 2557.20          | 9 087.50         | 6 024.70        | 2 041.70        | 2 461.50        | 22 946.50        | 33.20         |
| Czech Republic                         | 674.50          | 419.80           | 398.60           | 451.20           | 1 050.50        | 1 275.80        | 1 676.60        | 5 947.00         | 8.60          |
| Hungary                                | 1 225.60        | 985.80           | 757.20           | 621.60           | 1 089.30        | 1 252.10        | 7.20            | 5 938.80         | 8.60          |
| Poland                                 | 1 803.40        | 702.10           | 594.50           | 232.30           | -532.60         | 1 413.60        | 1 266.10        | 5479.50          | 7.90          |
| Ukraine                                | 289.00          | 364.90           | 914.70           | 894.90           | 448.40          | 106.60          | 27.30           | 3045.80          | 4.40          |
| Romania                                | 809.20          | 152.80           | 245.70           | 342.80           | 146.70          | 221.10          | 383.30          | 2301.50          | 3.30          |
| Belarus                                | 0.00            | 184.00           | 266.00           | 465.50           | 285.50          | 189.70          | -6.10           | 1 384.60         | 2.00          |
| Slovak Republic                        | 337.20          | 210.50           | 198.80           | 154.90           | 155.10          | 191.50          | 79.00           | 1 327.10         | 1.90          |
| Bulgaria                               | 773.20          | -221.90          | -104.50          | -33.70           | 16.40           | -70.60          | -118.20         | 240.70           | 0.30          |
| Lithuania                              | 0.00            | 1.70             | 7.20             | 44.50            | 48.80           | 103.90          | 15.30           | 221.40           | 0.30          |
| Latvia                                 | 0.00            | 1.40             | 8.10             | 20.70            | 31.30           | 41.30           | 15.80           | 118.50           | 0.20          |
| Estonia                                | 0.00            | 1.80             | 10.30            | 11.70            | 7.50            | 17.60           | 25.20           | 74.10            | 0.10          |
| Moldova                                | 0.00            | 0.00             | 0.00             | 2.80             | -0.50           | 6.80            | 12.10           | 21.20            | 0.00          |
| Multilateral                           | 97.30           | 504.60           | 350.10           | 323.60           | 560.00          | 406.90          | 442.50          | 2 684.90         | 3.90          |
| CEECs/NIS/Unallocated                  | 0.00            | 8 137.40         | 8 148.30         | 791.40           | 104.70          | 227.00          | 45.80           | 17 454.70        | 25.20         |
| <b>Total</b>                           | <b>6 263.40</b> | <b>11 964.80</b> | <b>14 352.20</b> | <b>13 411.80</b> | <b>9 435.70</b> | <b>7 425.00</b> | <b>6 333.50</b> | <b>69 186.30</b> | <b>100.00</b> |

Source: OECD.



## PRESS RELEASE OF DAC AID REVIEW OF GERMANY

The German aid system is one of the largest in the world, and it is managed with impressive expertise and skill. Germany's aid programme is strongly oriented towards the goals set out in the strategy agreed in the DAC in 1996, *Shaping the 21st Century: The Contribution of Development Co-operation*. The partnership principle which is central to this strategy is shared by Germany. At the same time, there are significant challenges in adapting a complex multi-institutional management structure to evolving needs for policy-based, co-ordinated programmes, and also in overcoming persistent pressures on the budget. How the German authorities face these challenges will be important to the success of a people-centred, results-oriented development partnerships strategy.

These issues were the focus of the peer review of Germany's aid policies and programmes, held on 9 June 1998 by the OECD Development Assistance Committee (DAC). The German Delegation at this review was led by Mr. Wolf Preuss, Director-General in the Ministry of Economic Co-operation and Development (BMZ). The examining countries were Japan and Sweden. The Chair of the DAC, Mr. James Michel, summarised the following points that emerged from the review:

The Committee noted that since the last review of Germany's development co-operation programme by the DAC in 1995, Germany has taken several measures to improve the quality and effectiveness of its aid. These measures include:

- the reformulation of the concept for development policy to face the new challenges of development co-operation at the turn of the century;
- the establishment of guidelines for the integration of poverty reduction and gender into all project and programme design;
- the conception and implementation of development-oriented emergency assistance programmes;
- a new approach to evaluation, with the BMZ now to concentrate on thematic evaluations of strategic policy themes;
- decentralisation of the German technical assistance agency (GTZ); and the establishment of field offices by the financial co-operation agency (KfW);
- more systematic relations with non-governmental organisations (NGOs) following the establishment of an NGO umbrella institution (VENRO).

The Committee was interested in Germany's approach to poverty reduction and gender. Poverty reduction is one of the three basic objectives of German aid, along with protection of the environment and natural resources and education and training. Poverty reduction, gender and the protection of the environment are cross-cutting tasks permeating all German aid activities. The German concept of poverty reduction focuses on structural reform, self-help and economic efficiency, emphasizing the importance of participation. In 1998, new BMZ guidelines for assessing the poverty orientation of aid projects came into effect. The DAC commended the integration of poverty reduction and gender aspects in the GTZ through a special cross-departmental advisory team as an interesting innovation.

The Committee noted the decline in the volume of commitments for basic education and health and expressed the hope that this trend will be reversed. The German aid administration considers that private sector development, which accounts for about one-fifth of bilateral aid, is a key factor in poverty reduction, while at the same time the emphasis on private sector development is also related to strengthening Germany as a business partner and to promoting jobs in Germany.

DAC Members were also very interested in Germany's work on development-oriented emergency assistance, including conflict resolution activities, such as the integration of ex-combatants. Attention is also given to tackling the root causes of crises, which

involves the promotion of good governance. The Committee noted the significant work of the German Political Foundations in the good governance area, especially its capacity to work with all political parties.

In line with the recommendations of the last review, the BMZ has reoriented its evaluation activities towards strategically important development themes. Evaluations of individual projects are left to the implementing agencies. The results of evaluations are brought to the attention of senior management and taken into consideration in designing new activities.

While appreciating the various positive measures taken by Germany, the Committee noted that Germany faces some important challenges in the administration and structure of its aid. These challenges are recognised by the German aid authorities and a report has been prepared by the BMZ. The DAC considered that a comprehensive review of the German aid system could help to enhance the capacity for concerted adaptation to policy and programme-based approaches to development co-operation.

Although Germany remains one of the largest sources of aid for developing countries, the volume

of its aid has been falling significantly in recent years. As a share of GNP, ODA net disbursements fell from 0.42 per cent in 1990 to an estimated 0.28 per cent in 1997. This decline was related to general budget discipline associated with the Maastricht criteria. Assistance for the reform process in Central and Eastern Europe and the former Soviet Union, which had involved large amounts during the first half of the 1990s, also declined sharply in 1996 and 1997, as debt relief and certain special payments phased down.

Germany is the largest contributor to the European aid programmes and its contributions have been growing while the aid budget as a whole has been reduced. This situation inevitably has had negative repercussions for the size of the bilateral programme and for voluntary contributions to United Nations organisations.

The DAC expressed the hope that political leaders in Germany would forge a new public commitment to rebuilding aid levels in the near term, easing the squeeze in the bilateral programme and enabling Germany to play a more commensurate role in financing UN development agencies.

## Germany: Comparative aid performance

|                              | ODA net disbursements 1996 |             | Average annual growth in real terms (%) 1985/86-1995/96 | Grant element of ODA commitments (%) 1996(a) | Aid appropriations as a share of central government budget (%) 1996 | Share of multilateral aid 1996 |             |                   | ODA to LLDs Bilateral and imputed multilateral 1996 |             |             |
|------------------------------|----------------------------|-------------|---|--|---|--------------------------------|-------------|-------------------|---|-------------|-------------|
|                              | \$ million                 | % of GNP    |   |  |   | % of ODA excl. EC              | incl. EC    | % of GNP excl. EC | incl. EC  | % of ODA    | % of GNP    |
| Australia                    | 1 074                      | 0.28        | -0.6  | 100.0  | 1.2   | 20.7                           | 26.0        | 0.06              | 0.06  | 20.4        | 0.06        |
| Austria                      | 557                        | 0.24        | 2.1   | 97.5   | ..  | 9.1                            | 26.0        | 0.02              | 0.06  | 13.8        | 0.03        |
| Belgium                      | 913                        | 0.34        | -1.4  | 99.1   | ..  | 21.5                           | 42.0        | 0.07              | 0.14  | 24.1        | 0.08        |
| Canada                       | 1 795                      | 0.32        | -1.2  | 100.0  | 1.4   | 24.5                           | ..          | 0.08              | ..  | 19.0        | 0.06        |
| Denmark                      | 1 772                      | 1.04        | 3.7   | 94.1   | 2.7   | 35.6                           | 40.3        | 0.37              | 0.42  | 31.5        | 0.33        |
| Finland                      | 408                        | 0.34        | -1.5  | 97.3   | 1.0   | 35.6                           | 47.4        | 0.12              | 0.16  | 28.8        | 0.10        |
| France                       | 7 451                      | 0.48        | 0.8   | 92.3   | ..  | 11.4                           | 22.8        | 0.06              | 0.11  | 19.0        | 0.09        |
| <b>Germany</b>               | <b>7 601</b>               | <b>0.33</b> | <b>0.1</b>  | <b>91.7</b>                                  | ..  | <b>22.5</b>                    | <b>40.3</b> | <b>0.07</b>       | <b>0.13</b>   | <b>22.3</b> | <b>0.07</b> |
| Ireland                      | 179                        | 0.31        | 7.0   | 100.0  | ..  | 13.4                           | 36.2        | 0.04              | 0.11  | 42.4        | 0.13        |
| Italy                        | 2 416                      | 0.20        | -4.3  | 99.5   | ..  | 43.6                           | 66.4        | 0.09              | 0.13  | 24.5        | 0.05        |
| Japan                        | 9 439                      | 0.20        | 1.6   | 78.2   | ..  | 13.1                           | ..          | 0.03              | ..  | 15.0        | 0.03        |
| Luxembourg                   | 82                         | 0.44        | 11.3  | 100.0  | ..  | 14.1                           | 31.2        | 0.06              | 0.14  | 26.8        | 0.12        |
| Netherlands                  | 3 246                      | 0.81        | 1.2   | 100.0  | 3.6   | 22.4                           | 29.9        | 0.18              | 0.24  | 27.7        | 0.23        |
| New Zealand                  | 122                        | 0.21        | -0.5  | 100.0  | 0.6   | 16.2                           | ..          | 0.03              | ..  | 21.2        | 0.04        |
| Norway                       | 1 311                      | 0.85        | 1.0   | 99.3   | 1.8   | 28.0                           | ..          | 0.24              | ..  | 38.7        | 0.33        |
| Portugal                     | 218                        | 0.21        | 18.7  | 100.0  | ..  | 3.5                            | 27.9        | 0.01              | 0.06  | 67.8        | 0.14        |
| Spain                        | 1 251                      | 0.22        | 12.3  | 89.6   | 1.0   | 7.6                            | 29.1        | 0.02              | 0.06  | 11.3        | 0.02        |
| Sweden                       | 1 999                      | 0.84        | 0.5   | 100.0  | ..  | 24.9                           | 30.2        | 0.21              | 0.25  | 28.7        | 0.24        |
| Switzerland                  | 1 026                      | 0.34        | 2.4   | 100.0  | 2.8   | 29.6                           | ..          | 0.10              | ..  | 29.6        | 0.10        |
| United Kingdom               | 3 199                      | 0.27        | 1.0   | 96.4   | 1.1   | 21.9                           | 44.0        | 0.06              | 0.12  | 25.3        | 0.07        |
| United States                | 9 377                      | 0.12        | -4.1  | 99.6   | ..  | 26.2                           | ..          | 0.03              | ..  | 13.4        | 0.02        |
| Total DAC                    | 55 438                     | 0.25        | -0.1  | 91.8   | ..  | 21.2                           | 29.5        | 0.05              | 0.07  | 20.6        | 0.05        |
| Memo: Average country effort |                            | 0.40        |   |  |   |                                |             |                   |   |             |             |

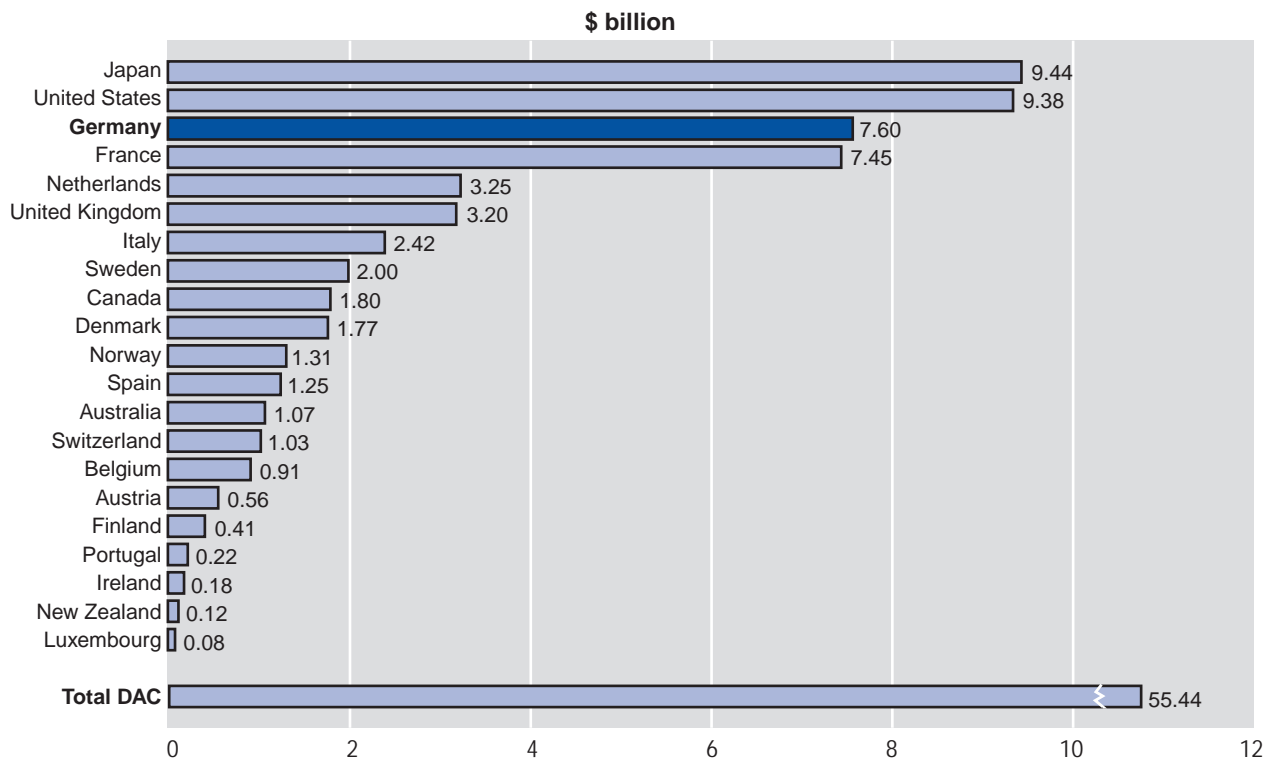
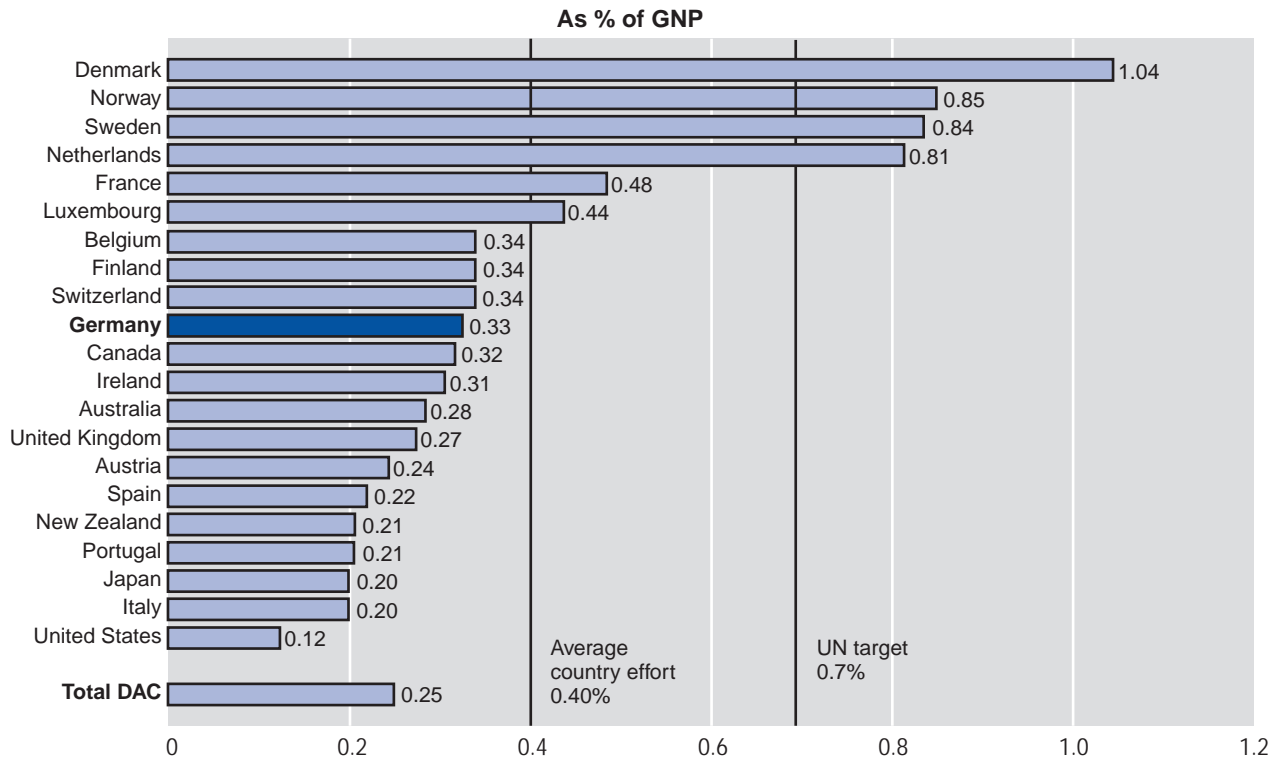
Notes:

.. Indicates that data are not available.

a. Excluding debt reorganisation.

Source: OECD.

### Net ODA from DAC countries in 1996



## 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. Full definitions of these and other related terms can be found in the "Glossary of Key Terms and Concepts" published in the DAC's annual Development Co-operation Report.*

**ASSOCIATED FINANCING:** The combination of OFFICIAL DEVELOPMENT ASSISTANCE, whether GRANTS or LOANS, with any other funding to form finance packages.

**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:** A two-part List of Aid Recipients was introduced by the DAC with effect from 1 January 1994. Part I of the List is presented in the following categories (the word "countries" includes territories):

**LLDCs:** Least Developed Countries. Group established by the United Nations. To be classified as an LLDC, countries must fall below thresholds established for income, economic diversification and social development.

**Other LICs:** Other Low-Income Countries. Includes all non-LLDC countries with per capita GNP less than \$765 in 1995 (World Bank Atlas basis).

**LMICs:** Lower Middle-Income Countries, *i.e.* with GNP per capita (World Bank Atlas basis) between \$766 and \$3 035 in 1995.

**UMICs:** Upper Middle-Income Countries, *i.e.* with GNP per capita (World Bank Atlas basis) between \$3036 and \$9385 in 1995.

**HICs:** High-Income Countries, *i.e.* with GNP per capita (World Bank Atlas basis) more than \$9385 in 1995.

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

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

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

**EXPORT CREDITS:** LOANS for the purpose of trade and which are not represented by a negotiable financial instrument. Frequently these LOANS bear interest at a rate subsidised by the government of the creditor country as a means of promoting exports.

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

**GRANT ELEMENT:** Reflects the **financial terms** of a transaction: interest rate, maturity and grace period (*i.e.* the interval to the first repayment of principal). The grant element is nil for a LOAN carrying an interest rate of 10 per cent; it is 100 per cent for a GRANT; and it lies between these two limits for a soft LOAN.

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



**OFFICIAL AID:** Flows which meet the conditions of eligibility for inclusion in OFFICIAL DEVELOPMENT ASSISTANCE, except that the recipients are on Part III of the DAC LIST OF AID RECIPIENTS.

**OFFICIAL DEVELOPMENT ASSISTANCE (ODA):** GRANTS or LOANS to countries and territories on Part I of the DAC LIST OF AID RECIPIENTS (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a LOAN, having a GRANT ELEMENT of at least 25 per cent).

**OTHER OFFICIAL FLOWS (OOF):** 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.

**PARTIALLY UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all aid recipient countries.

**PRIVATE NON-CONCESSIONAL FLOWS:** Consist of the following flows at market terms financed out of private sector resources:

**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.

**Bilateral portfolio investment:** Includes bank lending, and the purchase of shares, bonds and real estate.

**Multilateral portfolio investment:** This covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.

**Private export credits:** See EXPORT CREDITS.

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

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

**UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services may be fully and freely procured in substantially all countries.

**VOLUME:** Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in **constant prices and exchange rates**, with a reference year specified. This means that adjustment has been made to cover both inflation between the year in question and the reference year, and changes in the exchange rate between the currency concerned and the United States dollar over the same period.

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