

Development Co-operation Review

G e r m a n y

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Development Co-operation Review

Germany

Development Assistance Committee



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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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 four years. Five or 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, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the Member concerned. Field visits assess how Members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

The Secretariat then prepares a draft report on the Member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the Member under review respond to questions posed by DAC Members led by the examiners. 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 Main Findings and Recommendations section of the publication.

This publication contains the Main Findings and Recommendations as agreed by the Development Assistance Committee following its review on 22 November 2001 at the OECD, and the report prepared by the Secretariat in association with the examiners, representing Japan and Switzerland, on the development co-operation policies and efforts of Germany. The report is published on the authority of the Secretary-General of the OECD.

Jean-Claude Faure
DAC Chairman

ACRONYMS

AA*	Federal Foreign Office
AKA	Working Group on Poverty Reduction
AsDB	Asian Development Bank
BMZ*	Federal Ministry for Economic Co-operation and Development
BSS	Basic social services
CDE	Capacity Development in Environment
CDG*	Carl-Duisberg Society
CEECs	Central and Eastern European Countries
DAC	Development Assistance Committee
DED*	German Development Service
DEG*	German Investment & Development Corporation
DSE*	German Foundation for International Development
EBRD	European Bank for Reconstruction and Development
EC	European Community
EDF	European Development Fund
EIA	Environmental impact assessment
EU	European Union
FAO	Food and Agriculture Organisation
GDI	German Development Institute
GNP	Gross National Product
GNI	Gross National Income
GTZ*	Agency for Technical Co-operation
HIPCs	Heavily-indebted poor countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEA	International Energy Agency
IFIs	International financial institutions
KfW*	Bank for Reconstruction
LICs	Low-income countries
LLDCs	Least developed countries
MEA	Multilateral Environmental Agreement
MICs	Middle-income countries

NGOs	Non-governmental organisations
NIS	New Independent States of the former Soviet Union
OA	Official aid
ODA	Official development assistance
PPP	Public Private Partnership
PRSP	Poverty Reduction Strategy Papers
SWAps	Sector-wide approaches
UN	United Nations
UNDP	UN Development Programme
UNEP	UN Environment Programme
UNFPA	UN Fund for Population Activities
UNICEF	UN Children's Fund
VENRO*	Association for Development Co-operation
WFP	World Food Programme
WHO	World Health Organisation

* Denotes acronym in original language.

Exchange rates were:

DEM per EUR	1.9558			
DEM per USD	1997	1998	1999	2000
	1.7341	1.7594	1.8357	2.1223

Signs used:

EUR	Euro
USD	United States dollar
()	Secretariat estimate in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately but included in total
n.a.	Not applicable
P	Provisional

Slight discrepancies in totals are due to rounding

Germany's aid at a glance

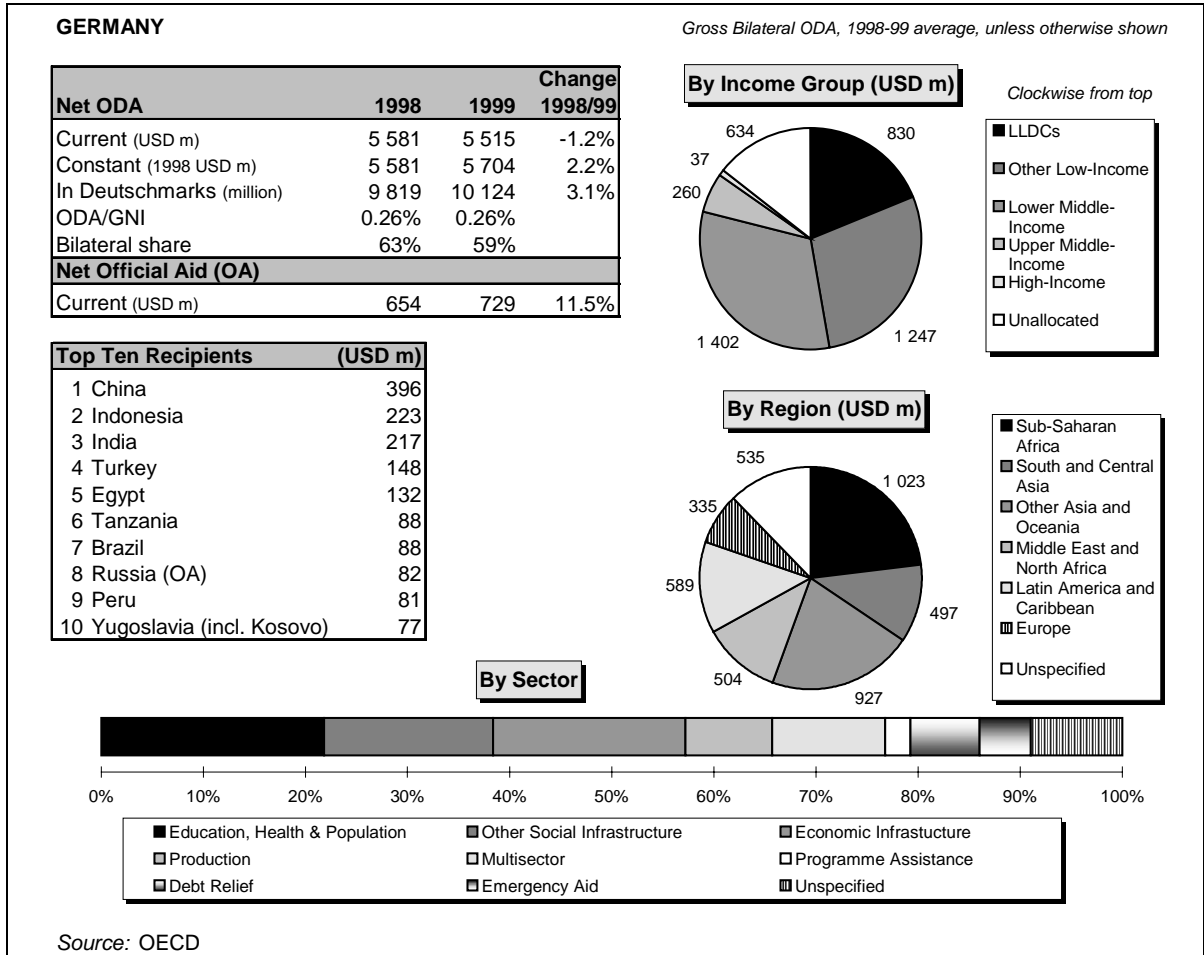


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DAC'S MAIN FINDINGS AND RECOMMENDATIONS

New policy directions

New poverty reduction strategy: The most remarkable policy innovation since 1998 in German development co-operation was the Cabinet approval in April 2001 of the Programme of Action 2015 for Poverty Reduction. This establishes global poverty reduction as an overarching task in development co-operation and an important element in all national policies. In this broad context, the Programme also sets out the vision for German development co-operation, which should call for a need to re-align policies, resources, operations and organisation to be consistent with this vision. A detailed strategy for operation of the Programme, including priorities, is expected in early 2002.

Global structural policy: The Programme states that poverty reduction in developing countries must be pursued in the interest of global sustainable development, recognising the ongoing globalisation process and the interdependence of nations. The Programme calls for better synergies and coherence at an international, multilateral, and partner country levels. In particular, Germany will promote better coherence of European Union (EU) policies with global poverty reduction. The Programme provides a better scope for the Federal Ministry of Economic Co-operation (BMZ) in screening draft legislations for policy coherence, and in its participation in inter-ministerial committees on export guarantees and arms exports. The BMZ frequently needs to argue its case with other influential ministries within the government and has yet to sufficiently develop the analytical capacity necessary to carry out its substantive mandate. The implementation of effective policy coherence will also require a sustained political commitment.

Re-aligning aid resources

A constrained resource base: Germany is now the third largest donor among member countries of the Development Assistance Committee, after Japan and the United States. In 2000, Germany's Official development assistance (ODA) was USD 5.0 billion and its ratio of ODA to gross national income (GNI) increased to 0.27%. The implementation of the German government's political commitment to uphold an ODA level consistent with the United Nation's 0.7 % target ratio remains constrained by the government's overall national objective of balancing the federal budget by 2006. Germany's current ratio is above the DAC (weighted) average of 0.22%, but below the DAC average country effort (unweighted) of 0.39%. Germany does not currently have a mechanism to establish an overall system for ODA allocations nor target effectively any ODA/GNI ratio.

Recent changes in bilateral aid: BMZ is improving the efficiency and effectiveness of its bilateral aid programme. BMZ has decided to focus on 37 "priority" and 33 "partner" countries, and a reduced number of sectors in each country. Several more years may be required to fully implement the new policy and make the related shifts in disbursements. Two challenges remain to be addressed, first, the top five recipients of German aid (30% of bilateral ODA) have been more or less the same for a decade and will continue to be priority countries, and 83% of bilateral ODA is already disbursed to the priority/partner countries. Second, these BMZ priorities will not apply to the activities of the *Länder*

(states). The implementation plan for the Programme of Action 2015 needs to address how the new vision would re-align resources.

Increasing importance of multilateral aid: The Programme of Action 2015 states that Germany will pursue more coherence between its bilateral and multilateral aid in international forums. The fact that development assistance must be seen against the background of a globalising world has led to its emphasis on co-operation with multilateral institutions, particularly the European Commission (EC) - which accounted for 59% of German multilateral ODA in 1999. Germany also favours the EC channel to fund Central and Eastern European Countries and the Newly Independent States. Within the framework of a global structural policy, Germany has a commitment to the United Nations (UN) as an important forum for international co-operation, and has increased its contributions in recent years. The BMZ also intends to forge alliances within the international financial institutions, such as in advocating the adaptation of Poverty Reduction Strategy Papers (PRSP) process to the reality and capacities of developing countries.

Challenges: The Programme of Action 2015 focuses on Germany's contribution to halving extreme poverty reduction worldwide by 2015. This will be very challenging in the poorest countries. DAC data shows that, in 1999, 22% and 33% of ODA went to the least developed and other low-income countries (including India, China and Indonesia), and 37% went to lower middle-income, 7% to upper middle-income, and 1% high-income, countries, respectively. Regarding sectoral priorities, the indirect approach to poverty reduction (including large infrastructure projects, support for macro policies, institutional capacity building, and private sector development) took a relatively larger share of ODA than the direct targeted approach. DAC estimates that 11% of total German ODA was allocated towards basic social services (BSS) in 1997/98. Recognising the importance of poverty reduction, Germany will need to emphasise its concern with BSS in its negotiations with relevant partner countries to attain the objectives of the Copenhagen 20/20 Initiative. Furthermore, since the Programme of Action 2015 aims at halving poverty and the Millennium Development Goals (MDGs) target universal primary school enrolment by 2015, it may seem incongruous that 10% of bilateral ODA (8% of total ODA) is devoted to tertiary education. This arises because the *Länder* automatically report the imputed costs as ODA support for any developing country student studying at German universities. Regarding Germany's funding to the UN systems its voluntary contributions are based on political and budgetary considerations more than an assessment of performance.

Current financial instruments: The share of non-grant bilateral aid -- mainly ODA loans provided through Bank for Reconstruction (KfW) -- in bilateral ODA was 24%, which made Germany's share of loans the third highest among DAC Members in 1999. However, the proportion as well as the absolute volume has been decreasing from 1995. The remaining 76% of Germany's bilateral ODA was in the form of grants. Project and programme aid amounted to 20% of grants in 1999. Germany has been cautious about financing recipient country budgets and donor pool-funding arrangements, whether at the macro or the sector level. This is mainly due to scepticism, shared with some other donors, over the financial and auditing capacities of the recipient countries and the risks of mismanagement in such operations.

Technical co-operation: Within grants, technical co-operation accounts for almost 60%, the largest proportion, with the Agency for Technical Co-operation (GTZ) carrying out most of the tasks. Germany should look at its technical co-operation policies, including the potential for new modalities of technical assistance such as by sharing and exchanging technical co-operation resources with other donors and the increased use of local staff, taking account of the need to strengthen the local government capacity. Germany might also consider collaborating with other donors in sharing arrangements of local and regional expertise.

Possible new modalities: German policy statements aim to facilitate partner country ownership of the development process, so Germany has begun engaging in new modalities, most notable being the new sector approaches and the PRSP process. These new modalities pose several challenges for Germany, especially the extent to which Germany can reduce the administrative burden on the recipient. However, the practice of keeping German control of important areas, such as financial management, is sometimes perceived as running counter to local ownership. As with other donors, Germany's willingness to participate in these new modalities depends on suitable macro-economic conditions, including capacity for financial management, and the continued donor commitment to share the risks.

Organisational adjustment

Need for organisational adjustments: There have been some changes since 1998: internal reorganisation of BMZ, reshaping GTZ and streamlining Bank for Reconstruction (KfW); a major decentralisation process in GTZ, and downsizing; the operational integration of KfW with German Investment & Development Corporation (DEG) and of some German training institutions, and encouragement of GTZ and KfW joint action on the ground. The measures are also part of a government-wide programme of administrative streamlining called "Renewing Germany". The process was supported by a series of recent evaluation studies. These highlighted the importance of improving the way information is handled and shared in a multi-faceted system of development co-operation. Germany is commended for this creative use of its evaluation systems and is encouraged to continue this practice in the future.

Need for even further flexibility: The system of German aid proved capable of delivering technically good quality development projects, but now requires re-engineering for a different context in which the distinction between policy and operations is more blurred. The new modalities of PRSP and sector approaches are encouraging greater decision-making and co-ordination in the field, though there is concern, shared by some donors, about the amount of transaction costs involved. Nevertheless to engage effectively in ongoing policy dialogue, local decision-making, and donor co-ordination, Germany needs a stronger professional field presence. Therefore, there are implications for staffing and organisation at the country level, but it is an open question when and to what extent Germany will be able to make the adjustments necessary. Conceptual distinctions, quite common for many donors' development co-operation practice, have become the basis, in Germany, for formal institutional arrangements, some underpinned by a legal basis. For instance, the distinction between policy and implementation has led to the separation between the BMZ in Bonn providing the policy mandate and the implementing agencies delivering German aid in the field, which now requires some revision for the different field reality. Similarly, there is a need for greater integration between technical co-operation (especially GTZ) and financial co-operation (especially KfW). This Peer Review encourages the BMZ to pursue its current, constructive re-examination of its aid systems, and to build from the strengths of the implementing agencies, like KfW and GTZ.

At the level of headquarters-field relationships: Despite the changes already made, Germany's development co-operation still appears both centralised and hierarchical at headquarters' level, although fragmented among the different institutional actors, particularly at the field level. While the diversity of institutional actors is an asset of Germany's aid processes, the use of a multi-institutional system creates challenges for co-ordination efforts. The small number of qualified staff to deal with development in the Embassies is now a constraint to Germany's effective participation in these local policy discussions and operational co-ordination mechanisms. Special attention is required to improve communications between headquarters and the field, and to develop more decentralised models of decision-making.

At the level of staff: The BMZ has some 600 staff, mostly located in the Bonn headquarters. Extensive use is made of the implementing agencies for more operational backstopping, so that, while not formally part of the BMZ personnel system, they frequently act as logical extensions of it. The expected government-wide 1.5% annual reduction of overall staff levels in place ever since 1993 will further reduce the ability of the BMZ to undertake its existing tasks. In addition the BMZ has been assigned new, more complex, and higher priority tasks that are frequently more politically challenging (e.g. poverty leadership, and screening of new laws for coherence). To renew the leadership of the ministry in view of the retirement of many German officials will require substantial advance thinking and preparation to ensure the right personnel mix.

At the level of feedback and learning: It is important for Germany to take account of field realities by establishing effective learning systems. The reform of the monitoring and evaluation (M&E) process aims at facilitating “learning” in the system, and this will increasingly become a central element of the overall reform process. The government is now making a conscious attempt to improve the efficiency and effectiveness of its aid by creating an overall learning system. In the BMZ, evaluation, management control and audit are now in a “Quality Enhancement and Improvement” cluster. In the implementing agencies, the evaluation units were too dependent on the implementation side of their organisations to permit independent and therefore, credible, evaluations. Both GTZ and KfW have addressed this weakness by empowering their evaluation units with independent authority. The facilitation of horizontal learning among the different actors poses a structural challenge because of the vertically organised nature of the German system.

Recommendations

Based on the above findings, the DAC recognises that the Programme of Action 2015 sets out an ambitious agenda for development co-operation centred on poverty reduction in a global perspective, and that it will take time to align all policies, resource allocation, operations and organisational arrangements with this vision. The DAC also appreciates that Germany has already made some significant changes and encourages Germany to continue to:

- a) Use forcefully all opportunities for public advocacy of its development cause, particularly through the Federal Ministry for Economic Co-operation and Development, the BMZ.
- b) Focus on an overall goal of poverty reduction in the implementation plan for the Programme of Action 2015.
- c) Develop effective ways and instruments of promoting greater policy coherence
- d) Identify options for improved feedback of results and learning of lessons, including for the international donor community.
- e) Collaborate with other donors in building local capacities, for example, in financial management and auditing, as a contribution to local ownership and the PRSP process, upon the request of the partner country.

In addition, in order to strengthen the implementation of the Programme of Action 2015, the DAC encourages Germany to:

- f) While welcoming the reversal in declining ODA, sustain efforts to increase the size of its ODA.

- g) Produce an annual report on the utilisation and results of ODA, disseminate this report widely in major languages, and consider developing a mechanism for projecting overall use of ODA.
- h) Set out priorities, including for the realignment of policies, financial flows, organisational structures and operational aspects, taking account of the coherence of multilateral and bilateral channels for aid, and the important contributions of the different actors in Germany's pluralist system.
- i) Further increase budget allocations to the low-income countries, particularly with large numbers of poor people, to be consistent with both the Programme of Action 2015 and Germany's emphasis on the achievement of the MDGs.
- j) Examine in the context of Germany's experiment with budget support the changes needed in budget regulations and institutional arrangements (e.g. greater decentralisation to the field) to engage effectively in the new aid modalities, such as the sector programmes or the PRSP.
- k) Make more use of different policy options for human resources and technical co-operation, both to enhance German capacity to engage in policy dialogue, local decision-making, and co-ordination in the field, and also to promote local capacity and ownership.
- l) Assess Germany's capacity to take up a leadership role within the donor community in those sectors and activities where Germany has a comparative advantage.
- m) Review, in contact with Secretariat experts, the reporting of indirect ("imputed") costs of tuition in donor countries eligible for inclusion in ODA in line with DAC directives.

CHAPTER 1

OVERALL FRAMEWORK AND NEW DEVELOPMENTS

The new government elected in 1998 declared a clear commitment to development co-operation. Notably, its ambitious Programme of Action 2015 calls for coherence of all national policies with the objective of poverty reduction. The Federal Ministry for Economic Co-operation and development (BMZ) has also been accorded a better scope to enhance policy coherence among other ministries. On the other hand, BMZ has more room to co-ordinate the entire German official development assistance (ODA) programme. The aid budget is also being reduced mostly due to the intention of the government to balance the Federal budget. Public support for development co-operation is not high and Germany could enhance public information particularly by publishing an ODA annual report. Without public support and sustained political commitment, Germany could face major challenges in implementing the Programme of Action 2015.

Programme of Action 2015 for poverty reduction

A major achievement in German co-operation since the last Peer Review in 1998 has been the development of a government-wide Programme of Action 2015 for Poverty Reduction (see Box 1). The most remarkable feature of this programme is the commitment by the German Government to promote coherence in all national policies that relate to developing countries - including trade, security, environment, and agricultural policy - with poverty reduction. Here, global poverty reduction is considered an important element of its overall policy and an overarching task in development co-operation. The approach is based on the government's global structural policy, which states that in the interest of global sustainable development, poverty reduction in developing countries must be pursued. With the ongoing globalisation process and the interdependency of nations, many national priorities must be considered in relation to the objective of improving conditions in developing countries (see Chapter 4). It also mentions that development co-operation is only one element in this endeavour. The initiation of the Programme was announced by the Chancellor in the fall of 2000 at the United Nations (UN) Millennium Summit and was drafted by several ministries and civil society, including non-governmental organisations (NGOs), unions, and academics. It was then approved by the German cabinet in April 2001.

Germany is one of the few Development Assistance Committee (DAC) Member countries that has an independent ministry for development co-operation, which is the BMZ, headed by a Cabinet Minister. Germany thus has a permanent platform for advocacy of development co-operation, both in the political and public arena. An organisational implication of the Programme of Action 2015 for BMZ is that it is given a better scope to enhance cross-sector policy coherence – although it is not always successful in exerting influence over other ministries. For example, draft legislation's must now be screened by all ministries, including BMZ for its compatibility with development policy. Since 1998, BMZ has also been playing a more important role in several inter-ministerial committees, such as on

export guarantees and the National Security Council (i.e. Committee of the Cabinet) where - as one of nine ministries - BMZ is able to enhance policy coherence on arms exports.

The Programme of Action 2015 calls for better synergies and coherence not only within Germany, but at an international, multilateral, and partner country levels. In particular, Germany will promote better coherence of European Union (EU) policies with global poverty reduction by, for example, reducing European export subsidies. As part of the international effort to improve policy coherence, Germany also recognises that industrialised countries need to guarantee access of duty-free markets by the poorest countries. The Programme is innovative and ambitious, and would inevitably pose major challenges in its implementation (see Chapter 3). It must be noted that the Programme does not include prioritisation of countries, sectors, and instruments and is yet to be operationalised. A detailed strategy is currently being developed and is expected for submission to the Parliament in early 2002.

Box 1. Programme of Action 2015

Following the DAC's "Shaping the 21st Century" Strategy, the Programme of Action 2015 is Germany's contribution to halving extreme poverty worldwide by the year 2015. To achieve the aim, the following priority areas are recognised:

- Boosting the economy and enhancing active participation of the poor
- Realising the right to food and implementing agrarian reforms
- Creating fair trade opportunities for developing countries
- Reducing debt
- Guaranteeing basic social services
- Ensuring access to vital resources and fostering an intact environment
- Realising human rights and respecting core labour standards
- Fostering gender equality
- Strengthening good governance
- Resolving conflict peacefully, fostering human security, and promoting disarmament

In attaining the overarching objective of poverty reduction, the document underlines the role of new instruments such as the Public Private Partnerships (PPP), the increasing importance of NGO participation, as well as the contributions by the German research community. It also emphasises the need to improve public understanding and attitudes in Germany toward poverty reduction.

Goals of development policy

Priorities within German aid policy have been regularly updated over the years. At the time of the last review, poverty reduction, environmental and resource protection, education and training were the three priority areas of Germany's development co-operation. In addition, crisis prevention and emergency relief were becoming increasingly important. Since the present government took office in 1998, there have been shifts in focus and clarification of priorities in aid policy. In the report to the Parliament in June 2001, BMZ states that the goal of development policy is to improve living conditions for all people in co-operating countries and to contribute towards securing a peaceful future for the German people as well. To pursue this goal, the following "dimensions" targets are to be given equal attention in an integrated approach.

- Social justice: general conditions that help reduce poverty and social inequality.
- Economic performance: poverty-reducing growth and economic co-operation.

- Political stability: peace, democracy, human rights and gender equality.
- Ecological balance: preserving natural resources as the foundations of life.

Chapter 3 discusses how poverty reduction has been reflected in the aid programme so far and what the future challenges would be for Germany in realising this goal. Chapter 6 discusses Germany's approach in the field to the partnership concept which is guiding DAC's work ("the paradigm shift"). It shows Germany's reservations and challenges in pursuing some donor co-ordination efforts in Poverty Reduction Strategy Papers (PRSPs) and sector approaches.

Organisational setting and change

Germany's official aid system remains multi-organisational and complex with legally binding contractual arrangements that clearly demarcate the role of each agency or federal ministry. Key institutions include BMZ, which is responsible for policy and programming, and a range of separate implementing agencies with various legal standings, including the Agency for Technical Co-operation (GTZ), the Bank for Reconstruction (KfW), the German Investment & Development Corporation (DEG), the German Development Service (DED), the Carl-Duisberg Society (CDG), the German Foundation for International Development (DSE), and the German Development Institute (GDI). Other concerned Federal ministries include the Federal Foreign Office (AA), the Ministry of Finance, and the Ministry of Economy and Technology. In addition, the Länder (state), municipalities, civil society, and private organisations also play key roles in development co-operation. As with other DAC Members, Germany works through a number of multilateral organisations, particularly the European Community (EC), International Financial Institutions, and the UN system. Chapter 5 contains greater detail on the size and organisation of these various components of the German aid system.

Since the 1998 Peer Review, some pragmatic organisational changes have been made with the aim to enhance cohesion, streamlining, and operational efficiency among development institutions. The restructuring measures are also part of a programme called "Renewing Germany" which is a government-wide reform of the German administration. Changes include the acquisition of DEG by KfW in the area of financial co-operation and the merger of CDG and DSE in training. Other measures include some degree of decentralisation and downsizing of GTZ (mainly at headquarters) and KfW's development arm. Further streamlining efforts in the German aid system are reflected in the modality of bilateral country programming and operations. For example, BMZ is reducing the number of co-operation countries and focal sectors (see Chapters 2 and 6).

These changes do not amount to a major reform in the entire German co-operation system. At the same time, Germany states that they are the first steps towards a major reform - elaboration of the plan would be of much interest to the DAC. Currently, most of BMZ remains in Bonn, while some units have moved to Berlin with other ministries and the Parliament. GTZ and KfW remain in the Frankfurt area, although they have branches elsewhere. Despite major advances in information technology and some benefits of maintaining independence, these geographical and organisational dispersions have transaction costs in communication and collective decision making. In particular, it makes interaction by BMZ officials to work on policy coherence issues with other ministries in Berlin more difficult. Furthermore, in the field, the small number of development specialists seconded from BMZ to the embassies will not be increased dramatically. This could pose challenges for Germany in light of mounting demands in donor co-ordination involving processes such as the PRSPs and sector approaches (see Chapter 6).

A functional change in organisation that may be expected, owing to the new government and the Programme of Action 2015, is BMZ's enhanced role in co-ordinating development co-operation activities. Currently, no official entity oversees the overall ODA budget (see Chapter 2) nor establishes an aid policy that applies to all German public or publicly funded actors in development co-operation. BMZ's policies usually apply to implementing agencies such as GTZ and KfW, but not to other Federal ministries nor to the Länder. With the effort towards a unified programming and sector selectivity for each co-operating country, it is anticipated that BMZ will have a stronger role in guiding and co-ordinating all those concerned in German ODA activities.

Political and socio-economic setting

The new government elected in the fall of 1998 declared a clear and unprecedented commitment to the issue of development co-operation and poverty reduction. In the Parliament, aside from the Committee for Economic Co-operation and Development, other groups such as the Committee for Human Rights and Humanitarian Aid and the special Commission on Globalisation are becoming more active. The 1998 Government Coalition Paper and the Programme of Action 2015 clearly state the government's commitment to attain the UN's target of 0.7% ODA/Gross National Income (GNI)¹ ratio.

The concerted effort towards a more effective and holistic approach in German development co-operation arose to some extent from budgetary constraints that led to a focus on quality to compensate for the declining aid resources. First, the new government has declared its intention to balance the Federal budget by 2006. Second, over a decade after the fall of the Berlin Wall, the country is still dealing with the consequences of reunification- the ensuing financial burden of an estimated EUR 40-60 billion per year² is significant. Contrary to the declarations of the new government, the BMZ budget has declined from EUR 4.1 billion in 1998 to EUR 3.6 billion in 2002³. Germany's ODA/GNI ratio has been on a severe decline notably since 1990, falling from 0.42% to 0.27% in 2000 (see Chapter 2).

In 2000, Germany's economy grew by 3.1% in real terms, which was twice as high as the average economic growth rate for the previous ten years. On the other hand, the outlook for growth for 2001 is expected to lie well below those of the previous years at around 1.2% to 1.4%. Germany has one of the world's most open economies in terms of trade and investment flows, which makes it vulnerable to the slowdown of other large countries, such as the United States and Japan. In 2000, unemployment in Germany was at 9.6%, down from 10.5% in 1999, in a general tendency to decline since 1997. At the same time, these figures still conceal a large differential between the west and the east, as the former reported unemployment at 7.8% and the latter at 17.4% in 2000. In case growth slows further, the government might be forced to accelerate a programme of tax cuts while continuing to keep a tight control on public spending. It is uncertain whether public support for development assistance is strong enough to prevent the further reallocation of funds to domestic budgetary items.

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1. During the meeting of 6 and 7 June 2001, the DAC Working Party on Statistics agreed to adopt the term GNI (to replace Gross National Product) in all its publications forthwith. See document DCD/DAC/STAT(2001)7, items 22 to 24.
 2. From both public and private sources.
 3. 2002 figure is provisional. There was an increase in the BMZ budget of EUR 62 million from 2000 to 2001, but it was partly due to the transfer of OA fund administration for CEECs and NIS from the Federal Ministry of Economy to BMZ.

In comparison to some other DAC Members, Germany does not publicly disclose opinion surveys on development co-operation. It appears, nevertheless, that public support has been on a downward trend since the 1990s. In an opinion survey commissioned by the BMZ in 2000 and available internally, only 11% expressed strong conviction in the importance of development policy and 27% expressed very little or no interest in the topic. Despite an active civil society - i.e. church-based NGOs and political foundations (see Chapters 2 and 5) - and the important roles played by the Länder and the private sector in German development co-operation, aid to developing countries is not of high interest to the general population. Instead, the public seems to be preoccupied with more urgent concerns such as the economic consequences of German reunification, socio-economic ramifications of neighbouring Eastern European countries joining the European Union (EU) and the crises that occurred in the former Yugoslavia, which is not seen as a traditional developing country. It is not yet clear how recent terrorist events may change public perceptions on the need for German aid to address global issues.

Furthermore, a general “donor fatigue”, as seen in some DAC Member countries, and doubts about the effectiveness of aid appear to exist in the minds of the public. In spite of this situation, in 2001, about EUR 7.2 million was allocated to development information by BMZ and other implementing agencies, which falls far short of the United Nations Development Programme (UNDP)’s recommendation for donors to allocate 2% of the development budget for this purpose. On the other hand, BMZ’s budget on public information has been steadily increasing from 1998.

Currently, BMZ has a comprehensive internet web site in German - with basic information in the English version - but does not issue a formal annual report on ODA. In fact, the public would benefit greatly if Germany publishes an ODA annual report that not only shows the overall ODA budget and expenditure, but presents the policies and activities of different areas in development co-operation⁴. Translation into other major languages would also help other donors and co-operating countries to appreciate the complexity and sophistication of the German system. Broad public understanding and support will be needed to implement the Programme of Action 2015 which makes poverty reduction the overarching objective of all development co-operation policies.

4. Including activities by Länder and publicly supported NGOs.

CHAPTER 2

AID VOLUME, CHANNELS AND ALLOCATIONS

Due to financial constraints, ODA volume and ODA/GNI ratio have declined since the early 1990's. In fact, Germany does not currently have a mechanism to establish an overall ODA budget nor to effectively target an ODA/GNI ratio. Multilateral aid, about a third of total ODA, shows that Germany favours funding the EC as a vehicle of development co-operation, which also applies to Official Aid (OA) to Central and Eastern European Countries (CEECs) and Newly Independent States (NIS). Data on Germany's bilateral aid disbursements does not demonstrate a particular focus either on the poorest countries or on improving basic social services. Without an overall ODA planning framework and annual report, it remains a challenge for the BMZ to ensure that the poverty reduction policy is reflected in the spending decisions of the whole German aid system.

Official development assistance volume

In terms of net ODA volume, Germany ranked third after Japan and the United States at USD 5.0 billion in 2000 (see Figure I.1). With a prolonged downward trend particularly since 1990⁵, Germany's net ODA as a share of GNI was a low 0.27% in 2000. This remained far below the UN target of 0.7% ratio as well as the DAC average country effort⁶ of 0.39% and placed Germany 13th among the 22 DAC countries. On the other hand, it was, amongst the G7, above the ratios of the United States, Italy, and Canada, as well as above the total DAC ODA/GNI ratio⁷ of 0.22%. As mentioned in Chapter 1, the stagnant ODA volume (although there were slight increases in 1999 and 2000) must be seen against the background of the constraining fiscal policy by the new government and to the financial burden of the German reunification.

Further complicating the targeting of an ODA/GNI ratio is the fact that Germany does not have an overall budget for ODA, as mentioned in Chapter 1. Besides BMZ, multiple ministries are partially engaged in development co-operation (see Chapter 5), with each ministry, including BMZ, being concerned with its own budget. ODA is an *ex post* concept - a figure supplied by the DAC based on an aggregation of disbursements by the different ministries, Länder, and other actors, which are judged to qualify as ODA according to DAC guidelines. As a result, no single entity has overall responsibility over the amount of ODA budget as a whole. Moreover, part of the BMZ budget now includes Official aid (OA) for CEECs and the NIS, which implies that increases in its budget does not necessarily translate into increases in ODA.

5. Although ODA/GNI ratio increased from 0.26% in 1999 to 0.27% in 2000.

6. The DAC average country effort is the average of the ODA/GNI ratios of each DAC country.

7. Total DAC ratio equals total ODA of the DAC divided by total GNI of the DAC.

Another difficulty in targeting a specific ODA/GNI ratio concerns net ODA, which subtracts repayments on earlier loans from developing countries from gross ODA. Between 1995 to 1999, repayments to Germany ranged from USD 1-1.3 billion, amounting to 15-17% of gross ODA (See Annex 1, Table I-2). The repayments on KfW loans, originating from countries such as Turkey, India, Indonesia, and China, are monitored and projected by KfW. At the same time, neither BMZ nor the Ministry of Finance projects the total repayments to Germany that would affect the net ODA volume, which includes other repayments such as on rescheduled loans that were not part of the BMZ budget, mixed financing and so on. The fact that Germany does not carry out projections of total repayments not only renders the targeting of an ODA/GNI ratio difficult but as these repayments could increase in the next few years, net ODA could continuously fall if ODA budgetary allocation is not increased to compensate the effects of the repayments⁸. It would help to overcome some of the difficulties if there were a planning framework for all ODA spending, followed up by an annual report on its use. As mentioned in Chapter 1, the annual report and translations into major languages could also help with public information for the German citizens as well as other donors and co-operating countries.

Administrative channels of ODA

While the ODA/GNI ratio concerns net ODA, gross ODA disbursements are useful in analysing the distribution of disbursements. Table 1 is based on data supplied by BMZ, which shows the distribution of gross ODA in 1999 according to channels, such as ministries, implementing agencies, and so on⁹. This shows that BMZ was directly responsible for EUR 4.2 billion or 69% of gross ODA, of which contributions to multilateral institutions were EUR 1.2 billion or 19% of gross ODA [EUR 671 million to UN, International financial institution (IFI) and others and EUR 486 million to European Development Fund (EDF)¹⁰]. Of BMZ's bilateral aid, the largest portion, EUR 1.6 billion, was disbursed through KfW, making up a quarter of gross ODA. GTZ disbursed less than half the KfW amount at EUR 742 million or 12%. Disbursements via non-governmental organisations (NGOs) were around 6% and funds to other semi-public institutions and mostly BMZ administrative costs totalled 6%.

The remaining 31% of gross ODA is disbursed through various channels. Germany's contribution to the EC's development co-operation budget amounted to EUR 757 million or 12% of gross ODA in 1999¹¹. Although BMZ is administratively responsible for EC co-operation affairs, funds (except for EDF) are usually disbursed directly from the Treasury to the EC without being counted as part of the ministry's budget. The total contribution to all multilateral institutions and funds amounted to about a third of gross ODA in 1999.

Total disbursements by the Länder are also relatively large with EUR 467 million or 8% of gross ODA (or about 10% of bilateral ODA). However, of this amount, the disbursements for projects intentionally budgeted for development co-operation are only about 1% and the rest is imputed student costs (see *Sectoral Distribution* below and Annex 2). The AA disbursed EUR 286 million or 5% of

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8. Many DAC Members have similar challenges in targeting an ODA/GNI ratio. The difficulty is compounded in the case of Germany due to the fragmented nature of the aid budgetary system as well as the large volume of reflows.
 9. Since the German categorisation is different, the figures do not necessarily coincide with DAC figures.
 10. EDF is for the Asia, Caribbean, and Pacific countries.
 11. This excludes EDF contributions, while DAC figures for EC contributions include this figure.

gross ODA for mostly emergency aid operations, and other ministries extended small amounts of ODA for their own projects.

The main concern in the breakdown of ODA is the continuous decline of BMZ budget. Despite the new government's call to stop "the declining trend" which prevailed during the previous government, the actual budget level has declined from EUR 4.1 billion in 1998 to EUR 3.6 billion in 2002, as mentioned in Chapter 1. Furthermore, the proportion of BMZ budget in total gross ODA disbursements has also been declining since the last government. From 1993 to 1995, the proportion ranged between 69% and 75% but ranged between 65% and 69% of gross ODA from 1997 to 1999. As the BMZ's programme is the core of Germany's development co-operation, BMZ's ODA budget needs to be adequately safeguarded, despite the various fiscal constraints.

Table 1. Distribution of gross disbursements as amounts and percentage of gross ODA, 1999

Distribution Channel	Amount EUR million	%	BMZ Breakdown %
BMZ	4,208	69	
of which: <i>Multilateral</i> UN, IFIs, others	671		11
EDF	486		8
<i>Bilateral</i> KfW	1,558		26
GTZ	742		12
Civil Society (NGOs)	377		6
DED, DEG, DSE	106		2
<i>Others*</i>	267		4
Direct allocation to EC's Development Co-operation Budget	757	12	
Länder	467	8	
Foreign Ministry (AA)	286	5	
Other Ministries (Health, Agriculture and Forestry, Education, etc)	85	1	
Ministry of Economy and Technology	36	1	
Others**	266	4	
Total	6,105	100	

* Includes mainly administrative costs.

**Includes associated financing, asylum seekers, and others.

Source : BMZ.

ODA multilateral aid: institutions and allocations

According to DAC figures, the division between Germany's multilateral and bilateral aid has remained stable in 1995-99, with one third disbursed through the former and two-thirds through the latter. (Table I.2) For multilateral aid, Germany's view - that development assistance must be seen against the background of a globalising world - has led to its emphasis on co-operation with multilateral institutions¹², particularly the EC. Germany states in the Programme of Action 2015 that it will pursue more coherence between its bilateral and multilateral aid in international forums. Furthermore, Germany acknowledges that only if contributions are significant, Germany can have a strong voice in determining policies and the direction of reform of these agencies. On the other hand, the Parliament's Budget Committee has informally set a ceiling of 30% on multilateral contributions as a proportion of

12. Which includes regional institutions.

BMZ budget. This does not apply to the direct funding of EC's development co-operation budget. The ceiling has been largely respected, and in 1999, multilateral contributions consisted of 27% of BMZ's budget.

European Community

According to DAC data, Germany's contribution to the EC's development co-operation budget is the largest of all EC members in absolute terms and has had a tendency to increase. It amounted to \$1.4 billion, which was 20%¹³ of gross ODA or 59% of multilateral ODA in 1999 (see Table I.2.). In relative numbers, there were six EC Members which had higher proportions of EC funding than Germany out of total ODA and seven Members out of multilateral ODA, placing Germany in the middle range of EC Members using the Commission as a preferred vehicle for development. Within the EC, Germany's contribution goes primarily to the European Development Fund¹⁴ and the European Investment Bank. Germany considers that co-operation and co-ordination with the EC is a key to achieving greater coherence of policies - both its own and other EC members - in assisting developing countries (more in Chapter 4).

International financial institutions

Contribution to the World Bank group accounted for 19% of its multilateral ODA or 6% of total ODA in 1999, which was slightly above the total DAC ratio of 5%. Germany's funding of the regional development banks at 1-2% of ODA (4% of multilateral ODA) - mostly towards the Asian Development Bank (AsDB) - has been generally lower than total DAC ratio. Germany's ODA contributions to the International Monetary Fund amounted to \$8 million in 1999.

To achieve the ambitious goals set out in the Programme of Action 2015, Germany intends to forge alliances with the World Bank and the regional development banks. BMZ states that in the multilateral forums, it is an outspoken advocate of initiatives that have poverty reduction as their main objective, such as the heavily-indebted poor countries (HIPC) initiative and the PRSP process. BMZ also mentions that it has found collaboration in alliances such as the Utstein group helpful in influencing policies and priorities at some multilateral forums.

United Nations agencies

The declared aim of the German Government to place development assistance in the framework of a global structural policy also entails a commitment to the UN as an important forum for international co-operation. Overall, German funding to UN organisations has increased in the last years from USD 260 million in 1995 to USD 336 million in 1999. This accounted for 5% of all German ODA (or 14% of multilateral ODA), which was slightly below the DAC average of 6% in 1999 (see Table I.2). The leading recipients among the UN agencies were UNDP, followed by the World Health Organisation (WHO), World Food Programme (WFP), United Nations Fund for Population Activities (UNFPA), Food and Agriculture Organisation (FAO) and United Nations Children's Fund (UNICEF) in 1998-99.

13. Including EDF contribution.

14. More than a quarter of EDF budget is contributed by Germany.

Besides contributing to the regular budgets of these organisations, Germany also makes voluntary contributions to a number of programmes. Unlike funding to the EC¹⁵ and the IFIs, which is by and large determined by fixed amounts, these voluntary contributions to the UN are relatively flexible and thus are affected by the pressures on the German aid budget. Consequently, they have been falling substantially over the last few years, particularly for UNDP and UNFPA. BMZ's multi-bi funding has also decreased from USD 30 million in 1999 to USD 16 million in 2000. On the other hand, funding to trust funds in support of UN special missions have more than tripled over the last five years to USD 99 million in 1999, as they are seen as a flexible and politically propitious tool to provide short-term assistance to urgent issues. These trust funds are mostly for the UN peacekeeping operations, such as the United Nations Observer Mission in Sierra Leone and the United Nations Assistance Mission in East Timor, but also include contributions to international conventions and conferences.

Germany does not articulate consistent priorities for its allocations to the UN system¹⁶. Increased contributions may be based on political considerations rather than an assessment of performance, and thus which agencies will be supported in the coming years remains uncertain. UNDP was, for example, praised by Germany for its reform measures, but contributions were nonetheless reduced substantially. With the commitment in the Programme of Action 2015 towards the UN and Germany's increasing funding towards the group, BMZ could elucidate more clearly its position of support towards different UN agencies.

ODA bilateral aid: instruments and distributions

Instruments

As mentioned earlier, approximately two-thirds of Germany's gross ODA is disbursed through bilateral aid, which is similar to the total DAC (see Table I-2). In 1999, 76% of bilateral ODA was in the form of grants. The largest single item in grants was technical co-operation, accounting for almost 60%. GTZ carries out most of the technical co-operation, providing advice on, *inter alia*, economic reforms, financial systems, privatisation, decentralisation, legal and administrative reforms, environment, and strengthening civil society institutions and the private sector. Project and programme aid has been slightly increasing from 1995 and amounted to 20% of grants in 1999. In general, Germany favours a project approach as well as providing technical assistance and goods. It has been cautious about financing recipient country budgets and donor pool-funding arrangements, whether at the macro or sector level. This is mainly due to scepticism, shared with some other donors, over the financial and auditing capacities of the recipient countries and the potential high risks of mismanagement in such operations (see Chapter 6).

Germany has been known to have a relatively high proportion of non-grant bilateral ODA¹⁷. Although in 1999, the proportion was the same as the total DAC with 16% of total gross ODA (or 24% bilateral ODA), the total DAC figure is skewed by the extremely large proportion of loans in Japan's ODA - the largest donor among DAC Members. In fact, Germany's loan share of ODA was the third highest after Japan and Austria. On the other hand, the volume of non-grant ODA has been consistently decreasing

15. Except EDF.

16. nor to the regional development banks.

17. Includes new development lending (ODA loans), debt rescheduling, and acquisition of equity and others (see Table I.2).

in real terms from USD 1.5 billion in 1995 to USD 1 billion in 1999. Furthermore, its proportion in bilateral ODA has also decreased from 29% of gross bilateral ODA to 24% over the same period.

KfW is mainly responsible for managing ODA loans, which is the main instrument in what Germany terms “financial co-operation”. The purpose of financial co-operation is to provide financing of material goods and capital investments - but not all financial co-operation is provided in the form of loans, as the least developed countries (LLDCs) only receive grants from KfW. In fact, KfW states that almost half of its budget is becoming grants. Non-LLDCs eligible for International Development Association (IDA) loans receive KfW’s financial co-operation loans at the same conditions as IDA; and the remaining developing countries receive loans at 2% interest with 30-year repayment and 10-year grace periods. ODA loans other than from KfW may have different conditions, but their total volume is insignificant.

Geographical distribution

According to the DAC, in 1999, 45% of Germany’s ODA went to middle and high income countries^{18,19} (Table I-3) and 33% to low-income countries (LICs). Twenty-two per cent was dispersed to LLDCs, which was equivalent to the total DAC, but only seven DAC countries had a lower proportion than Germany. In terms of geographical focus, Germany disbursed slightly more than a third of ODA to Asia, about a third to Africa, 15% to the Americas, 10% to Europe and 6% to the Middle East. This distribution has not markedly changed since 1995 nor was there a large diversion from the DAC average in 1999. .

BMZ states that the selection of countries is based upon the need for co-operation according to the economic, social, ecological and political priorities of German development co-operation. It also takes into account the perceived ability of Germany to make a relevant contribution, the roles assumed by other bilateral and multilateral donors and a number of other criteria related to the situation of the country, such as governance. In 1998/99, the five most important recipients of ODA were China, Indonesia, India, Turkey and Egypt, which received 30% of German ODA (See Table I.4). Except for Turkey, these countries were also in the top five recipient countries for total DAC. Furthermore, the same group of five were at the top of the list of recipients for Germany in 1988/89, which shows the long-term character of German development co-operation. None of these countries was a LLDC, and in fact, the total amount of aid towards LLDCs was less than that of these five countries. Germany has yet to state the geographical and income-level priorities in its selection of countries. In 1998/99, DAC records show that Germany was providing aid to a total of 143 countries, but this included some countries only supported by the Länder which funded developing country students attending German universities.

The BMZ has recently decided to focus on a smaller number of countries with the aim to improve the efficiency and effectiveness of its development co-operation. The new list comprises 70 countries, of which 37 are termed "priority countries" and 33 are termed "partner countries" (see Table 2). For 1998/99, the priority countries received 65% of total allocable ODA, the partner countries received 19%, and the remaining 73 countries not on the list received 16%. Of both priority and partner countries, LLDCs received 17% of total allocable ODA, other LICs received 34%, and Middle-income countries (MICs) received 34%. Although several more years may be required for Germany to fully implement the new policy, there may be a challenge in carrying out major shifts in disbursements

18. Data in Germany’s “aid at a glance” is 1998/99 average.

19. 37% lower middle-income, 7% upper middle-income, and 1% high income.

since, first, the top five countries mentioned earlier are already in the list of priority countries, and second, according to BMZ, this policy will not apply to the activities of NGOs or to the Länder, which will continue to have development co-operation activities in any developing country. Furthermore, as the Programme of Action 2015 does not refer to country selection in general nor exit strategies, the implementation plan needs to address how the new vision would re-align resources according to income or geographical levels of countries. BMZ is also reducing the number of co-operation sectors to three for each priority country and to one for each partner country (see Chapter 6). Again, co-operating sectors for Germany as a whole would technically include higher education by Länder regardless of BMZ's prioritisation

Table 2. **Priority and Partner countries***

Priority Countries (65%) **		
LLDCs	Other LICs	MICs and others
Africa: Benin, Burkina Faso, Malawi, Mali, Mozambique, Rwanda, Tanzania, Uganda, Zambia Asia: Bangladesh, Cambodia, Nepal Middle East: Yemen <p style="text-align: right;">Σ = 14%</p>	Africa: Cameroon, Ghana, Kenya Asia: China, India, Indonesia, Pakistan, Viet Nam Americas: Honduras, Nicaragua <p style="text-align: right;">Σ = 30%</p>	Africa: Egypt, Morocco, Namibia, South Africa Asia: Philippines Middle East: Palestinian admin. areas Americas: Bolivia, El Salvador, Peru CEEC/NIS: Turkey, Macedonia, Albania, Bosnia-Herzegovina, Georgia <p style="text-align: right;">Σ = 21%</p>
Partner Countries (19%)		
LLDC s	Other LICs	MICs and other
Africa: Mauritania, Burundi, Chad, Guinea, Lesotho, Madagascar, Niger Asia: Laos <p style="text-align: right;">Σ = 3%</p>	Africa: Côte d'Ivoire, Nigeria, Senegal Asia: Mongolia, East Timor CEEC/NIS: Armenia, Azerbaijan, Kyrgyz Republic <p style="text-align: right;">Σ = 4%</p>	Asia: Sri Lanka, Thailand Middle East: Algeria, Jordan, Tunisia Americas: Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Guatemala, Mexico, Paraguay, Costa Rica CEEC/NIS: Uzbekistan, Kazakhstan <p style="text-align: right;">Σ = 13%</p>
Other Countries (16%)		

Source: BMZ/OECD.

Notes: * This list is not applicable to the activities by the Länder or NGOs.

**The percentages in each category of countries indicate the proportion disbursed out of total allocable bilateral ODA for 1998/99.

Sectoral distribution

In 1998-99, the six largest areas of German co-operation, according to DAC categorisation and in order of magnitude, were education (19%), water supply and sanitation (8%) transport and storage (8%), agriculture and forestry (7%), debt relief (7%), and energy (6%), which totalled slightly more

than half of bilateral ODA commitments (see Table I-5). Other notable areas included emergency assistance (5%) and banking and financial services (4%).

The high share of the education sector includes the imputed costs of providing tuition to developing country students studying at German universities. The Länder fund the universities, which do not charge fees to either foreign or domestic students. Under certain conditions (see Annex 2), the implied costs to the German taxpayer of educating students from developing countries may be reported as ODA. This item was fairly minor a decade ago (4% of bilateral ODA in 1990), but by 1999, the number of students had risen to nearly 50 000 (of whom 33% are women) and the cost to USD 435 million, or 10% of bilateral ODA²⁰. The Secretariat estimates that the main beneficiary countries and amounts are: Turkey USD 56 million, Iran USD 43 million, China USD 42 million, Morocco USD 36 million, Korea²¹ USD 34 million, and Cameroon USD 19 million.

Most of the costs involved relate to private students who choose their own courses. The costs are therefore not taken into account in aid planning or programming nor are aid officials involved in any significant way. To comply with the DAC statistical reporting directives, at a minimum, Germany should revise the methodology used to calculate the ODA share of these costs so as to make appropriate deduction for students following non-developmental courses and for those who do not return to their home countries (see Annex 2).

At a broader policy level, when the Programme of Action 2015 aims at halving poverty and the Millennium Development Goals target universal primary enrolment by 2015, it may seem incongruous that 10% of reported bilateral aid is devoted to untargeted, mainly tertiary studies. Recommendations to sharpen the developmental focus on the support to these students as well as to increase ownership and partnership of the recipient countries are also included in Annex 2. The Annex also discusses a policy coherence issue that has recently emerged regarding retaining skilled foreign students after their studies in Germany.

Excluding the imputed student costs, allocation towards education only amounted to about 8% of bilateral commitments, a share similar to those of other main sectors. Germany often presents itself as a strong supporter of the Copenhagen “20/20 Initiative”, which implies that it is committed to allocating 20% of its total ODA to basic social services (BSS). Furthermore, Germany stresses the importance of providing universal primary education and basic health services, particularly to girls and women, including in the Programme of Action 2015. On the other hand, according to the latest comprehensive DAC calculations, its actual allocation towards BSS within bilateral ODA in 1997/98 was small: 3% for basic education, 3% for health, 3% for population programmes, and 5% for small-scale water supply and sanitation systems. Adding estimated multilateral commitments towards BSS, the total German ODA allocated towards BSS amounted to 11%²², which fell well below the 20% commitment. Therefore, as also pointed out in the last review, Germany does not have a strong orientation towards supporting BSS. German NGOs are often critical of this issue, particularly since there is high leverage impact of BSS on well-being and poverty reduction.

To this, Germany argues that the 20/20 Initiative expressly requires the mutual character of commitment on the part of donors and recipients in this area. Therefore, this share should not be measured against a given donor’s total ODA, but instead should be measured against the portfolio of

20. 8% of total ODA.

21. Korea was still a Part I country in 1999.

22. Fourteen per cent of bilateral ODA plus USD 145 million estimated multilateral ODA for BSS equals 11% of total ODA. See page 17 of DCD/DAC/STAT (2000)7.

those countries with which such mutual commitment was agreed. Germany states that it has concluded 20/20 agreements with a number of developing countries and is willing to do so with others. DAC data, on the other hand, show very few countries that have had more than 20% of total German ODA allocated to BSS. Germany could elaborate on how it has conducted and plans to conduct policy dialogue with the partner countries in allocating more resources to BSS, including the challenges, successes, and impacts on basic health and educational status of the poor.

Co-operation with civil society

Since the early 1960s, church-based NGOs, humanitarian organisations and political foundations have played an important role in German development co-operation (see Chapter 5). Over the last decades, a large number of these civil society organisations with various motives and objectives have come to participate in German aid. Between 1995 and 1999, ODA channelled to and through civil society amounted to USD 420-440 million, which was 8-10% of bilateral ODA. Several ministries co-operate with civil society in development assistance, but around 90% of government funding to these organisations goes through BMZ.

Within BMZ's budget, funding for civil society took up about 10% in 1999²³. This percentage has been relatively stable, and given the commitment of the government to civil society actors, it is expected to remain at this level. In general, the German Government does not directly fund local civil society organisations, but German organisations work in partnership with them. In addition to the allocations by the government, the churches in particular raise considerable amount of their own funds for development co-operation. Approximately USD 1 billion per year²⁴ is reported to be raised by them, although such a volume is difficult to substantiate and the activities undertaken using the sources are hard to assess. It should be remembered that these funds are, by definition, not included in ODA.

OA to CEECs and NIS

Germany has elaborated clear objectives to support the transitional economies of CEECs and the NIS and has provided sizeable volumes of OA over the years²⁵. This is understandable considering the proximity of some of these countries and thus the influence that their development or problems would have on Germany. For example from 1991 to 1996, OA fluctuated and ranged between USD 1.3 -4.5 billion, which made Germany the largest donor to the region in general and to many individual countries, especially Russia and NIS. In recent years, OA has dropped markedly and ranged only USD 650-730 million between 1997 to 1999 (see Table I.1). To give a specific example, bilateral aid to Russia has fallen in 1999 to a tenth of its 1995 level. This phenomenon is primarily attributable to the tightening of the German budget, but declining aid to the EU accession candidates is also a reflection of their economic recovery. Aid to the Czech Republic, one of the first wave of EU accession candidates, was discontinued in 1999, while more emphasis was given to countries such as the Ukraine, Bulgaria, and Romania, where the transition has progressed at a slower pace.

Germany's Transform Consultancy Programme supports CEECs and NIS in their efforts to consolidate democracy and to build a social market economy. It mainly consists of training of

23. Six per cent in Table 1 is percentage of total ODA.

24. Some may be collected through the church tax.

25. Some CEECs and NIS are ODA recipients.

management personnel in these countries from both the private and the public sector, implemented by the Carl-Duisberg Society (CDG). Until 1998, Germany supported 11 of the more advanced transition economies - including Russia, Poland, Slovakia, and the Baltic countries - through this programme. In 2000, EUR 56 million of OA was allocated to it, with Russia receiving about a fourth of the funding. In 1998, with a view to increase synergies of aid given to European transition countries, the responsibility for the Transform Consultancy Programme and the Stability Pact for South East Europe²⁶ were transferred from the Ministry of Economy to BMZ, which hitherto had minor involvement in these countries. In 2001, the funds for these two programmes were transferred to the BMZ budget, which was consequently increased in total from the previous year. As mentioned earlier, this explains why a larger BMZ budget does not automatically imply an increase in ODA.

Regarding the breakdown of OA, an analysis of disbursements reveals that the German contribution to multilateral OA - which mostly consists of contributions to the EC's programme for the transition economies and the European Bank for Reconstruction and Development (EBRD) - has not been falling as much as bilateral OA. In fact, while multilateral OA had remained consistently lower than bilateral OA from 1991 to 1996 - though fluctuating between USD 320-560 million - it surpassed bilateral OA in 1997 at USD 358 million and increased to USD 487 million in 1999. The increase mostly went towards the EC's OA programme, to which Germany has been by far the largest contributor. Germany may consider that with its high share of funding for the programme, it could have substantial leverage over the EC's support towards the transitional economies.

26. A multi-national framework established in 1999 in Brussels to co-ordinate bilateral and multilateral aid to countries affected by the Balkan conflict. This is mostly counted as ODA.

CHAPTER 3

KEY SECTORS AND CROSS-CUTTING ISSUES

Germany's poverty reduction focus includes both "direct targeted" and "indirect targeted" approaches. In order to effectively implement the Programme of Action 2015, Germany may need to show more how the indirect targeted approaches actually lead towards concrete poverty reduction. Adopting a sector approach by co-ordinating with other donors could also lead to effectiveness. Cross-cutting issues have been generally mainstreamed, particularly in GTZ, and are taken up as separate activities. The challenge for Germany is to bring the whole aid system even further around the ambitious objective of poverty reduction.

Overview of poverty reduction

The programme of Action 2015 sets out the vision for German development co-operation. In order to focus convincingly on the poverty reduction objective, there is now a need to re-align policy, resources, operations and organisations to be consistent with this vision, which will require some time. For example, as mentioned in Chapter 1, the goal of development policy stated in the report to the Parliament is to improve living conditions for all people in co-operating countries and to contribute towards securing a peaceful future for the Germans as well. To pursue this goal, actions are to be taken in wide ranging areas such as poverty reduction, social equality, poverty-reducing economic growth, peace, human rights, democracy, gender equality, and the preservation of natural resources. Given this diverse agenda, Germany does not specify sector preferences which correlate to resource allocation priorities.

BMZ states that its programme is more instrument and demand-based, which results in sector allocations that follow the needs of the recipient countries. Germany considers that selection of sectors to co-operate in (particularly in the new effort to reduce the number of sectors in each country) should be based on dialogue with the authorities in the countries concerned and that pre-determined priorities derive from a supply-driven approach. In practice, this has hitherto posed some challenges. For example, some recipient governments tended to request Germany to assist in large infrastructure projects –instead of basic social services - whose links with poverty reduction are not always clear. As the PRSPs are becoming the central focus of many developing countries' policies, however, this challenge may soon be overcome.

For a number of years, Germany has been implementing a system of categorising projects according to poverty reduction criteria, such as "self-help oriented poverty reduction", "other direct poverty reduction", "comprehensive poverty reduction at the macro and sector level" and "general development approach". From this, two broadly-defined approaches towards poverty reduction are identified. First, **the direct targeted approach** favours identifiable target groups, participatory self-help measures, provision of basic social services, rural infrastructures and other micro and measurable activities. These types of co-operation are generally associated with technical co-operation

by GTZ, NGOs, and church-based organisations. At the moment, Germany generally does not contribute to donor pool-funding arrangements to support sector wide approaches (SWAs) in the social sectors (see Chapter 6), except on a pilot basis. The share of the direct targeted approach in the German programme in total bilateral ODA - particularly self-help oriented measures of poverty reduction - has remained relatively low. This also applies to basic social services (see Chapter 2).

A second **indirect approach** favours a comprehensive approach at macro and sector levels which assumes a causal chain between the interventions and poverty reduction. The proportion of this approach is relatively large in total German bilateral ODA. Measures include large infrastructural projects, support for macro policies, institutional capacity building, private sector development, and so on. These types of co-operation tend to be typical approaches of KfW's financial co-operation, although not exclusively so. The DAC guidelines on poverty reduction and the Programme of Action 2015 state that macro-economic growth is essential but that it should be pro-poor and sustainable. The question that therefore arises is how Germany intends to direct its contribution to ensure a more pro-poor and poverty-oriented growth. In fact, a convincing programme would be dependent on a well-designed plan that specifically shows how the indirect approach could benefit the poor. The sectors related to the two approaches are presented more in the chapter below.

In either of the approaches, the Peer Review team observed in the field (see annexes 4 and 5) that operational identification of the poor could be considerably improved, particularly in financial co-operation. Furthermore, differentiated and meaningful analysis of poverty, particularly regarding its causes, is still a challenge. The poor are often understood to be part of a larger target population and are treated as a homogenous economic grouping, although GTZ is working on this issue. Generally, there is a need to define indicators for measuring poverty reduction and to assess the impact of projects on the poor in a systematic and consistent way. In German co-operation, the Millennium Development Goals do not feature in project planning nor implementation in the field. This is, however, a challenge not only for Germany, but a topic which concerns most other DAC Members as well.

Germany has been trying to improve the effectiveness of its aid programme by moving towards a more complementary approach to the direct and indirect interventions in poverty reduction. It is also part of an effort towards sector concentration by clustering related projects of the macro, meso, and micro levels in the sector (see Chapter 6). Furthermore, there is an increasing tendency to intensify co-operation between GTZ and KfW, which may help improve poverty analysis. In addition, although it is short of stating the need to better co-ordinate with other donors to work on a sector approach, Germany states that it will develop sector strategies together with the partner country. Germany has also supported the PRSP process from the beginning and recognises the importance of working with the PRSP of each recipient country, although it is not ready to adopt all its implications.

Institutional adjustments would have to be made to align the whole aid system with the poverty reduction objective. A key challenge for Germany is how to adapt its approaches in favour of the new direction with appropriate training, management tools, incentives, performance indicators, and so on for all German actors in development co-operation. Furthermore, as the re-orientation is taking place against the background of declining ODA, creative measures to overcome the constrained process may be necessary to effectively mainstream the objective.

Direct approach to poverty reduction

Education

Germany's purpose of supporting education and training is to contribute to the economic, political and social development of human resource capacities needed for sustainable development. Concerning higher education, BMZ states that German development assistance is guided by the following principles: i) efficiency - higher education in developing countries is often needed to improve existing institutions and the quality of teaching; ii) practical relevance – it is important for assistance to concentrate on disciplines that are of direct relevance to development, such as agricultural science, environmental protection, engineering, economics and social science; iii) access - there is often a need to improve access to higher education for talented students from all social backgrounds, including women. The instruments that are used in projects supported by BMZ include vocational training, the financing of consultants to improve curricula, training for local academics and experts, provision of equipment for universities, strengthening of partnerships between universities, and granting of scholarships, mostly on a postgraduate level. As a note, these principles do not apply to the activities by the Länder concerning developing country students studying in their universities.

Although commitment towards basic education has been very small (see Chapter 2), Germany does recognise its importance by maintaining that an adequate level of basic education creates the necessary conditions to combat poverty. It mentions that basic education improves the individual's chances of earning an income and improving living conditions through better nutrition and health as well as smaller family sizes. More generally, by laying the foundation for the development of skills and abilities, basic education promotes learning ability and is a crucial prerequisite for further education and vocational training. Most importantly, Germany states that basic education is indispensable for participation of citizens in the development process, both in economic and political activities - the more reason why Germany should increase allocation towards basic education.

The main areas of support for basic education are the financing of infrastructure and equipment for schools through KfW and teachers' training and curricula development through GTZ to include more practical elements. BMZ intends to increase collaboration between GTZ and KfW - which has so far played a minor role in education - and to allocate more grants to this sector. BMZ also advocates increased co-operation with other bilateral and multilateral donors, although it does not necessarily state in a sector wide approach. Germany could in fact become more engaged in discussions on a sector approach to education in various countries and examine resource allocation within the entire sector - including higher education. It could also include support for higher education by foreign students studying in Germany as part of a comprehensive country strategy for the co-operating countries, which is currently not the case.

Health

The BMZ states that support towards the health sector is crucial to poverty reduction. In particular, it insists on the importance of a comprehensive primary health care and that increased efforts should be made to link health with education, nutrition, clean water and environmental issues. The involvement of NGOs, other civil society, and private sector organisations-particularly in the field of contraceptive social marketing- is considered a particular asset in Germany's health programme because of their ability to work closely with target groups. Other smaller partners besides GTZ and KfW, are DSE, DED, and research institutes in universities. Germany considers co-operation with multilateral agencies is also important in the health sector and states that it is one of the largest donors of contraceptives distributed through them. As a note, support for a multi-donor sector approach does not feature prominently in Germany's discussion of the health sector (see Chapter 6).

The stated emphasis on health contrasts with Germany's actual allocation towards the sector. In 1998-99, bilateral allocation to the health sector, including population programmes, was only USD 163 million, or 4% of bilateral ODA, which was lower than the total DAC (6%). Some of the larger commitments over three years from 1997 to 1999 were: basic health infrastructure (USD 46 million for India, USD 14 million for Chile, and USD 11 million for Central Africa), family planning projects (USD 41 million for Bangladesh, USD 30 million for Yemen, and USD 13 million for Nepal) and hospital construction (USD 14 million for Indonesia). Otherwise, allocation of funds – mainly for technical co-operation – was spread thinly among approximately 100 countries, which made the average disbursement in the health sector around USD 660 000 per project per year. BMZ states that this will change in the process of sector concentration that is currently being implemented. Germany does recognise the challenges caused by the HIV/AIDS epidemic in many developing countries: but its contribution to the area has been relatively small - about EUR 199 million - in ten years between 1987 and 1997 which was in the form of technical co-operation, financial co-operation and funding through multilateral organisations. Germany now acknowledges that HIV/AIDS is a cross-cutting issue: therefore, a clear policy and strategy for mainstreaming it throughout the aid programme is strongly encouraged.

Water supply and sanitation

The Programme of Action 2015 states that helping countries gain better access to vital resources - including through sustainable pro-poor water resource management - is one of the 10 priority areas for Germany. The Millennium Declaration has also included universal access to drinking water as one of its main goals. In particular, Germany considers that in many African countries, one of the most pressing tasks continue to be the short supply of clean water. In Latin America, support for sanitation and the recycling of water is an important activity in environmental protection, which is one of the top four focal areas of German co-operation.

In 1998/99, USD 341 million or 8% of bilateral ODA was committed towards water supply and sanitation projects (Table I-5). Of this amount, two thirds was large scale system and a third was small scale: this shows that Germany has a preference towards the former. Commitments towards some of the larger projects between 1997 and 1999 included: USD 179 million for Turkey, USD 80 million for Jordan, USD 65 million for Peru, USD 57 million for Morocco, USD 48 million for Tunisia, USD 42 million for Egypt, and USD 35 million for China. As for addressing the shortage of water by the rural or urban poor, Germany states that the target group analysis of each project assesses the extent to which poorer segments of the population are benefiting. It appears that these projects are not necessarily designed to directly address the problem of water shortage by the poor, but that they are designed for the general population in which the poor also benefits. While Germany carries out problem analyses of the sector, it takes a project approach instead of a multi-donor sector approach, as was the case in Mozambique.

Allocation towards small scale rural water projects was less than half of large scale systems and 66% was technical co-operation. The total included USD 72 million for Morocco, USD 35 million for Turkey, USD 33 million for Zambia, USD 30 million for Tunisia, and USD 21 million for Senegal and Uzbekistan, respectively. There are some projects which support the rehabilitation of a rural water supply system by encouraging the management of operation and maintenance by local decision-makers. These projects also include revenue generation from the sale of water in order to enhance ownership by the users and to ensure sustainability. At the same time, Germany does not state that these projects specifically targeting the poor are the main features in its water and sanitation projects.

Indirect approach to poverty reduction

Infrastructure

A relatively high proportion of German aid is allocated towards economic infrastructure and services: according to DAC data, in 1998-99, 19% of allocable bilateral ODA was committed towards the category (Table I-5). Some of the large projects included (ODA commitments, 1997-99): USD 198 million rail transport in China, USD 163 million water transport in Indonesia, USD 144 million rail transport in Turkey, and USD 107 million rail transport in India. As for instruments, KfW provides soft loans to finance material goods and capital investments for infrastructure projects, but to better meet the rising need for financing, Germany has created special instruments to mobilise additional private capital for such projects. This involves mixing the financial co-operation funds provided from the federal budget with market funds of the KfW. These funds are then available either as mixed finance, composite finance, or KfW market funds at a subsidised interest rates. The funding priorities are decided at the level of each country.

In the specific sub-sector of roads, Germany states that its assistance aims to improve socio-economic conditions by opening up opportunities for economic activities and improving access to facilities, such as health care and education. Germany maintains that roads help decrease the cost of transportation and free up resources that can contribute to improved living standards. Germany's annual commitments for roads has had a tendency to increase (USD 62 million average between 1975 to 1979, USD 90 million in the 1980s and USD 139 million in the 1990s). For KfW, this subsector was 6% of total commitments for project-specific financial co-operation between 1994 and 1998. Relevant technical co-operation projects by GTZ are mainly in the area of advising transport authorities of the partner countries.

Large-scale infrastructure projects such as roads are often a favoured development instrument with recipient governments, whether of middle-income or low-income countries, because of the visible impact on national or provincial economic growth and well-understood technical and management requirements. On the other hand, the developmental benefits of these projects are often problematic for several reasons. Alleged problems include adverse environmental consequences, threats to the livelihoods of indigenous peoples, poor working conditions for labour, and encouragement of bribery and corruption in the public and private sectors. Germany states that these problems exist equally for other types of projects, but that it addresses these problems as central issues particularly in financial co-operation of infrastructure projects at project appraisal, monitoring, and evaluation.

Challenges of economic viability of infrastructure projects are apparent in the fact that they generally have high foreign exchange components and therefore contribute substantially to the build-up of unsustainable amounts of foreign debt in a number of highly indebted countries. Furthermore, the high opportunity cost of recurrent expenditures required in operating and maintaining infrastructure raises the question of sustainability in impoverished countries. In particular, with many countries moving towards decentralisation, how regional administrations would be able to financially and technically manage, for example, the road subsector –especially through the use of local contractors - becomes a key issue. To this, Germany mentions that it has been tackling the sustainability problem rather successfully by comprehensive approaches such as road maintenance initiatives or by private public partnerships. Although the link between these large scale projects to poverty reduction is not always clear, there is recognition among donors that such projects can contribute to poverty reduction if there is adequate attention to selection and design. It therefore remains a task for Germany to show in what ways its support to infrastructure effectively leads to visible and sustainable poverty reduction.

Energy

Germany committed USD 245 million or 6% of bilateral ODA for the energy sector in 1998/99. It places great importance to the promotion of environmentally sound energy supply, with the overall aim to improve living conditions. Germany is also eager to contribute to policy making in multilateral forums in the field of global climate change. The objectives of assistance in the energy sector can be summarised as follows: cover basic needs; ensure ecologically sound practices; increase technological capabilities in the sector; reduce dependency on imported fuel; and support developing countries in implementing the resolutions agreed in multilateral conventions. Reflecting these objectives, Germany maintains that it focuses particularly on projects related to renewable energy.

For renewable energy, Germany states that it supports systems for decentralised energy use and alternative sources for rural areas, which are often not linked to the central energy system. In these projects, Germany tries to introduce energy sources that are more economical and less wasteful compared to traditional sources. DAC data, though, show that Germany's total allocation towards renewable power generation, wind power, and solar energy for three years between 1997 to 1999 were relatively small at USD 98 million or 12% of all commitments in energy. Some larger commitments were USD 65 million renewable power generation project in India, USD 14 million wind power project in China, and USD 6 million solar energy project in Morocco. According to Germany, there is also a large solar-thermal power plant project in India of EUR 60 million, which is still at the appraisal stage.

In fact, about half the funds in energy was allocated to hydroelectric power plants. The most important commitments by Germany in hydroelectric power plants between 1997 and 1999 were USD 142 million in Egypt, USD 136 million in Nepal, and USD 36 million in Georgia. According to the International Energy Agency (IEA) and the EC, hydroelectric power is included in the respective definition of renewable energy. On the other hand, both IEA and EC treat hydroelectricity separately from other renewable sources and do not consider it as a focal promotion area due to complications such as environmental harm and resettlement issues. Nevertheless, hydro electric power can be considered a better source of energy than thermal power in its various forms, if environmental and resettlement issues are appropriately taken into account.

Private sector development

Germany recognises the importance of an effectively functioning local private sector for the long-term development of recipient countries. In terms of implementation, it sees the German private sector as a primary intermediary with recipient counterparts. This is a logical outcome of the global structural policy, which suggests that the funding requirements to resolve the world's social, economic, ecological and political problems can only be met with considerable private sector involvement and by mobilising domestic resources with stable financial systems. The Programme of Action 2015 also explicitly recognises the role of the private sector and solicits its involvement in poverty reduction.

Overall, German co-operation in private sector development operates at three levels: the recipient country government, local associations for the private sector, and local companies. At the level of government, support for economic policy reform is provided, usually jointly with the World Bank and other donors. At the level of local associations, support is given to self-help and self-governing organisations for the private sector, usually in collaboration with German chambers of commerce or trade associations. At the level of companies themselves, the Senior Expert Service programme deploys 5 000 retired German experts to provide advice to local firms. Other financial service programmes provide micro-finance to help small companies overcome financial problems. There are

other specific measures such as export credit guarantees, mixed/composite credits, and interest subsidies which are described in Chapter 5.

The primary instrument for private sector development, particularly for joint ventures between German and local firms, is the new Public Private Partnership (PPP) mechanism. In setting up PPP schemes, emphasis is placed on using public funds to leverage both cost and risk sharing in mobilising private capital and to ensure that the activity is viewed as a long-term commitment by all parties. PPP has now funded some 500 projects world wide, generating a value of EUR 1.4 billion over the last two years from 1999 to 2000. Lead public agencies implementing PPP are KfW, DEG, GTZ, and CDG. While activities span the spectrum of possibilities, they have tended to focus on infrastructure projects. The BMZ State Secretary presides over annual meetings of a high-level PPP Steering Committee that encourages implementing agencies to use the PPP mechanism. BMZ has agreed with the implementation agencies to increase the proportion of PPP in German co-operation in the upcoming years.

In terms of direct poverty reduction, Germany aims to boost the economic growth of target countries while enhancing the active participation of the poor. The activities include increasing the entrepreneurial capacity of the poor by improving their access to credits and markets. Although the Programme of Action 2015 was only approved in 2000, Germany has already formulated policies²⁷ and has had ongoing projects in small-medium enterprise (SME) development and micro-finance activities. According to DAC data, in 1999, Germany allocated \$23 million towards SME development and USD 32 million to informal/semi-formal financial intermediaries. It also allocated \$171 million towards the formal financial intermediaries, but it is unclear as to which segments of the poor the projects have mainly targeted.

Emergency assistance, conflict prevention, and peace building

In 1998/99, Germany allocated USD 220 million to emergency assistance (Table I-5), of which 38% (USD 84 million) was aid to refugees in Germany, 33% was emergency relief, 22% was emergency food aid, and 6% was aid to refugees in recipient countries. The proportion of aid to refugees in Germany has been steadily decreasing, as it consisted of 87% in emergency assistance in 1995. The Interior Ministry (BMI) is responsible for the administration of refugees in Germany. It reports to the DAC via BMZ the imputed costs of in-country refugees by multiplying the number of refugees who arrived during the year by the average cost of refugees. During three years from 1997 to 1999, some of the refugees were reported as coming from 71 countries, including the following and incurring the following costs: Iraq (USD 99 million), Serbia and Montenegro (USD 66 million), Turkey (USD 50 million), Iran (USD 15 million), Afghanistan (USD 14 million), Syria (USD 6 million), Azerbaijan (USD 5 million), and Sri Lanka (USD 4 million).

The AA and the BMZ share the responsibility for overseas emergency aid, with the former undertaking short-term emergency measures and refugee aid in recipient countries. AA's budget for emergency relief is equally divided into a third each to UN agencies, international NGOs, and German NGOs. BMZ's role in emergency aid is focused around food aid and development related emergency aid, which is mostly undertaken by GTZ. In food aid, BMZ attempts to strengthen the self-help ability of the target groups, for example, through the food-for-work principle. Development related emergency aid consists of measures that include disaster and armed crisis prevention, conflict

27. BMZ publication No. 075, "*Förderung von Klein- und Kleinstgewerbe in Entwicklungsländern*", January 1997; BMZ publication No. 046, "*Financial System Development – Promotion of Savings and Credit*", October 1998.

management, refugee-related programmes, rehabilitation and reconstruction programmes, demobilisation and reintegration of ex-combatants, as well as de-mining.

The German development co-operation in the area of conflict mediation and peace building can be assessed in relation to the 1997 DAC *Guidelines on Conflict, Peace and Development*. Germany explicitly states that the guidelines are useful in directing its development policy in this field. The guidelines call on donors to strengthen its own institutional capacity to deal with crisis situations, in addition to that of the developing countries. Germany has been increasingly trying to mainstream conflict prevention concerns in its aid programme, including issues related to conflict on natural resources, small arms, security sector reform, and so on. In this regard, GTZ runs a five-day training course on Crisis Prevention and Conflict Management for its staff working in Africa and Asia, which is an interesting initiative that enhances the ability of conflict analysis in the organisation.

Increasing coherence is another issue that the Guidelines emphasise. As mentioned earlier, BMZ now has a larger role in the German Security Council to determine the appropriateness of each arms export towards a particular developing country (Chapter 4). Establishing clearer rules concerning arms export towards LLDCs - especially on small arms, ammunition, intelligence equipment, and dual-use goods - instead of dealing with it on a case by case basis, may be a key test for Germany's willingness to adhere to the Guidelines as well as to effectively implement its Programme of Action 2015.

Cross-cutting issues

Gender equality

One of the four goals of German development co-operation is political stability, of which gender equality is a component. Gender equality is also stated as an aim in its own right. Germany believes that without equality for women, sustainable development cannot be achieved and that improving the social, legal and economic position of women is a key factor in reducing poverty. Germany thus tries to promote equality for women in all areas and to foster respect for the human rights of women. It also maintains that the culture and traditions of recipient countries must not be taken as an excuse to justify the neglect of women's rights.

BMZ's strategy paper on gender equality provides guidance on mainstreaming, i.e. for following a gender differentiated approach throughout all policy fields, planning and decision-making processes. It states that gender roles must be taken into account at the macro, meso and micro-levels in a cross-cutting manner. The specific instruments to be used include: gender analyses of target groups; incorporation of gender specific indicators in the planning, implementation, monitoring and evaluation of projects; and gender-oriented selection of personnel and partner organisations. The strategy also mentions that in addition to mainstreaming, women-specific activities with the objective of strengthening women's rights should be pursued. Examples include giving increased support towards basic education for girls and efforts to combat trafficking of women, forced prostitution and child prostitution.

There are three and a half persons in BMZ dealing with the issues of gender equality, children's rights, participation and socio-cultural issues in a unit that involves gender and good governance. Up to year 2000, gender issues were linked to the poverty alleviation unit. GTZ has 6 persons working on gender in an advisory team on gender, poverty reduction and process management. It is not clear how many

full time gender equality staff GTZ has posted in the field²⁸. KfW has one person working half time on gender issues in a unit that handles education, poverty reduction, and participation. Germany has been implementing a system that categorises projects according to the envisaged impact on women. At the same time, with so few staff working on gender issues in the implementing agencies, it is not clear to what extent sufficient check and balance system has been put in place to screen gender issues for all projects and programmes - particularly for KfW, which handles an ODA volume of \$1.6 billion. An evaluation on gender issues in three partner countries carried out by Germany in 1998-99 showed that more efforts needed to be made in mainstreaming gender, including the enhancement of internal accountability. As a result, GTZ has developed a gender strategy for main streaming activities.

The DAC *Guidelines on Gender Equality* (1999) state that the overall goal in this area is to ensure that there is sufficient capacity in gender equality and women's empowerment. This includes leadership in policy making, staff competence, and adequate institutional procedures. Germany's political commitment to gender related issues is articulated forcefully, thus providing a strong and consistent leadership, in accordance with the guidelines. At the same time, there is room for improvement in the area of institutional capacity: while some agencies have built up expertise, such as GTZ, other actors, notably the KfW, do not seem to emphasise strong specialisation in gender related issues throughout their programme nor consistent institutional procedures in monitoring gender issues. For the smaller actors, such as church based NGOs organisations and the political foundations, BMZ could provide more information to the public regarding how it monitors their performance on ensuring attention towards gender issues under its funded projects. Germany is making efforts to further refine methodologies with the aim to mainstream gender and to monitor results, as evidenced by a number of research papers in this area. Simultaneously, necessary adaptations of organisational structures dedicated to gender issues and clearer institutional procedures throughout the system could reinforce Germany's gender focus even further.

Environment

Public support for environmental issues is comparatively high in Germany, which led the government to start a public awareness campaign, drawing attention to the link between the environment, fair trade and development. Besides BMZ, the Federal Ministry for the Environment (BMU) is involved in environmental assistance. In addition, both KfW and GTZ place emphasis on their capacity to implement environment related projects, and other actors include CDG and a number of environmentally oriented NGOs. Germany states that environmental issues are also among the key fields of German multilateral co-operation - the most important partners being UNDP, United Nations Environment Programme (UNEP) and FAO. Germany considers the Global Environmental Facility to be an important instrument and is the third largest contributor to this fund.

BMZ and BMU are jointly in charge of co-ordinating the Rio follow-up process and preparing the World Summit on Sustainable Development in 2002. Germany considers that poverty reduction and promotion of sustainable consumption and production patterns should be the overriding objectives in the summit. Specifically, Germany states that it will try to promote the following priority areas: i) protecting the natural resource base of economic and social development; ii) integrating environment issues into poverty reduction; iii) making globalisation work for sustainable development; and iv) enhancing good governance and participation. Some activities in preparation for the summit include: assistance towards EC in preparing for the World Summit; encouraging participation by German civil society and developing country partners in the preparation process, and

28. But, for example, a GTZ representative was participating in the donor gender working group in Mozambique.

an evaluation of the implementation of Agenda 21 (approved in Rio in 1992) in German development co-operation.

In the bilateral aid programme, BMZ provides around EUR 10-13 million to assist partner countries to implement their commitments toward various Multilateral Environmental Agreements (MEA), as part of its contribution to Agenda 21. It also carries out some pilot projects in the countries to assess the impact of certain environmental measures. Furthermore, up to EUR 5 million has been provided to integrate considerations from environmental action plans and MEAs into the PRSPs of Bolivia as well as ten African countries (Benin, Cameroon, Chad, Ghana, Guinea, Kenya, Malawi, Mozambique, Senegal, and Zambia).

Germany also promotes sustainable management and protection of natural resources in its partner countries. The three main project areas in this field are conservation, climate change and desertification. These include assistance to improve the environmental policy framework of developing countries, to preserve and restore vital resources like water or soil and to find new ways to promote greater use of renewable energy. In particular, Germany considers that the protection of rain forests is key towards conservation of biological diversity. Germany has been one of the largest bilateral donors in the field of forest conservation and forest management, but its programme seems to be declining in recent years. While its commitment towards forestry projects was USD 106 million in 1996, it gradually declined to USD 31 million in 1999, partially due to the scaling down of projects in Indonesia [see Report on DAC Mission to Indonesia- DCD/DAC/AR(2001)2/01/ADD2]

The DAC *Guidelines on Capacity Development in Environment* (CDE) specify that strengthening the organisational and legal instruments of the implementing institutions is essential. In particular, tools for environmental impact assessment (EIA) is raised as a key to CDE. Both KfW and GTZ have since 1988 used a comprehensive EIA process, which tests all financial and technical co-operation projects for compliance with the objectives of environmental policy defined by BMZ. The Federal Ministry has also adequately adhered to another area identified by the guidelines, namely the support of information and monitoring systems that take into account the environment. Germany has typically led other DAC Members in terms of adapting policy and legislation to environmental concerns, which is also defined by the guidelines as an important step to improve CDE. This is the case both on a national level, as well as in international forums. In Mozambique, Germany was involved in an environment working group (an informal group of donors), and appeared to be keen on co-ordinating in the area with other partners (see Chapter 6). Germany also played a leading role in the formulation of DAC's Strategies for Sustainable Development.

Like other donors, Germany is still weak in inducing the private sector to accept responsibility for environmental externalities in the production process, as stated in the DAC guidelines. On the other hand, Germany is making an effort to involve the private sector in ecologically sound technology transfer through the following measures in development co-operation: i) advisory services in improving public framework conditions, which include capacity building for measuring and testing environmental norms as well as the introduction of market based instruments in environment related institutions of partner countries; ii) financing of studies for investments that promote environmental technologies; and iii) financing of industrial de-pollution with untied low interest loans as well as grants for German companies.

Good governance

Germany is one of the strongest promoters of good governance among the DAC Members. Germany considers good governance to be a pre-requisite to development, which is reflected in its development

co-operation policy through both multi-donor and bilateral efforts. In the multi-donor area, Germany acted as a major force in linking good governance as a condition for debt relief at the occasion of the Cologne G8 Summit. During its Presidency of the EU, Germany succeeded in ensuring that good governance became one of the criteria in EC's development co-operation policy. As a member of the Utstein Group, Germany also contributes to the financing of Transparency International — headquartered in Berlin—to produce its Global Corruption Report.

In its bilateral programme, Germany states that good governance is a condition of co-operation. Germany is consistent with this policy in that it considers good governance as one of the most pressing tasks particularly in Sub-Saharan Africa (SSA) and only three SSA countries (Tanzania, Mozambique and Zambia) are in the list of top 20 recipients of German ODA. On the other hand, Germany admits that not all the largest recipients of German aid — China, Indonesia, India, Turkey, and Egypt — are countries with exceptionally good governance. It therefore states that policy dialogue with these countries is carried out at all levels in order to improve their governance.

Germany is particularly mindful of ensuring that its own funds are not misused, which partly explains why it is hesitant in carrying out budget-support type of assistance. A commendable action by Germany to prevent misuse has been the explicit incorporation of anti-corruption clauses into its bilateral agreements with recipient countries. Violation of these clauses by both recipient governments and suppliers of goods and services in public tenders can be met by sanctions. Germany also supports recipient governments to develop their respective anti-corruption strategies and raises sensitive issues in forums such as the Consultative Group meetings.

Aside from good governance being a cross-cutting issue, Germany has several types of specific projects in this area. They include provision of technical assistance in the areas of increasing efficiency in administrative functions, budgeting, accounting, financial controls, auditing, and in particular, decentralisation. There is also assistance in the justice system as well as the Parliament by monitoring the activities of the executive branch of the government. In addition, Germany is active in the promotion of joint evaluations of local governance and decentralisation programmes. Germany also believes that an active civil society that enables people's participation and empowerment is fundamental to the promotion of a responsible, development oriented government. It especially values the voices of the poor to be heard. Therefore, BMZ funds German political foundations or church-based NGOs to implement activities related to fostering local civil society.

CHAPTER 4

POLICY COHERENCE

A key feature of German development co-operation is its effort to attain coherence between national development policy and the other national policies related to it. Policy coherence principles have been re-affirmed at the highest political levels, including Parliament, and special leadership responsibilities have been given to BMZ. Because of the multiplicity of actors, possible domestic political constraints and the limited political base of the BMZ, the implementation of effective policy coherence will undoubtedly require a sustained political commitment in the years to come.

Germany's approach to developmental policy coherence

The BMZ has regularly stressed the need for greater policy coherence in its official statements and documents. For example, as early as 1992, the BMZ raised the issue of EU subsidised beef exports by first commissioning an in-depth study on their impact, then worked to raise the consciousness of the Federal Ministry of Agriculture, which then supported the decision in the EU Council for Agriculture soon thereafter to lower the size of export subsidies. The coherence issue has been a topic of periodic debate within the Parliament over the last several years, but particularly since 1998. Parliament has periodically sought to further strengthen the BMZ position to influence overall government support for development policy coherence.

Box 2. Coherence: 1998 Coalition Paper Statement of Vision

“The new Federal Government will further develop the basic guidelines of existing German foreign policy”, including “the promotion of lasting development in all southern countries. ... In the face of new economic, technological, social and ecological challenges it will develop its foreign and security policy as a contribution towards safeguarding our global future. ... It will be guided by a commitment ... to an economically, ecologically and socially just balance of interests between the regions of the world and the worldwide observance of human rights. Development policy today is global structural policy, aiming at the improvement of the economic, social, ecological, and political conditions in developing countries. It is oriented towards the guiding principle of global sustainable development. The new federal government will reform, develop, and improve development policy along these principles, ensuring the coherence of this policy among the different ministries. The current scattered nature of tasks of development policy will be removed. Authority will be concentrated in the BMZ. The BMZ will from now on be the leading actor in questions concerning EU-development policy. The BMZ is to become a member of the Federal Security Council. The new government wants to commence a reform of foreign trade promotion, in particular the issuing of export guarantees (Hermes) according to ecological, social, and developmentally conform aspects. Internal debt relief initiatives for the world's most impoverished and indebted countries will be supported. The new federal government commits to a new orientation for IMF and World Bank structural adjustment policy, following criteria of development conformity and ecological sustainability. International economic regimes such as the WTO and the planned Multinational Investment Agreement (MIA) have to be re-designed according to ecological and social criteria.”

Upon taking control of government in 1998, the entering political coalition proposed broad reforms to “renew Germany” along the lines of its Coalition Agreement. The vision embodied in that Agreement was interestingly specific in relation to development policy (see Box 2) and advocated a fairly radical re-orientation of international relations towards “Global Structural Policy” and the concentration of authority for leadership of development policy in the hands of the BMZ. This political statement of vision has proven to be an important starting point for the series of subsequent actions that are building toward an operational framework for developing country policy coherence. Nevertheless it needs to be remembered that the BMZ cannot act alone in matters of development policy coherence. It has yet to sufficiently develop the analytical capacity necessary to carry out its substantive mandate, and frequently needs to argue its case with more powerful ministries within the German system. As it progressively operationalises its growing mandate for policy coherence, the BMZ has already learned the importance of alliances with developmentally involved German actors such as the Federal AA, individual NGOs or NGO groups (e.g. Association for Development Co-operation (VENRO), Working Group on Poverty Reduction (AKA)) or specialised lobby groups. It also calls upon specialists from key aid implementation agencies (e.g. GTZ or GDI) to carry out specific policy analysis and support.

Global structural policy

Undoubtedly because of the country’s historical realities,^{29 30} including German re-unification and the construction of Europe, the German Government and people appear to have largely accepted current theories of globalisation, and situate many national priorities in relation to it. Taken at the level of their developmental policy, it asserts the interdependency of nations in a global context. It prescribes the need for German development co-operation to shape its development assistance programmes so as to address globalisation issues, and, perhaps more importantly, to play a proactive role for all members of the German Government to ensure broadest possible economic, social, ecological and political coherence, wherever the German Government has a role to play. Early in his mandate, the Federal Chancellor asked leaders of his administration to design policies in such a way as “to make globalisation and the convergence of markets a positive force for all”.

In relation to German policies towards the developing world, the BMZ has taken on a variety of roles to ensure more systematic coherence. These include: i) policy discussion within the Cabinet by the Minister, who is a full member; ii) the use of the new BMZ mandate to systematically review, for development coherence, all new laws proposed by the government; iii) the creation of a poverty Programme of Action 2015 as a framework to guide overall government development policy and action; iv) the creation of new development-oriented guidelines for, and the participation of BMZ on, both the Federal Security Council (arms exports) and the Inter-ministerial Committee on Export Guarantees. More specific information on items (iii) and (iv) is noted below.

29. See *Guido Ashoff*, “The Coherence of Policies towards Developing Countries: The Case of Germany” produced by DIE and GDI, April, 1998, for a more complete analysis of the German approach to policy coherence.

30. The broader German interest in maintaining national policy coherence begins with the German Constitution, which requires all ministries to manage their respective portfolios in a manner that is coherent with the political guidelines laid down by the Chancellor. Policy coherence did not become an explicit issue for development co-operation until the 1990s. Precipitating factors included (i) the increased German political awareness of the cross-border character of development problems, (ii) the need to improve the impact of aid in a time of evolving budget constraints, (iii) public debate on a variety of policy incoherence issues, generally triggered by NGO campaigns, and (iv) the Treaty of Maastricht, which gave the call for policy coherence its legal expression.

Implementation of coherence

To mount a comprehensive approach to policy coherence, Germany has targeted three different levels of intervention: i) The first level of intervention encourages a greater coherence between the various **international arrangements and institutions**, so as to better define international policies and standards and so as to ensure that the developing countries have an equal role to play as partners. ii) The second level of intervention is to advocate **structural coherence** among all partners in Germany. Within Germany, all policies, laws and structures will be examined for developmental coherence. iii) Finally, the third level of intervention supports the **recipient countries** themselves in implementing reforms and structural changes that are necessary to their development. To date, this three-pronged approach has been most specifically used as conceptual reference in the context of the new German Programme of Action 2015 for Poverty Reduction.

International arrangements and institutions

Germany is broadly supportive of the OECD and other international organisations which work to deepen international policy coherence in order to create opportunities for better growth and development in the developing world. Coherence issues supported by Germany include work on international trade and direct investment, international finance, food and agriculture, natural environmental sustainability, social issues, and governance and conflict.

One of the first actions of the current government with respect to this international agenda of coherence issues was its sponsorship of the “Enhanced HIPC Initiative” at the 1999 Cologne Summit on debt relief and reduction. Germany strongly supported this initiative, which permitted an integrated approach to development debt around the operational mechanisms of Highly Indebted Poor Countries (HIPC) and the Poverty Reduction Strategy Paper (PRSP). Germany saw this debt reduction framework as a concrete step toward the promotion of international financial policies that are more coherent and supportive of international development policies. It also saw this initiative as simultaneously innovative in relationship to international partnership, shared perspectives, and joint participation in the field. The German programme for LDC debt forgiveness (USD 53 million in 2000) is now focussed on the HIPC process.

Germany has embarked on a variety of other international initiatives, including **trade** (“how can we offer aid while depriving them of markets for their agricultural production?”³¹), creating an **investment climate** in the developing world that is attractive to foreign direct investors, and even **health** issues such as AIDS or malaria (given their potential to wipe out the benefits of growth and debt forgiveness). One final example of the importance of international initiatives is in the treatment of **corruption** in development policy. The German government implemented in 1998 the EU convention on the fight against corruption involving officials of the European Communities or officials of Member States of the European Union. In November 1998, the OECD convention on combating bribery of foreign public officials in international business transactions was signed, in February 1999, the penal law to combat international bribery became effective. Germany is now moving its attention to the downstream operational issues of such initiatives, including the manner in which it will be implemented and monitored.

31. Quote from the BMZ Minister during a Peer Review interview.

Structural coherence in Germany

Poverty reduction

The coherence of German Government development policy was given a major boost with the Cabinet approval of its new poverty strategy, the Programme of Action 2015, mentioned previously. The BMZ successfully made its case to Cabinet that, in a globalised world with its risks and threats, developing world poverty is a matter that merits becoming the overarching priority of German development assistance. The Programme of Action 2015 lays out the different levels for co-ordinated action on the part of the German Government, as well as its priority areas for action. Key action areas are at the level of pro-poor growth, agrarian reform, trade, debt and development financing, social protection, environment, human rights, gender, good governance and conflict prevention.

The poverty strategy, by virtue of its widespread political acceptability and its strategically framed agenda, provides a potentially powerful framework for joint international action and German Government partnership toward a common and coherent agenda in terms of development policy. The real challenge of this approach now lies in the future. First, an implementation plan for the Programme, which will have to be negotiated with other partners within Germany, is expected early in 2002, following which the best intentions of the Government will need to be translated more operationally into today's realities.

Coherence on German exports

Germany maintains a large national programme of export guarantees and supplier credit coverage, essentially managed by the agency HERMES, and which is subject to specific review by an Inter-ministerial Committee, composed of representatives from the Ministries of Economy and Technology, of Finance, of Foreign Affairs, and of Economic Co-operation and Development. The size of the export guarantee coverage in 2000 was EUR 19.4 billion, representing 3.3% of the value of total German exports. HERMES statistics suggest that some 87% of these guarantees were for exports destined to developing world countries.

While the Inter-ministerial Committee has existed for over 20 years, it has long been criticised by specialised German NGO and watchdog groups as overly supportive of German exports that may be harmful to the environment or other developmental concerns. In part due to these domestic pressures, and in part due to international consensus building within the DAC and elsewhere, the new German Government agreed in April 2000 to new "Guiding Principles" as binding criteria for the review of Inter-ministerial Committee actions. These guidelines highlight key global concerns, including ecological, social and developmental impacts. They appear to provide a valid initial screening mechanism to ensure coherence between German Government-sponsored exports and development policy. Central to the acceptance of these new guidelines was a recent agreement in principle by all OECD members to adopt a "recommendation on common approaches on environmental and officially supported export credits" by the end of 2001.

Existence of guidelines does not, of course, mean that they are adhered to.³² Because of the large size of, and the sensitivities surrounding, export credit schemes, it would seem appropriate for the German Government, as a further confidence building measure, to undertake an independent analysis of the extent to which the new guidelines are actually applied. These checks, if properly carried out, will hopefully permit a more broadly believable and accepted agreement on guideline coherence in the German context.

Germany generally does not isolate its national policies on exports from those of the European Union. It is important to note that Germany intends to pursue, with other European nations, trade promotion policies that are consistent with its developmental policies. German officials assert that their influence contributed significantly to the March, 2001 EC decision to free up LLDCs access to the European market, especially in the area of agricultural products. Germany also favours a liberalisation of the European Common Agricultural Policy (CAP). While this will have the effect of favouring non-European agricultural imports, this position may be due as much to a desire to reduce Germany's large financial contribution to the CAP and to reduce costs to German consumers as it is to promote coherence in trade policy toward the developing world.

The special issue of arms

From the point of view of development co-operation, arms exports to developing countries has been viewed critically in Germany in recent years, even though Germany itself is not a large source of arms for the developing world. German public opinion considers that a clear commitment by the recipient country to good governance is a prerequisite to the effective use of its development aid. Excessive military expenditures in the recipient country, beyond the needs of legitimate self-defence, raises obvious questions about the sincerity of their commitment to development. Simultaneously, the German public is seized with the recent multiplication of civil or inter-ethnic wars in developing countries, and is particularly concerned with the extent to which these conflicts sap the utility of development co-operation efforts. Against this background, arms exports by Germany (or other donors) especially to the least-developed countries who are strongly aid dependent, give rise to the suspicion of serious policy incoherence, and are therefore followed closely by German NGO watchdog groups. Sensitive to this issue, the BMZ actively draws attention to these issues in the context of its new membership (since 1998) in the Federal Security Council (*Bundessicherheitsrat*), which is the authoritative body on all questions related to security, including decisions on arms exports. BMZ considers that it has a mandate to provide the development perspective on all security questions reviewed by the Council, but, here again, realises that arguing its position within this broader body can be difficult, especially in a case where other German political or economic self-interest is at stake.

Untying of German aid

Based on the official OECD/DAC profile, German bilateral ODA is not heavily tied to procurement of German goods and services. As a matter of policy, German financial co-operation is generally untied. Technical co-operation and consultant services in connection with financial assistance projects are frequently tied, although exceptions are frequent. German contracting with non-German experts is generally limited to EU nationals or recipient country specialists. Financial assistance can be

32. One dissenting German watchdog group, Urgewald, has already suggested that "economic interests won out over developmental ones" in the recent case of the Tehri Dam in India, where the new guidelines were not sufficient to stop German support for the dam despite perceived negative resettlement, economic and environmental impacts.

deliberately tied by the government on a case by case basis (e.g. if tying is justifiable in development terms or if it will have a significant impact on German employment). German official procurement regulations for implementation agencies follow OECD “Good Procurement Practices for Official Development Aid”.

With the May 2001 DAC/HLM agreement on untying to LLDCs, the German Government has indicated that it will implement this recommendation “in all its dimensions”. Further, it has indicated an inclination to go beyond the binding aspects of the DAC agreement.

It is interesting to note that some 50% of KfW disbursements in 2000 are used to finance contracts which were awarded to German suppliers,³³ while German financial co-operation is officially intended to be untied. This seeming contradiction is officially explained by a higher level of tying to German goods and services in past years and the competitiveness of German industry in the international competitive bidding process. The German government has indicated that it will further improve its information on contract awards for projects financed by German financial co-operation in the future.

Recipient countries

In theory, it is expected that German policy coherence in favour of development efforts in the recipient countries will be upheld by the AA through its local embassy, which by German law is the official voice of the German government abroad. In reality, the extent to which a local embassy has a capacity to carry out this coherence mandate is undoubtedly weak. The new poverty Programme of Action 2015 now offers the German Government a more systematic approach to local policy coherence, however. German support for the design and implementation of developing country PRSP documents holds out the promise to become a locally-derived and participatory framework which may then become a reference for more systematic policy coherence action for Germany bilateral co-operation programmes, and for those of other relevant partners, as well.

33. Source: www.Kfw.de facts and figures of Financial Co-operation/Disbursements 1999 and 2000.

CHAPTER 5

ORGANISATION AND MANAGEMENT SYSTEMS

German aid organisation contains a number of implementing organisations owned by the state under the leadership of BMZ, through which the greatest part of German aid is channelled, but also includes an array of independent institutions (NGOs, Federal States, municipalities) which admit only a limited degree of co-ordination around the strategic leadership of the BMZ. The BMZ is currently seeking to adjust its structures and those of the state owned, aid institutions in a manner that avoids redundancy and improves overall system co-ordination. These organisational adjustments will be particularly important at the level of the field, where the key institutions are yet weakly co-ordinated among themselves and are frequently vertically managed from their respective headquarters in Germany. The German Government has undertaken a number of creative efforts to modernise elements of the existing development co-operation system and there is evidence of learning from its experiences of co-ordination in the field, which will feed back into an ongoing process of change in the management systems.

Organisation

Chart 1 attempts to track, in a highly schematised manner, the ODA flows within the German system, so as to produce a simpler picture of the organisation proportions and relationships of key German development assistance institutions. For the purposes of this report, the review of these institutional actors has been organised around five types of sub-groups: the **core official actors** (BMZ, GTZ, KfW-DEG), the **other implementation agencies** (training, volunteer service) **civil society**, **other federal ministries**, and the **Federal states and municipalities**. In addition to the preponderant bilateral part, the German aid system works through a number of multilateral organisations, particularly the International Financial Institutions, the United Nations system, and the European Community, including the European Development Fund.

The core official actors

BMZ: At the heart of the overall German development co-operation system is the Federal Ministry for Economic Co-operation and Development (BMZ), which was set up in 1961. BMZ is in charge of planning and policy, negotiations of projects and programmes in partner countries, financing and supervision of the public implementing agencies, co-operation with non-governmental organisations, donor co-ordination, evaluation and relations with Parliament and civil society. It is the head of the overall German development co-operation body, the various parts of which are inter-linked through a network of co-operation agreements that are approved by BMZ. Some two-thirds of all German ODA is channelled through the BMZ and is reallocated by it to the German official implementation agencies, civil society partners, and the relevant United Nations agencies and International Financial

Institutions. BMZ is also responsible for oversight of development assistance actions in relation to the European Community, although it should be noted that German Government contributions to the EC budget do not transit through the BMZ structures although voluntary contributions to the European Development Fund do. The BMZ shares oversight responsibilities of the multilateral aid organisations with selected other ministries (especially the AA and the Ministry of Finance).

Because BMZ was not designed to implement its own development policies, its 607 staff are located primarily in Bonn headquarters, with the important exception of some 70 staff in Berlin, regrouped around the Minister. As a rule every German Embassy in developing countries has at least one official exclusively or in part in charge of development matters. Twenty-five professionals originating from BMZ are working with the Foreign Service, posted in German embassies or permanent missions through a special agreement between BMZ and the AA. Additionally the BMZ makes extensive use of the expertise of the various implementation agencies to extend the reach of, and to inform the actions of, its own organisation. Communications at the level of headquarters are rendered more difficult by the Bonn-Berlin division of internal organisation, and at the level of the field, by the limited representation there.

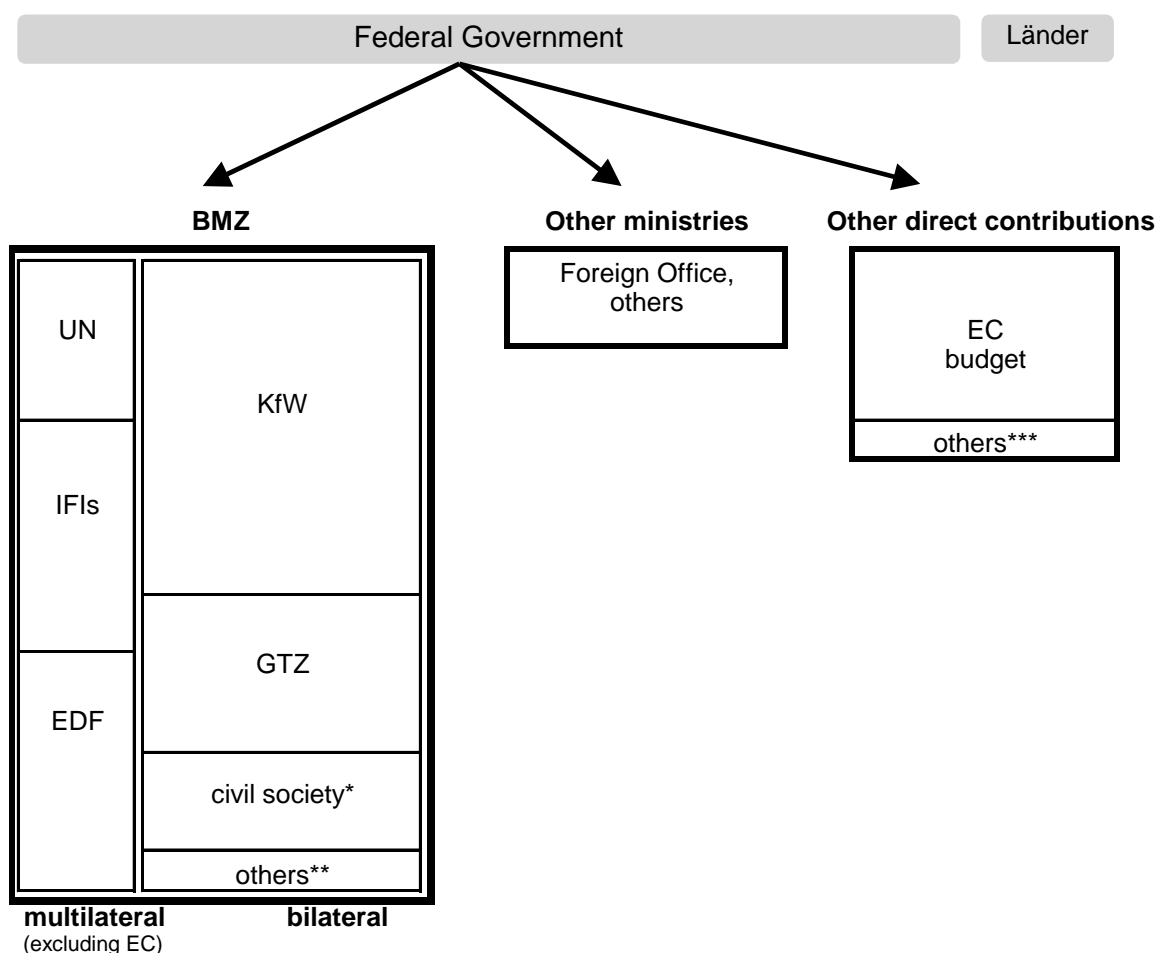
Given its policy and oversight mandate, BMZ organisation (see Annex 3) is structured around four thematic Directorates-General, focussed respectively on administration, regional-country policy, instruments of bilateral co-operation, and multilateral, global and sector co-operation. Recognising the need to better communicate and co-ordinate internally, the different Directorates and sub-units are increasingly working in team arrangements, the structure and working of which will depend on the nature of the task at hand.

GTZ – “Technical co-operation”. The Agency for Technical Co-operation (GTZ) is a non-profit company that was set up in 1975 as the German aid system’s principal executing agency for technical co-operation activities. Although its primary source of funding is the BMZ, some 11,4% of its funds currently come from other international clients (e.g. International Bank for Reconstruction and Development (IBRD), EC, regional development banks) or other Federal ministries. A value of DM 760 million constituting more than 40% of GTZ annual turnover, is awarded to sub-contractors for the procurement of goods and services. Because the GTZ has a corporate mandate to help the German Government “achieve its development policy goals”, GTZ activities, field locations, staff mix, and overall organisation periodically shift so as to realign themselves with priorities and orientations of the government in this field. This was recently the case, for example, when implementation authority was particularly decentralised from headquarters to the field.

GTZ is Germany’s largest implementation agency in terms of staff size. GTZ’s core staff in head office is 1 088; project staff 1 443 international experts and 8700 locally contracted staff members. Recent trends have witnessed a reduction in the number of international experts and an increase in the number of local professional staff. International experts are provided only on the request of partner organisations and in the case of local capacity constraints. GTZ currently maintains 64 official GTZ Offices. Furthermore, there are around 15 support offices. During this Peer Review, the GTZ was frequently commended by its development partners in the field as being a highly professional, field-based organisation. Because of its “front line” experience in development co-operation implementation, GTZ staff are frequently called upon by the BMZ to take the lead in representing a German position in professional discussions at home and abroad. As the BMZ reviews options for reinforcing the presence of German development assistance in its target countries, GTZ is frequently mentioned as the most logical German organisation to do so. It clearly has the comparative advantage in terms of technical skills and field presence, but is also legally limited in the extent to which it can represent an official German position, given its “contractor” organisational status, and its normal responsibility for project implementation rather than policy dialogue.

Chart 1. Basic ODA flows to actors in the German aid system

Approximately proportional to gross ODA disbursed



- * NGOs, political foundations.
- ** CDG, DED, DEG, DSE, etc.
- *** Associated financing, asylum seekers, etc.

Source : OECD.

KfW and DEG – “Financial co-operation”: The German Bank for Reconstruction (**KfW**) is the German aid system’s principal executing agency for financial co-operation. KfW is a corporation under public law. The home organisation of KfW was founded in 1948 in conjunction with Marshall Plan aid for German reconstruction, and only began aid operations to developing countries in 1960. Like the GTZ, KfW operations are very much built around the specific needs of BMZ development policy. Unlike the GTZ, however, the KfW has not extensively decentralised its field operations, and it is slower to experiment with new directions in management of its development co-operation activities. KfW provides investment financing and project-tied advisory services, financing of structural assistance, commodity assistance and qualified advisory services, and finances Public-Private Sector Partnerships (PPP). Although the developmental operations of the KfW currently only represent some 5% of its overall commitments in 2000, the more labour-intensive nature of developmental lending

means that it is the primary occupation of almost 15% (a total of 300 persons) of all KfW staff. Of this developmental staff total, 284 are located at headquarters in Frankfurt. The remaining 16 staff are located in field offices where they are complemented by local consultants and support staff responsible for administering some 1 200 projects in 100 countries. In volume terms, KfW is Germany's largest aid implementation agency. It is interesting to note that the development wing of today's KfW is not exclusively a lending institution, and that some one-half of its budget is now provided to least developed countries in the form of grants. KfW frequently also funds its own technical assistance to these countries. The trend in KfW operations is toward smaller projects, which in 2000 nevertheless averaged DEM 10 million.

The German Investment and Development Corporation (**DEG**) is legally a non-profit organisation which provides financing and advisory services (“intelligent money”) to the developing world private sector. In 2001 the DEG will be formally joined to the KfW following the purchase by KfW of all DEG capital. This move is expected to lead to savings in personnel and other facilities (information technology, training capacity) between the two organisations. Seen in system terms, this merger will better integrate the two key German actors in the financial co-operation area and simplify relationships among actors within the overall system. The DEG currently maintains a staff of 278, all of whom are located in DEG's Cologne headquarters.

Box 3. Creative inclusion of civil society in policy making

As early as 1983 the BMZ and a number of German NGOs met on the subject of poverty reduction. By 1989 the group was formally constituted into a permanent working group on poverty reduction and self-help, or **AKA** (“*Arbeitskreis Armutsbekämpfung durch Hilfe zur Selbsthilfe*”). This network of German development actors, including the BMZ, various implementing agencies, and several prominent NGOs, has since been responsible for developing numerous progressive concepts in poverty reduction, many of which are now credited with stimulating the creation of the Programme of Action 2015, formally approved by the German Cabinet in April 2001.

Other implementation agencies

Training and research institutions – CDG/DSE and GDI. Germany aid works through an extensive network of training institutions, of which only three of the most prominent are noted below.

Carl Duisberg Society (**CDG**) is a non-profit organisation, mainly supported by private enterprise, with some 450 staff located largely in Cologne. It is focused on practical training, especially in the private sector. CDG is also part of a larger network with branches overseas, which was collectively responsible for the training of some 18 000 participants in 2000.

The German Foundation for International Development (**DSE**) is jointly funded by the Federal Government and the Länder to provide short-term and long-term training for specialists and executives from developing and transition countries, as well as specialised training for German specialists before taking up overseas assignments. DSE maintains a staff of 450 in its Bonn headquarters and in six other centres around Germany. The overlaps between these two organisations was sufficiently evident that a decision was recently made to merge the two in one training entity at some point this year, thus obtaining savings in personnel and other redundancies, while highlighting the importance of training for German development co-operation.

A third organisation, the German Development Institute (**DIE/GDI**), is a non-profit company which has built a solid reputation since 1964 in post-graduate education, research on development issues and special consultancies. Funded by the Federal Government and North-Rhine Westphalie, its 50 staff are headquartered in Bonn.

German “volunteers” – DED. The German Development Service (**DED**) is a not-for-profit private organisation that was founded in 1963 on the U.S. Peace Corps model. Its 2000 budget of USD 80 million, and its network of some 1 000 German “volunteers” (actually modestly remunerated specialists), is entirely government financed. DED employs an administrative staff of some 200 persons, of which 100 are located in its Bonn headquarters and the remainder in 43 countries around the world (but mainly in Africa). DED volunteers tend to be more experienced than is normally the case for such institutions elsewhere. They work generally at the micro level, inside local partner institutions. Recently, DED has sought stronger co-operation with other German implementing agencies, the most important of which is the GTZ. Co-operation projects also exist with some multilateral organisations. In 2001, the main sectors of intervention for DED volunteers included agriculture and natural resources, vocational training and small enterprise promotion, health, and promotion of civil society.

Civil society

For purposes of this report, it is convenient to regroup both the German developmental NGOs and the political foundations under this category.

Of the estimated 1 500 German **NGOs** who work in the area of development co-operation, some 500 are financially supported by the BMZ with ODA funds. By virtue of their different origins and developmental objectives, the NGO community did not speak with a common voice until 1995, when a large number of them banded together to form the Association for Development Co-operation of German NGOs (**VENRO**). VENRO now represents over 100 German NGOs, several of which represent many more NGOs in Germany and in the developing world. VENRO serves as a forum for exchange of information and joint strategic planning, and as a vehicle for dialogue with the Parliament and government. The largest members of VENRO and the largest NGO recipients of public funds are the two major church-based NGOs, Protestant-EZE and Catholic-KZE. These two groups tend to be oriented toward grassroots assistance for the poor, especially social infrastructure and community development, and figure prominently in German discussions of human rights. While these NGO groups frequently receive ODA funding from the BMZ, it should be noted that they also generate at least as much funding for their development activities independently of the government (see Chapter 2).

Another important category of civil society actor and an important feature of overall German development assistance are the **political foundations**. Currently, there are six such foundations, representing about one-half of BMZ funding for civil society, drawn from six different political parties: Friedrich Ebert Foundation (Social Democratic Party), Friedrich Naumann Foundation (Free Democratic Party), Hans Seidel Foundation (Christian Social Union), Heinrich Böll Foundation (Green Party), Konrad Adenauer Foundation (Christian Democratic Union), Rosa Luxemburg Foundation (Party of Democratic Socialism). These foundations are autonomous in the conduct of their activities and are not subject to direction from their party of affiliation. Their range of action is substantial, fostering of democratisation being the main field. The co-operation with political parties, labour unions, civil society organisations, the support for media, local government and the rule of law figure prominently in their work. Structurally, the existence of several political foundations is considered to contribute positively to the values of pluralism and tolerance. As but one example, the

Freidrich Ebert Foundation has projects in over 100 countries and is locally represented in 80. The foundations tend to focus on politically important issues in the developing countries, including organisational education and training, strengthening of human rights, rule of law, or good governance.

Other Federal ministries

The Federal Foreign Office (AA) is constitutionally responsible for the overall conduct of German foreign policy. The Foreign Service administers the foreign affairs of the Federation and co-ordinates, in line with the policy of the government, the activities of state and other public institutions of the Federal Republic of Germany abroad. The AA is headquartered in Berlin and maintains a staff of 8 400, with roughly two-thirds of that total assigned to 222 foreign representations, including 141 embassies. This large ministry is responsible for direct management of some 5% of German ODA, mainly emergency and humanitarian assistance, for which it will frequently call upon UN, or German implementation agencies or NGOs, to carry out. Its central importance to development co-operation comes from the fact that development policy in Germany is considered to be a part of overall foreign policy. This implies the need for the AA and the BMZ to work closely together in the elaboration of overall development and country strategy, even though their operational mandates are quite different. The **Federal Ministry of Finance** is involved in development policies, not only as the budgetary authority, but also because of the international role of the G7 Finance Ministers. Of particular relevance is the Finance Ministry's work on debt relief for the Highly Indebted Poor Countries (HIPC). The "Enhanced HIPC Initiative" of the Cologne Summit in 1999 integrated debt relief with poverty reduction, which is also reflected in the poverty Programme of Action 2015. The **Federal Ministry of Economy and Technology** plays a development co-operation role as chair of the Inter-ministerial Committee on Export Guarantees (see Chapter 4), which, due largely to BMZ membership, promotes German exports in a developmentally supportive manner. This ministry also plays a secondary role in debt forgiveness. Remaining Federal ministries (including those in education, health, agriculture, family, environment) have narrowly defined responsibilities for development co-operation and are collectively responsible for only 2% of ODA.

Federal states and municipalities

German decentralised co-operation (both state and municipal) is responsible for an estimated eight per cent of overall ODA management generated through local budgets outside the Federal system. As mentioned more extensively in Chapter 3, this aid is composed both of imputed student costs in Germany and of specifically budgeted development co-operation activities. The German states (Länder) are the driving force behind this effort, which is broadly co-ordinated through a Federal – Länder committee for development co-operation. Most states undertake proposals for their state Parliaments that copy the Federal experience, and some activities are even mounted collaboratively between the BMZ and the Länder. The part of this funding which is used for development activities tends to focus on educational and environmental issues. Some 1900 municipalities are engaged in implementation of the Earth Summit action plan Agenda 21, mainly in the area of environment. Among the most active states to work in the field of development co-operation are Baden-Wurttemberg, Nordrhein-Westfalen, Berlin, Hamburg and Bayern. An example of one state programme is that of Berlin, which has worked closely with the various German development organisations represented there (e.g. DED, DIE, DSE, World Peace Service) around the theme of "One World" to provide educational services, to promote North-South dialogue and to mount projects for the developing world. The State of Berlin has now dedicated some DEM 400 million of its own resources to these tasks since beginning in 1962. The state and municipal governments frequently use NGO groups or other development entities to implement the activities they finance.

Organisational challenges

A central recommendation of the 1998 Peer Review was that Germany undertake a comprehensive review of its organisational system. This recommendation was formulated in the spirit of modern aid management, especially so that Germany could better engage in policy and programme-based approaches in co-ordination with its development partnerships. Changes within the German aid system did take place since 1998, and have included both structural and programmatic actions:

- i. Internal restructuring of BMZ.
- ii. Reshaping of the GTZ, including a major organisational decentralisation process, and downsizing.
- iii. Streamlining of KfW headquarter operations, including reduction from five to three departments, the creation of an independent evaluation unit, 15% reduction of staff, and establishment of a number of KfW field offices.
- iv. The merger of operations between KfW and the DEG, and between the training institutions CDG and DSE.
- v. Special encouragement in favour of GTZ and KfW joint action on the ground.
- vi. Use of a common vision (Programme of Action 2015, country strategies, PRSP process, focal area strategies) and concentration on fewer countries, so as to simplify and to better harmonise the individual implementation agencies in headquarters and the field.

Despite these changes, Germany's development co-operation still appears to an outside observer as both centralised and hierarchical, while fragmented among the different institutional actors. While the diversity of actors within the German institutional architecture for aid is understandable, given the strong pluralistic precedent of the Federal State, the use of a multi-institutional system also creates challenges for co-ordination of effort. With different legal statutes, different political constituencies, different geographical locations, and a lack of operational leadership to co-ordinate in the field, it is a challenge to bring coherence to the design and implementation of German aid. While the diversity of semi-official and official institutions permits creative approaches to development and helps to avoid certain aspects of overly bureaucratic behaviour, this diversity also offers opportunity for monopolistic behaviour within the broader system, as well as overlapping parallel bureaucracy and corresponding issues of cost and inefficiency of management.

The BMZ recognises that the change process has only begun within their overall development co-operation system. New shifts in the world and German aid environments, such as globalisation, trends in decentralisation of aid, the major move of government from Bonn to Berlin, East-West German unification, steadily declining budgets, and the rethinking of German national policies, are part of today's realities which are being faced by German development assistance managers. At the level of the field, there are new realities in the way development co-operation is being organised within countries, especially the continuous policy dialogue on country-led poverty reduction strategies and sector approaches.

The strength of the German system of aid has been the organised and professional way in which the implementing agencies have delivered German aid to the field, within the context of a clear BMZ mandate. Although the resources have declined in recent years, that basic system and mandate has not changed. It has proved capable of delivering good quality development projects, but which now

requires rethinking for a different context. The German Government currently seems to exhibit the political will to modernise its aid organisation, and the BMZ has already indicated the possibility of additional organisational changes in the future. These could include a more systematic integration of the various German actors and further simplification of the structure of the official aid delivery system, particularly at the field level, where Germany will increasingly seek its niche in a co-ordinated action of all partners.

Management systems

System co-ordination

Based on Peer Review exposure to German development assistance management, the German system could be characterised as vertically organised and fairly well co-ordinated at the level of Germany by the BMZ, but only loosely co-ordinated at the level of the field. The Peer Review encourages the BMZ to pursue its current re-examination of its aid structures and systems, including those in the field. Such a reform holds the potential to significantly improve upon the efficiency and the impact of its assistance to the developing world. This re-examination drew upon the results of five recent independent, external evaluations to conclude that, among others, the restructuring of working units, flexible personnel policies, and information technology improvement are essential innovations for the streamlining of BMZ operations. An action plan for organisational reform is under debate internally. New information technology systems are being installed, in parallel with attempts to build a “knowledge management” system. An institutionalised networking mechanism of existing organisational units is being developed which would replace the hierarchical top-down structures of the present. In bilateral co-operation, the efforts of concentration on fewer priority countries, fewer sectors within these countries and of drafting priority strategy papers will strengthen the co-ordination and response of the different actors of the German development co-ordination system to partner strategies like PRSP and sector strategies, in that the limited capacity is concentrated on fewer countries, and that in a given country the limited capacity is concentrated on fewer sectors/areas. While numerous issues of system co-ordination could be examined, this Peer Review focuses on three broad system issues: **co-ordination at the level of Germany, co-ordination at the level of the field, and co-ordination between the organisations of the KfW and the GTZ.**

Co-ordination at the level of Germany has been, and continues to be, a preoccupation of the BMZ. Numerous actions have been carried out in this respect, and were particularly noted in Chapter 4. The recent government acceptance of the Programme of Action 2015 for Poverty Reduction will present a special challenge, however. BMZ has been assigned the leading responsibility of leadership among actors in Germany and abroad for implementation of this strategy. These actions will necessarily relate to numerous Federal ministries, as Germany comes to grips with developing world problems ranging from trade to labour standards, many of which will require negotiations in high-level international contexts. It will be a challenge for BMZ to command the respect and collaboration of these various actors, many of which are politically influential and espouse a different mandate, so as to arrive at a coherent and developmentally impactful programme for poverty reduction implementation.

Another system issue in this respect is the historical organisational and budgetary division of aid responsibility between technical co-operation (especially GTZ) and financial co-operation (especially KfW). The distinction between these two forms of co-operation is not unique to Germany, but the Peer Review finds the utility of such a distinction increasingly under challenging the context of German development assistance. The GTZ is specialised in technical co-operation for capacity building and constitutional reforms; but only in connection with financial co-operation projects and programmes. In

the present situation of increased partnership in sector approaches and poverty reduction programmes, both organisations are called upon to work increasingly collaboratively. BMZ has attempted to deal with this issue through country and focal strategies for all German agencies in the field. As a pragmatic, interim step towards a more comprehensive solution to this issue, effort is now also being made to encourage joint GTZ-KfW field action in project design, implementation and evaluation. Some 12% of KfW projects are now joint projects with GTZ. While these are useful and productive measures, it would seem appropriate for Germany to now review the longer-term utility of maintaining this distinction between technical and financial co-operation, without losing institutional experience and knowledge.

Co-ordination at the level of the field is less structured than that within Germany and is undoubtedly more important in that actual use of public aid funds largely takes place there. KfW and GTZ manage the most important field activities, though there are also smaller agencies in the field, as well as the political foundations, NGOs, and church groups. A key principle of the German system is a functional division of responsibilities between policy management, mainly with BMZ, and field implementation, by other institutions, notably GTZ and KfW. These system characteristics were consistent with the requirement to deliver high quality aid projects, but increasingly look outdated in today's broader development environment, where the distinction between policy and operations is increasingly blurred and where initiatives such as the PRSP are encouraging much greater dialogue and decision-making in the field.

The extremely small number of qualified staff authorised by the Embassies to deal with development policy is now a major constraint on Germany's effective participation in these local policy debates. The German Embassy, staffed by personnel from the AA has responsibility for the relations between Germany and the country, including diplomatic and consular relations, commercial interests and development co-operation. In the case of some 20 Embassies, including Indonesia and Mozambique (which were visited for this Peer Review), there is a BMZ staff member seconded to the AA with the title of Development Secretary. The Embassy, particularly the Development Secretary, has the main responsibility for following policy issues. The Ambassador may help out, especially at the macro and political level, but there is much reliance on the implementation agencies, particularly GTZ, for substantive sector discussions. The issue of how to reinforce the ability to "represent Germany" in this new type of local development dialogue requires German government priority attention in the near future.

Given its lack of field presence, it also seems clear that attention is needed at the levels of improved communications between headquarters and the field, and towards more decentralised models of decision-making. Better system linkages would facilitate the relationship between the AA and BMZ working at different levels. System linkages should be developed to encourage the maximum field learning and networking among different institutional actors in the country. The continuous policy dialogues at the field level in Mozambique also called out for much greater delegation of authority to staff engaged in these dialogues. Such delegated responsibility for policy dialogue may involve rethinking the nature of the BMZ and GTZ relationship. In many countries GTZ already informally provides support to the Embassy, but its role is constrained in policy dialogue, as was made clear to the team in Indonesia. A relationship between the Embassy and the German implementing agencies in the country, which aims to allow the system to function more effectively at the country level, was formalised in 1996 (with GTZ) and 1998 with (KfW). This process should continue and should work toward including all relevant German actors in the country. One idea to promote additional coherence is to create a "German House" (similar to the GTZ concept of a German Development Co-operation office) at the level of the local German Embassy, which could broadly and flexibly co-ordinate the quality of overall German aid implementation on the ground.

Co-ordination between the organisations of the KfW and the GTZ has long been an issue within the German aid system, and was pointed out in the 1998 Peer Review. KfW, with the largest portion of ODA responsibility, is frequently not represented in the field. Field offices, where they exist, have only limited delegation of authority, mainly regarding progress reporting while the Frankfurt office continues to conduct project monitoring. GTZ has by far the largest number of personnel in the field. Project leaders normally report to Eschborn via a GTZ country director, who now has some decentralised authority to manage in-country operations. The GTZ Country Director is in close contact with the Embassy, and is increasingly being used to facilitate horizontal communications within the German community of actors. In both Indonesia and Mozambique, the GTZ office was close to the Embassy, which facilitated GTZ providing informal and ad hoc advice to the Development Secretary. In Indonesia, the KfW Director was also co-located with GTZ, which further facilitated internal communications. It is apparent that there is scope for more linkage between KfW and GTZ in target countries, e.g in participatory approaches for infrastructure programmes. This is particularly relevant for avoiding some of the criticisms of large-scale infrastructure projects, where attention to the social and environmental situation is essential. KfW leadership openly expresses a concern that the gradually diminishing budgets of recent years may soon oblige substantial rethinking of the financial co-operation role of the KfW in the future. Given its declining aid volumes and the utility of fostering closer collaboration with (particularly) the GTZ, it may be an interesting option to explore some form of institution fusion between them.

Human resources issues

BMZ currently employs 607 staff, including part-time personnel, of which the core professional staff is in the range of some 450 people, mostly located in Bonn headquarters. The work capacity and efficiency of this relatively small number of BMZ staff is further compromised by the relocation to Berlin of the Minister and selected administrative staff. For a variety of reasons, staff composition tends to be skewed toward the higher ranks. Because relatively few positions in the BMZ require narrow technical backgrounds, a generalist approach to personnel selection is currently favoured, and is augmented with directed specialised training, including secondments to Embassies and the German implementation agencies and exchange programmes with other donor organisations. Extensive use is made of implementing agencies for more operational technical backstopping so that, while not formally part of the BMZ personnel system, they frequently act as logical extensions of it. Thus in particular GTZ's structure – organised in sector networks in the field and sectoral divisions at Head Office – serves to provide BMZ with consultancy in cross-project sector issues, as well as in formulating sectoral policies and focal area strategy papers.

Personnel policy on leadership and staff development has been defined in a formal text that was drafted co-operatively by the senior administration and the BMZ personnel council. It outlines a modern approach to personnel leadership and development, encourages co-operative leadership, and employee empowerment and teamwork. Those in BMZ who are responsible for personnel and staffing see their mandate as a proactive one and point out that their location within the directorate for strategic planning and co-ordination places them organisationally in a position to participate in the future layout and tasks of the BMZ. The personnel department seems already engaged in thinking toward the challenges of the future, such as capacity building in new technical areas, strengthening of employee negotiation and arbitration skills, and a more flexible capacity to deal with the demands of the field.

Extrapolation of current trends and statistics highlights some significant issues for the future, some of which can be potentially exploited in a manner that strengthens the operations of the BMZ.

- i. The expected government-wide **1.5% annual reduction of overall staff levels**, including the BMZ, will continue to reduce the ability of the organisation to undertake its existing tasks. This is especially pertinent when new, more politically visible and higher priority tasks (poverty leadership, screening of new laws for coherence, etc.) are being assigned to it. The current staffing level and skill mix will have to be substantially rethought given the conceptual and organisational changes. Such major transitions will require substantial advance thinking and preparation to ensure the right personnel mix.
- ii. The **retirement of senior officials** (Division Chiefs and above) presents an opportunity to renew the leadership of the ministry. BMZ statistics show that over 70% of the 63 executive staff will reach retirement age within ten years, and over one-half of that number will do so within three years. Significant turnover of lower level staff is expected, as well. This significant loss of current BMZ leadership is both an obvious challenge to stable ministry management, and an opportunity to renew the leadership of the organisation in a manner more compatible with its changing image. For example, the BMZ acknowledges a need to increase substantially the proportion of female employees, who represent only 17.5% of the total at the senior executive level. Renewal of the leadership will be a key parameter of organisational change for the BMZ and offers the perspective of a rapid evolution of the BMZ organisation into a more gender balanced, younger and newer organisation.

Finally, it should be noted that this section has only focused on human resources issues of the BMZ, but, because Germany allocates responsibility for aid delivery to a wide range of “contractual” actors, it is important to reflect on the broader system. As Germany attempts to further organise the joint effort of all development agencies around a common vision, it will be important to think through human resources policies for the various parts of the system in an increasingly co-ordinated and integrated manner.

Monitoring and evaluation

An emphasis on improving the effectiveness of monitoring and evaluation (M&E) in the German development system has gained momentum in the last few years. Since 1998, the Government has expressed a strong commitment to improve its ability to ascertain and verify concrete results, largely as a response to demands from Parliament and other stakeholders. Development co-operation has to demonstrate results to the public in order to maintain support. The emphasis on M&E is also a direct result of the increased accountability necessitated by reductions to the overall German budget. At the same time, it has become necessary to rethink evaluation procedures because of a changing international consensus on best practices of development co-operation. For example, a general move away from a project approach to more sector and thematic approaches has had a profound impact on evaluation strategies.

This effort to reshape the German M&E system was set in motion following a study conducted in 1998 by the Hamburg Institute for Economic Research³⁴. Taking the “DAC Principles for Evaluation of Development Assistance” as guidance, the study is now recognised as having made significant contribution to the simplification and the upgrading of the evaluation function within the broader aid

34. For further reference, see “*Evaluation of German Development Co-operation – Analysis, Assessment and Reform*”, 1999, and “*Reform of Evaluation in German Development Co-operation – Follow-up*”, 2001.

system. Recommendations addressed methodological, organisational and institutional challenges. The reform of the M&E process aims at facilitating “learning” in the system, which has become a central element of the overall reform process and whose goal it is to improve strategies of knowledge management. A follow-up review in 2000 found that a reformed evaluation process was being put in place in the different development co-operation agencies. These developments triggered an extensive rethinking of not only how the German system monitors performance of its programmes, but also how information is handled and shared in the context of the complex multi-institutional set-up of the German development system. The reform of evaluation came to be a catalyst for broader system reform and triggered a more fundamental rethinking of the existing structures.

The institutional structures for managing evaluation in the German system are generally located in the different individual implementation agencies, and, for the moment, are loosely co-ordinated, or not at all. The BMZ role within the overall M&E system is technically one of oversight, co-ordination and standard setting for the various agencies, which are generally contractually bound to the BMZ standards. Internal to BMZ, evaluation, the management control, and audit have now been woven into a “Quality Enhancement and Improvement” cluster, which provides the leadership in the M&E area. As for the individual implementing agencies, their M&E organisation and output varies considerably. According to the Hamburg Institute study, the KfW and the GTZ, through which two-thirds of German bilateral ODA is channelled, have a comprehensive, methodologically sound and adaptable evaluation system, which is used in the planning, implementation and final phases of projects. However, the units in charge of evaluation in both agencies were found to be too administratively dependent on the implementation side of their organisations to permit independent and therefore, credible, evaluations. Both agencies have subsequently addressed this weakness by empowering their evaluation units with independent authority. The evaluation systems of the non-governmental organisations, including the political foundations, are generally less well established, depending on the size of the organisation and the nature of the projects undertaken. For example, the democratisation and good governance projects of the political foundations are difficult to evaluate. A conscious attempt is now being made by the government to improve the efficiency and effectiveness of its aid by better linking feedback loops of all agencies to create an overall learning system, which can then feed into the formulation of new German policies and programmes. Improved availability of information for all members of the system will be addressed through use of Intranet-based information and documentation systems and a variety of workshops, briefings, and training courses. Despite these innovations, however, the facilitation of horizontal learning among the different actors poses a structural challenge because of the vertically organised nature of the German system.

For all agencies within the broader system, the real issues relate to the gap between the theories expounded at headquarters and realities of monitoring and evaluation actually practised in the field. The system for M&E is based on data gathered by the implementation agencies at the project level. This information is sent vertically to their respective headquarters, which has considerable latitude in determining the final use of the feedback. The Embassy, while generally copied on this feedback, rarely has the time to make use of it, or even offer comment. Although are made to co-ordinate information in the field, horizontal learning among actors is difficult. In Mozambique, the heavy burden of donor co-ordination confronted by the lack of capacity in the Embassy affected the ability of the system to share information, particularly between KfW and GTZ projects. In Indonesia, however, the “cluster” approach, the field presence of KfW, and the joint office with GTZ did contribute to more horizontal learning between these two agencies. In both cases, however, other donors believed that Germany did not contribute as much as it might to the learning by donors and government within a particular sector. This collective learning did not appear to be a local priority for the German system.

Regarding the substance of evaluations, prior to the reform of 1998, the BMZ was mainly doing project, thematic, sector and instrument evaluations, which were collectively demanding on staff resources. After the reform, project evaluations were assigned to the GTZ and the KfW, with the requirement to use DAC evaluation guidelines and to do so with independent experts. BMZ has now taken over country-level evaluations and broader thematic evaluations and does so essentially with independent consultants. The country reports are translated into local languages, where possible, to enhance local feedback and collaboration. Germany believes in the involvement of developing country partners and stakeholders in the process of evaluation, but it also admits to little significant progress in this area. The German system has also had difficulties in assessing the sustainability of its contributions. With the exception of the KfW, *ex-post* evaluations have been rare among other parts of the German system, although this is now one of the focal points for reform in the GTZ. In 2000, BMZ finished a comprehensive *ex-post* evaluation of completed development co-operation projects to assess the long-term impacts of German development co-operation. Many of these issues are not exclusive to the German aid system so collaboration among donors is important. Germany is an active participant in the DAC Working Party on Evaluation.

CHAPTER 6

COUNTRY OPERATIONS

The key issue for Germany at the country level is how to implement the Programme for Action on Poverty Reduction 2015. Implementation will be helped by Germany's new country strategy process, which reduces the number of focal sectors, which will facilitate the engagement of Germany in the sector and other co-ordination mechanisms that are a feature of development co-operation in many countries. In some priority countries Germany will need to re-orient its activities, though it can be expected to maintain its reliance on experienced staff designing and implementing high quality projects. In low-income countries, Germany will give support to the PRSP approach, recognising that there is much still to be learned. Since this approach is new, there are implications for staffing and organisation at country level and some greater risks, especially in financial management. Germany has designated some priority countries as pilots for its PRSP approach. It is still an open question whether Germany will be able to make the changes necessary to implement its poverty reduction programme in the rapidly changing country context for development co-operation.

Changing contexts for Germany's development operations

Many least developed countries and some low-income countries in Germany's priority list (See Chapter 2, Table 2) have ongoing arrangements for producing **PRSP**, in collaboration with the World Bank/IMF and other donors. The PRSP, a new instrument in development co-operation, is an overall country development strategy that is country owned, as a result of a participatory approach involving the government and civil society. Although it is intended that donor support for a country's PRSP will increasingly be in the form of budget support for the whole programme, under the control of the Ministry of Finance, there are few examples at present, but the numbers are expected to rise substantially in future years. Most of these PRSP countries are presently in Africa, but there are also examples from other regions where Germany has priority countries e.g. Albania, Bolivia, Honduras, and Vietnam.

While the **project approach** remains central to Germany's development co-operation, several donors in Germany's priority and partner countries are now engaged in a **shift from a project to a sector approach**. At the minimum, the sector approach involves an analysis of the whole sector, which is shared by all donors, the government, and other stakeholders, and which is used as a framework for donors' sector strategies. In formulating the understanding of the sector, the donors are engaged increasingly in policy dialogue with the government and each other, in order to determine priorities for action. In their implementation activities, donors also give increased attention to co-ordination among themselves, with the government, and with other stakeholders. Most donors are involved to a greater or larger extent in the above-mentioned elements of the sector approach, and are aligning their activities with the commonly owned whole sector analysis. There are many examples of such sector approaches in developing countries. There is more controversy among donors, however, about the full

sector-wide approach (SWAp), which entails pool funding to support the sector Ministry activities. Some donors are very positive about the benefits of such funding arrangements, presumed to encourage country ownership, to facilitate effective priority-setting, and to reduce the administrative burden on the country. Other donors are more sceptical whether these benefits will be realised in practice, and point to the risks associated with weak systems of financial management and limited government capacity to manage the SWAp. There are accordingly fewer examples of the full SWAp than there are examples of sector approaches in general. Overall many donors are seeking to achieve an appropriate balance between projects and sector approaches in their aid portfolios.

Field missions to Indonesia (28 May to 1 June 2001) and Mozambique (4 to 14 September 2001)³⁵ have greatly enriched the peer review team's understanding of these different country contexts for Germany's development co-operation. Separate field mission reports are available. In brief, Indonesia is a middle income country which had been undergoing a period of political instability resulting from accusations of corruption against the then government (now replaced). A major decentralisation programme was also in preparation. Good governance and decentralisation are key issues of importance to German development co-operation, and Germany was becoming engaged in sector discussions with other donors. In contrast, Mozambique is a least developed country, recovering from previous internal conflict, and now in the forefront of the PRSP approach. While there are numerous donor co-ordination mechanisms at different levels, the government's capacity to engage in these discussions is limited. Germany has designated Mozambique a pilot country for developing its PRSP approach.

The sector approach and the PRSP pose **several challenges** for donors, including Germany, notably the extent to which they will be able to amend their own administrative arrangements to reduce the burden on the country's capacity. Ideally this should be done by backing the policies set out in the sector strategy or PRSP; by strengthening the government's capacity to manage the process; by sharing information and analysis; by co-ordinating implementation with other donors; and by developing co-ordinated systems for monitoring and evaluation of results. As noted above, there is some debate about the extent to which donors are also obliged by the PRSP to provide funding support to the government's whole budget (managed by the Ministry of Finance) or by the sector approach to provide a form of pool funding to the sectoral Ministry. Discussions of such policy issues require adequate donor staffing and systems for engaging in the policy dialogue with the government and other donors.

These country contexts provide a challenging environment for Germany's implementation of its **Programme for Action for Poverty Reduction 2015**. The following sections consider how Germany approaches policy dialogue and enhanced processes of donor co-ordination at national, sector, and programme levels. The discussion is largely based on the peer review observations of Germany's implementation policies and organisation in Indonesia and Mozambique.

National level

In many countries, including Indonesia, the multilateral agencies tend to conduct the macro-level policy dialogue, and engage donors in the **Consultative Group**. This approach is changing with the emergence of the **PRSP**. This provides participating countries with an overall framework for co-ordinated donor engagement in policy discussions regarding poverty reduction. In Mozambique, for example, the PRSP was discussed extensively and is now the agreed framework for all donors, including Germany. Further co-ordination and policy dialogue takes place in Mozambique at the

35. The reports of these field notes are at Annexes 4 and 5.

macro-level, where there are two major mechanisms for co-ordinating donor activities – the Development Partners Group, and the Macro-economic Support Group. Germany has made the PRSP the overarching framework for its development co-operation in certain countries. Some of these (e.g. Bolivia and Mozambique) have been designated PRSP pilots.

In both the Indonesian and the Mozambican contexts, Germany takes part in donor co-ordination meetings. BMZ participates in Indonesia's Consultative Group meetings. When country-based discussions deal with political issues, such as in the Mozambican Development Partners Group, the Ambassador normally takes a leading role. In Mozambique, Germany has, since recently, the status of an observer in the macroeconomic support group and only joins the group if there are specific issues to be discussed, like PRSP. The basis for the involvement of nine donors³⁶ is an agreed common funding mechanism for direct budget support. Germany had used budget support for emergency aid and structural reform activities, and is now considering joining the group of donors providing macro-economic support thus seeking member status, since Mozambique is following IMF guidelines. Such a move may be justified in Mozambique because the multilateral agencies consider that the government has made good progress in public sector financial management, and that budget support will lead to further useful reforms. If Germany becomes a member of the Group, KfW might second a macro-economist to participate in the regular dialogues between the members of the support group and the government of Mozambique. Other potential co-ordinating mechanisms for Germany are outlined in Box 4.

Box 4. Germany's participation in European co-ordinating mechanisms

The **European Union** is an important co-ordinating mechanism for its members in several areas. As was noted in Chapter 3, Germany already has a substantial contribution to the EC aid programme and is an advocate of the role of the European Community as a co-ordinating mechanism in Brussels. Germany is also supportive of further EU co-ordination in the field. In prioritising its development co-operation, Germany is withdrawing its bilateral aid from countries that are not on the priority list, and Germany will make greater use of the EC channel in those countries where the EC has a presence. The details of how this will be arranged are not yet clear.

Germany is also a member of the **Utstein Group** (with the Netherlands, Norway and the United Kingdom) which aims to influence the international development community's approach to poverty reduction. In the joint visit to Mozambique, and also in Indonesia, the Utstein process appeared to have little impact at the level of field implementation.

The PRSP, supported by donors but led by the government, is intended to facilitate **government ownership** of the development process. Germany favours the approach and the formal policy statements appear to encourage government ownership, but the practice of keeping German control of important areas, such as financial management, gives a different signal. Germany is hesitant to use budget support, because of accountability issues, but has started to experiment when conditions appear right. Having long term relationships with its priority countries, Germany usually has a very good understanding of the political and institutional structures of a country. In the countries visited by the peer review team there were very good reasons for being cautious: Indonesia's corruption does not inspire confidence in any donor; and Mozambique's lack of capacity to manage is a source of concern. However, in both these cases, other donors were trying to find more supportive mechanisms, even

36. Specifically, this includes Belgium, Denmark, European Community, Ireland, the Netherlands, Norway, Switzerland, Sweden, and the United Kingdom. Interesting to note that Germany is the one member of the Utstein Group (see Box 2) that is not yet involved in the Macro-economic support group.

when they shared Germany's doubts about some aspects. Germany's willingness to join with other donors in Mozambique to find solutions to the issue of ownership, while tackling the issue of capacity, is an encouraging signal.

Germany has seen the need to work on **good governance** and to engage in policy dialogue on corruption. Germany has already raised the issue in Indonesia and other middle income countries where there is German public scepticism of the role of development projects, but it is also essential for the development of budget support and programme aid to secure donor confidence. In Mozambique, the recent banking crisis has affected donor confidence since, because of fungibility of budget support, there are macro-economic implications of any plan to resolve these private sector problems. In the context of the PRSP, where there is a more co-ordinated approach, there is a need to reach common agreements with other donors. It is the German position that, in principle, the following aspects should be examined and a generally positive assessment should be reached before a German decision is made to contribute to a Poverty Reduction Strategy Credit, aimed at supporting partners' poverty reduction strategies with non project-tied financing: Development orientation of state action, stability of the macroeconomic framework, transparency of budget planning, implementation and control, participation of the people in the political process, and legal certainty.

The **country strategy** process is being reformed. As noted in Chapter 2, Germany has reduced the number of focal sectors to three in each priority country. Both in technical and in financial co-operation there is a shift to the new focal areas – allowing financial co-operation projects of all sectors under implementation to come to an end, while within GTZ-led programmes there is an exit strategy for non focal areas. From now on, new commitments for projects outside the core sectors of bilateral co-operation will be the exception, thus ending the bulk of non-core activities within the next few years. This will not only be the case for GTZ and KfW but also for the project activities of DED, CIM, CDG and DSE. Nonetheless, it will clearly take some time to reduce the numbers of activities since there are ongoing contractual commitments. Except in financial co-operation, there remain a wide range of activities in Mozambique and Indonesia. The criteria for the selection and the exit strategy have to be worked out in each separate case. In Indonesia, the team was not aware of any discussion of the performance necessary to show that German partnership was succeeding, so it was not clear how this consideration affects its country strategy. There is a risk that the process of sector selection could reinforce the idea that Germany will be involved in the selected sector without end.

The country strategy is an internal management document of BMZ, built on discussions with the partner, different analyses and reports drawn up within the German aid system and by other donors (e.g. Socio-economic analysis, Socio-cultural analysis, WB-Country Assistance Strategy, EU-Country Assistance Strategy). It provides a broad analysis of the framework conditions for development co-operation in the country, core problems areas and potentials, a judgement on the priorities and results of previous German support and also judgements on the priorities of future support which are then discussed with the partner. Once agreed in bilateral negotiations with the partner, the priority areas are then picked up in more detail in priority strategy papers for each priority area that are developed together with the partner.³⁷ Given this process, Germany regards its activities as being demand-led, and the identification of priorities officially begins with discussions with the authorities in the country concerned, as well as consultation with other donors, local specialists, and implementing agencies. In Indonesia, Germany certainly appeared to be demand-led, changing its regional orientation in response to the government's request to have a different geographical spread of activities, putting more emphasis on poorer and more remote islands. In Mozambique, however, this

37. This instrument was tested in a pilot phase from early 1999 and is now used as an official instrument in bilateral co-operation.

was less apparent. Mozambican government capacity to have a dialogue with partners is limited, so the specific activities were identified through processes of German-to-German discussions, both in country and in Germany.

While a demand-led system has much to recommend it, it bears the risk of resulting in a wide range of activities. In this context the effort of sectoral concentration, of writing priority strategy papers and of subscribing to the PRPS-approach are very helpful. Germany should also use this approach to engage more effectively in policy discussions to identify the demands of the country as a whole. In this process it could much more effectively bring in the good knowledge by German personnel of local conditions and political realities. Through the process of elaborating priority strategy papers, Germany is increasingly encouraging the strong involvement of the recipient country. This is done through participatory workshops involving different stakeholders in the country concerned. This participatory process will be particularly important in countries where there is a country-led poverty reduction strategy.

It is especially important to reduce the burden on countries that lack administrative capacity but it is often difficult, as in Mozambique, to deal with German programming requirements. The process of selecting priority areas and of drafting and discussing priority strategy papers should be used to uphold host country ownership while reflecting the principles and policy interests of German development co-operation such as human rights and the Programme of Action 2015. Even under conditions of weak administrative capacity devising and implementing a common strategy should be an inclusive process of building on local feedback from the start to avoid it to become driven too much by the different German actors.

The present **budgeting system** of allocating funds to projects³⁸ can create problems in the country. In Indonesia, it appeared that there is an extra administrative burden for the country's government when similar projects have different funding instruments, financial conditions and reporting arrangements. As the team saw in Mozambique, Germany is now considering a move in the direction of attributing its aid within a pool funding approach, when conditions are right, particularly regarding the financial management by the country concerned. As is the case with other donors that are cautious about the benefits of these aid modalities, Germany regards such arrangements, if eventually agreed, as an experiment from which to learn. Whatever final arrangement Germany makes regarding pool funding, there should be action to reduce the administrative burden on partner countries resulting from the present arrangements for budgeting. This ought to be an objective of reforming the country strategy process.

Sector level

The German policy of increasing concentration on a limited number of sectors has been worked out in a detail at the country level. Following this reform of the country strategy process, Germany is now drafting and discussing **focal sector co-operation strategies** together with the partner country so that there is a common understanding of the contribution of German official development co-operation towards common goals and outcomes in the priority sector/focal area. This also includes the co-ordination with the support of other donor partners in the sector. Guidelines for drafting of focal area strategies are now complete and country-specific applications of the guidelines are already

38. There is a cascade system that allocates funds to grants, loans, technical assistance and so on. These funding instruments are then allocated to projects as they are identified. When one budget has been used, new projects must seek funds from a different source. This process may result in different terms and conditions for similar projects.

underway. These strategies provide a good framework for engaging in the support for PRSPs and sector policy dialogue that is increasingly a feature of development co-operation in many countries. It can also provide the basis for more programme-oriented support.

Other donors express concern that Germany does not take sufficient account of sectoral issues in pursuing its projects. Although Germany is an active participant in the PRSP in Mozambique and the sector discussions in Indonesia, there is some criticism that Germany's focus on projects prevents a full engagement in policy dialogue within the sector. This is regrettable since Germany's understanding of the micro level realities in its partner countries gives it a good opportunity to engage in such sectoral dialogue. It may be that this weakness arises from the lack of BMZ presence in the field, and the formal requirement for the implementing agencies to focus on technical issues rather than on policy discussions.

Germany is very keen to be involved in the **sector policy dialogue**, and there are management efforts to move increasingly in this direction to increase impact. Germany brings a great deal of experience to the debate in its priority sectors, and within all these sectors, Germany co-ordinates with all development actors, being open to develop its partnerships further. Germany participates actively in the sector co-ordination mechanisms in Mozambique and other partners appreciate the German contribution to the development debate within the country. Increasingly Germany is trying to bring its activities into line with a commonly held sector analysis. Support to decentralisation in Indonesia provides a good example, which involves a series of well-integrated projects operating at macro-, meso-, and micro-levels. These projects are backed up by sector analysis. This approach allows Germany to develop a supportive environment for the field activities, while at the same time having the on-the-ground experience to engage effectively in policy dialogue.

Regarding **donor co-ordination**, the sector discussions have also led to Germany's greater awareness of other donor activities. In Indonesia, Germany was aware of what other donors were doing in the same sector and had even encouraged visits from related projects. Germany had also agreed with the Indonesian Government to move its activities in some sectors in order to give a better coverage of the country. Similarly, in Mozambique, where there are numerous mechanisms for sector co-ordination, Germany has planned its refocusing on specific sectors with due consideration of where other donors are working. However, Germany has some concerns, shared by some other donors, that there are too many co-ordination mechanisms in Mozambique, which contribute to an extra burden for both government and donors.

In these sector discussions, GTZ often plays a useful role because of its strength on the ground and its sectoral expertise. Because of the German hierarchical system, GTZ personnel have very limited scope for policy dialogue, though there is a perceptible difference between the approaches in Indonesia and Mozambique. The latter is one of Germany's PRSP pilots, and there appears to be more willingness by BMZ to experiment with the German system, delegating more authority to engage in policy dialogue to GTZ than is the case in Indonesia.

Regarding **pool funding**, no donor was going this far in Indonesia, but in Mozambique the conditions are considered by some donors to be favourable. While Germany is generally reluctant to be involved in pool funding arrangements, Germany already participates in such an arrangement in the course of implementing the Emergency Rehabilitation of Flood and Cyclone damaged Electrical Infrastructure, jointly established with Denmark and Norway. Germany is also preparing a budget contribution for the education sector in Mozambique. Germany wants to take part in an experiment with pool funding approaches in Mozambique, because it is a pilot country for its poverty reduction approach, and some

donors³⁹ have started a FOREX account, which appears to meet German requirements for sound financial management. For the Mozambique experiment to go beyond the pilot stage, it will be important that countries develop adequate financial management arrangements to satisfy the requirements of the German system.

In Mozambique, the Poverty Reduction Strategy Paper process has reinforced the strategic policy framework and increased policy dialogue, and in Indonesia too there was increased attention by donors to sector discussion with the government. Germany's field personnel are trying to respond to some of the requirements of this shift in activity. However they are frequently constrained by the hierarchical and fragmented nature of the German system. In order to make the system work more effectively, they feel the need to pay attention to co-ordination between the German actors in the country. They also try as far as possible to overcome the limitations of the formal rules for the hierarchical relations with several institutional actors in Germany, by using informal channels of communication, but are conscious that informal contacts are discouraged within Germany's system.

Project/Programme level

The primary focus of the German approach has been delivering high quality development **projects**, which is recognised by most other donors. The high quality results from German attention to good project design and good project implementation. The majority of projects comprise financial assistance, managed by KfW, and technical assistance, managed by GTZ.

Germany's **technical assistance** represents 29% of its aid budget. GTZ is the primary source of this technical assistance, and frequently will integrate technical assistance from other German sources (e.g. DED and CIM). In both Indonesia and Mozambique, technical assistance is mainly provided by Germans or other expatriates, and both governments expressed the opinion that this presence was large and too expensive.⁴⁰ The government officials in both countries expressed a preference for use of local or, potentially, third country experts, who have a clearer sense of cultural constraints, frequently use local languages, and take up a smaller proportion of German aid resources. There was a tendency in Indonesia for Germany to recruit more local consultants, but the weak local capacity in Mozambique discouraged a similar trend there. Based on this field review, and taking account of DAC guidelines on technical assistance, Germany should look at its technical assistance, particularly in the low-income countries where capacity constraints pose particular difficulties. It is clear that technical assistance is essential in such countries, but Germany should review particularly the precise modalities used including the potential for pooling technical assistance resources with other donors.

Germany is keen to improve administrative efficiencies and development effectiveness of its projects. Germany is concentrating its aid on focal areas and countries as well as to a smaller number of thematic areas. This change has led to a movement in the direction of programmes leading to stronger structural effects. German programmes are intended to intervene on three different levels: the micro level (target group), the meso level (e.g. intermediate institutions, NGOs, local governments, parastatals, universities) and the macro level (central government). In Indonesia, there has been some recent regrouping of projects into "clusters," aligned with the sector approach. In Mozambique, the

39. Only the United States and the European Community were contributing directly to the sectoral Ministry's budget, while other donors, including Denmark, Ireland, the Netherlands, Sweden, and the United Kingdom, had established a FOREX account to meet their own budget regulations.

40. The KfW, in contrast, is noticeable in its lack of German presence in the field, and places emphasis on project visits arranged from Frankfurt.

German projects, already aligned with the sectoral focus, are now located in three provinces which eases administration costs.

The key issue at the programme level is how Germany is to enhance the **poverty reduction focus** of its sectoral programmes. While projects will probably remain a central feature of these programmes, especially in middle income countries, there is some indication that Germany is seeking to enhance the poverty orientation of its projects in such countries. It should be noted, of course, that many German projects already contribute to poverty reduction, whether directly or indirectly⁴¹. Increased co-operation between KfW and GTZ on project design and implementation of large scale financial co-operation projects, a feature of the evolving German approach in Indonesia, is likely to lead to better poverty targeting in that country. In addition, in KfW there has been a shift of emphasis from large infrastructure projects to more attention to financial co-operation in the social sectors in Indonesia, as another way to address the concerns of poverty reduction. In addition to these changes in orientation, there will be a need for deepened poverty analysis of the country as the basis for further programme formulation and project selection.

In low-income countries the emerging strategy for implementing the Programme of Action 2015 will primarily focus on use of the PRSP process. About four countries have been designated PRSP pilot countries, where Germany will learn about the requirements for responding to this new framework. Learning from the pilot experiment will require clear mechanisms for learning. The review team noted that the German field personnel in Mozambique had not been informed about the practical consequences of working in a country which is considered by the German government as a pilot case for poverty alleviation. A number of features of the German approach to the PRSP agenda are:

- i. **Discrepancy between expectations and reality in some PRSP countries.** Many donors, including Germany, regard the PRSP as an operational mechanism in which donor co-ordination takes place. However, while this reflects reality in other countries, it was apparent in Mozambique that the PRSP (known as PARPA) is an overarching strategic framework, but has few operational mechanisms. It is therefore important for Germany to take account of field realities in developing its PRSP approach, by putting in effective learning mechanisms.
- ii. **Monitoring and evaluation (M&E)** of the poverty reduction approach will be a methodological problem for all the donors involved in the PRSP. There appears to be an assumption among donors, including Germany, that PRSP mechanisms will be created for the M&E of the programme. In countries such as Mozambique where there is very limited government capacity, it is difficult to see how such an M&E system will be established within the PRSP.
- iii. **Importance of sector dialogue.** As noted above, operational co-ordination increasingly takes place within a sector dialogue, which Germany strongly supports. Germany's own refocusing on three priority sectors increases its ability to become engaged in this dialogue, and in the Mozambique pilot the whole programme was moving in the direction of more co-ordinated efforts with other donors. (This was also the case in Indonesia, which is not a PRSP country). The increased attention of all donors to policy dialogue puts pressure on the small number of staff in the field who are authorised to

41. Passenger vessels in Indonesia, for example, facilitate the movement of ordinary people and goods of small entrepreneurs, and have proved essential for emergency evacuations during conflicts. Germany is one of the few donors engaged in this transport sub-sector.

discuss policy issues, and suggests reconsideration of the relationship with GTZ whose staff are more numerous but presently limited to participating in technical discussions.

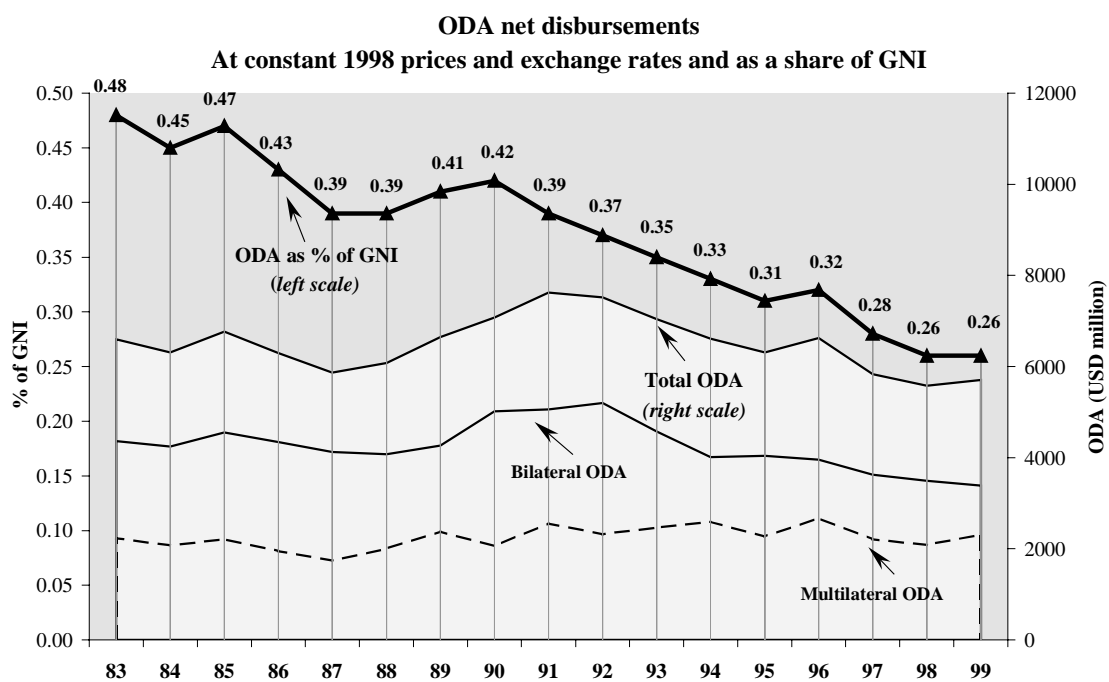
- iv. **Pool funding arrangements (budget support and sectoral programme aid).** Germany will increase its involvement in programme joint financing with other donors in co-operation countries with satisfactory general conditions, especially wherever that is in line with the priority area strategies agreed with the co-operation countries. BMZ has drafted a position paper outlining its expectations and possibilities of contributing to different forms and approaches to programme financing. Important conditions include the responsible use of budget funds, the meeting of agreed development policy quality standards and a feasible approach towards the issue of sustainability. Also in Mozambique, in line with principles, Germany is interested to participate in these experiments and reform processes, while recognising that the recent banking crisis in Mozambique has undermined donor confidence.

ANNEX 1
STATISTICS OF AID AND OTHER FLOWS

Table I.1. **Total financial flows**
USD million at current prices and exchange rates

	<i>Net disbursements</i>						
Germany	1983-84	1988-89	1995	1996	1997	1998	1999
Total official flows	3 778	5 999	17 041	10 032	6 500	10 398	6 333
Official development assistance	2 979	4 839	7 524	7 601	5 857	5 581	5 515
Bilateral	1 985	3 173	4 815	4 535	3 639	3 491	3 278
Multilateral	995	1 666	2 709	3 066	2 218	2 090	2 238
Official aid	n.a.	n.a.	4 514	1 329	660	654	729
Bilateral			4 107	886	302	239	242
Multilateral			407	442	358	415	487
Other official flows	799	1 160	5 003	1 103	- 17	4164	89
Bilateral	800	1 161	5 284	1 435	272	4448	225
Multilateral	- 2	- 1	- 280	- 332	- 288	- 284	- 136
Grants by NGOs	376	687	1 186	1 105	973	1 058	1 090
Private flows at market terms	2 602	5 292	10 469	16 370	21 757	35 525	27 860
Bilateral: <i>of which</i>	2 227	4 823	10 173	16 183	21 561	34 199	28 089
Direct investment	774	1 871	7 307	6 464	8 982	11 373	10 817
Export credits	443	848	3 991	2 564	2 050	2866	1 497
Multilateral	375	469	296	187	196	1 327	- 229
Total flows	6 757	11 979	28 696	27 507	29 229	46 982	35 283
<i>for reference:</i>							
ODA (at constant 1998 \$ million)	6 457	6 366	6 313	6 628	5 838	5 581	5 704
ODA (as a % of GNI)	0.47	0.40	0.31	0.32	0.28	0.26	0.26
Total flows (as a % of GNI)(a)	1.06	0.99	0.87	0.88	0.94	1.05	0.96

a. To countries eligible for ODA.



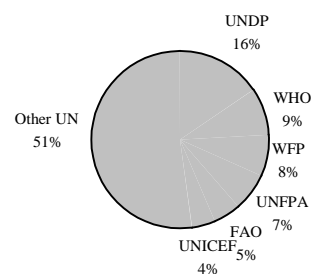
Source: OECD.

Table I.2. ODA by main categories

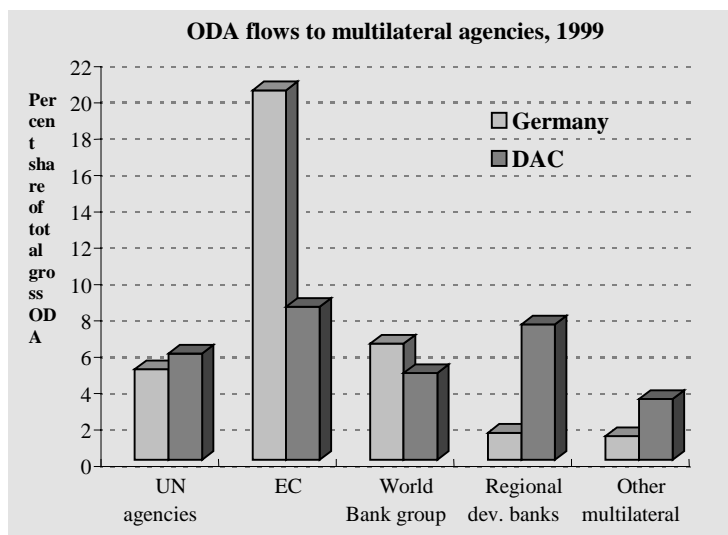
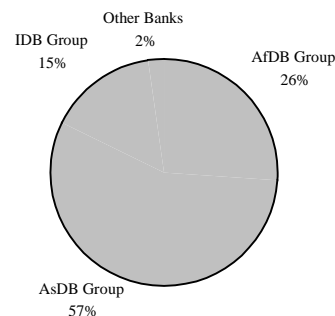
Germany	Constant 1998 USD million					Per cent share of gross disbursements					Total DAC 1999%
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999	
	Gross Bilateral ODA	5 169	5 278	4 697	4 554	4 412	69	66	68	68	
<i>Grants</i>	<i>3 685</i>	<i>3 930</i>	<i>3 395</i>	<i>3 315</i>	<i>3 346</i>	<i>49</i>	<i>49</i>	<i>49</i>	<i>50</i>	<i>50</i>	<i>55</i>
Project and programme aid	553	624	610	647	662	7	8	9	10	10	12
Technical co-operation	2 080	2 090	1 950	1 988	1 977	28	26	28	30	29	21
Developmental food aid (a)	105	38	45	40	33	1	0	1	1	0	2
Emergency and distress relief (a)	368	257	204	173	271	5	3	3	3	4	7
Action relating to debt	327	675	336	183	115	4	8	5	3	2	4
Administrative costs	242	238	234	268	276	3	3	3	4	4	5
Other grants	9	9	15	15	12	0	0	0	0	0	4
<i>Non-grant bilateral ODA</i>	<i>1 484</i>	<i>1 348</i>	<i>1 302</i>	<i>1 239</i>	<i>1 066</i>	<i>20</i>	<i>17</i>	<i>19</i>	<i>19</i>	<i>16</i>	<i>16</i>
New development lending	1 453	1 266	1 234	1 179	948	19	16	18	18	14	15
Debt rescheduling	-	42	24	38	79	-	1	0	1	1	0
Acquisition of equity and other	31	40	44	22	39	0	1	1	0	1	1
Gross Multilateral ODA	2 285	2 686	2 222	2 100	2 323	31	34	32	32	34	30
UN agencies	260	273	258	340	336	3	3	4	5	5	6
EC	1 324	1 182	1 322	1 236	1 369	18	15	19	19	20	8
World Bank group	630	1 020	345	341	431	8	13	5	5	6	5
Regional development banks (b)	19	55	170	111	100	0	1	2	2	1	7
Other multilateral	52	157	127	72	88	1	2	2	1	1	3
Total gross ODA	7 454	7 964	6 919	6 654	6 736	100	100	100	100	100	100
Repayments and debt cancellation	-1 141	-1 336	-1 081	-1 073	-1 032						
Total net ODA	6 313	6 628	5 838	5 581	5 704						
<i>For reference:</i>											
ODA to and channelled through NGOs (c)	432	422	433						
Associated financing (d)	-	-	-	-	-						

- a. Emergency food aid included with Developmental food aid up to end 1995.
- b. Excluding EBRD.
- c. Germany did not report ODA channelled through NGOs in 1996 and 1997.
- d. ODA grants and loans in associated financing packages.

Contributions to UN Agencies
(1998-99 Average)



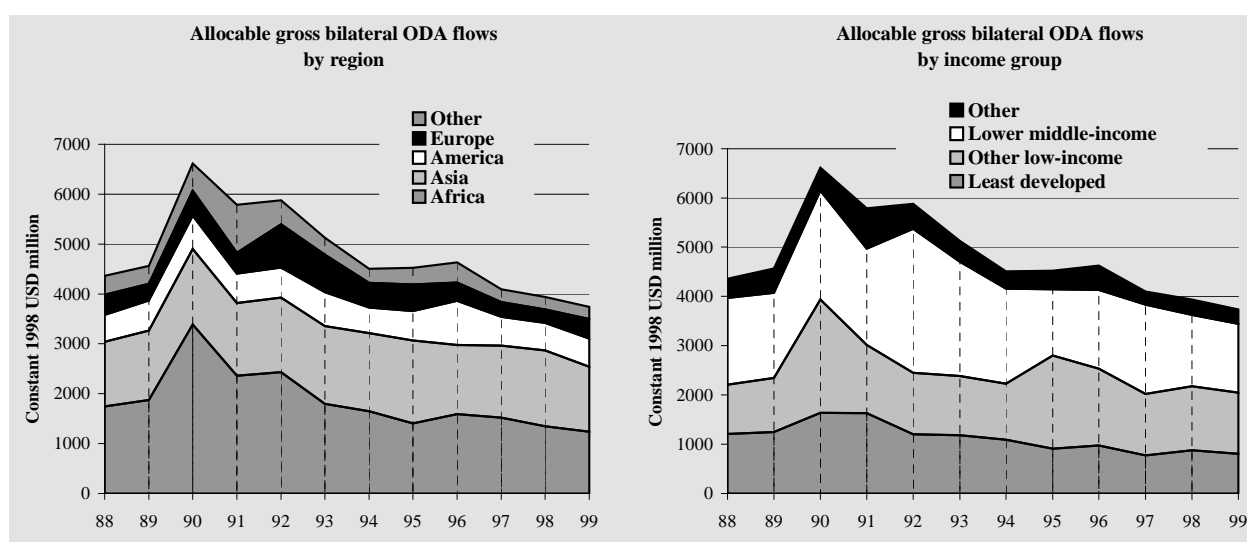
Contributions to Regional Development
Banks (1998-99 Average)



Source: OECD.

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

Germany	Constant 1998 USD million					Per cent share					Total DAC 1999%
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999	
	<i>Gross disbursements</i>										
Africa	1 405	1 594	1 521	1 350	1 239	31	34	37	34	33	33
Sub-Saharan Africa	1 096	1 098	954	1 067	983	24	24	23	27	26	26
North Africa	309	496	567	284	255	7	11	14	7	7	7
Asia	1 660	1 385	1 442	1 519	1 302	37	30	35	39	35	39
South and Central Asia	577	521	459	536	471	13	11	11	14	13	12
Far East	1 082	864	983	983	831	24	19	24	25	22	27
America	597	883	577	550	565	13	19	14	14	15	13
North and Central America	272	478	161	168	178	6	10	4	4	5	6
South America	325	406	416	382	387	7	9	10	10	10	7
Middle East	321	393	253	242	237	7	8	6	6	6	4
Oceania	10	10	8	5	5	0	0	0	0	0	4
Europe	530	366	299	273	389	12	8	7	7	10	7
Total bilateral allocable	4 523	4 630	4 098	3 939	3 738	100	100	100	100	100	100
Least developed	910	974	778	882	804	20	21	19	22	22	22
Other low-income	1 887	1 560	1 245	1 294	1 242	42	34	30	33	33	30
Lower middle-income	1 349	1 595	1 809	1 455	1 396	30	34	44	37	37	40
Upper middle-income	203	362	236	271	257	4	8	6	7	7	5
High-income	29	28	30	38	38	1	1	1	1	1	3
More advanced developing countries	145	111	-	-	-	3	2	-	-	-	-
<i>For reference:</i>											
<i>Total bilateral</i>	5 169	5 278	4 697	4 554	4 412	100	100	100	100	100	100
<i>of which: Unallocated</i>	646	648	599	615	675	12	12	13	14	15	23



Source: OECD.

Table I.4. Main recipients of bilateral ODA

Gross disbursements, two-year averages

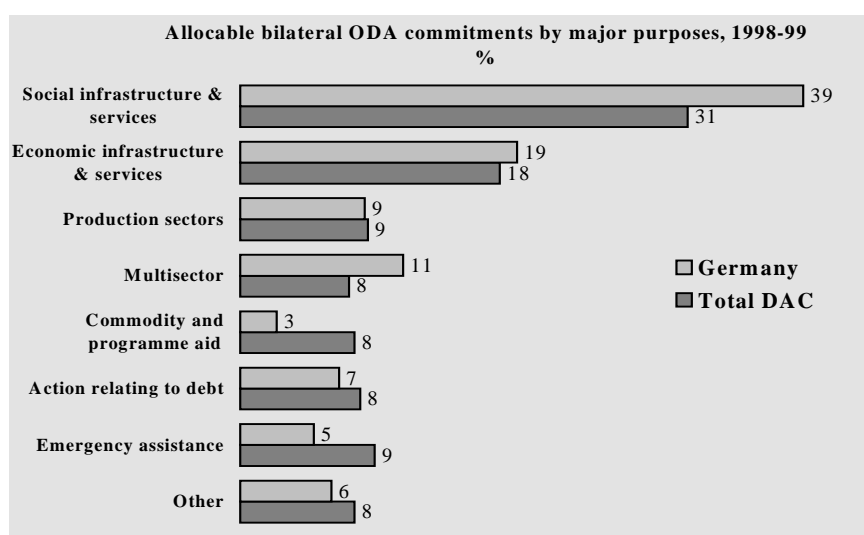
Germany	1988-89			1993-94			1998-99				
	Current USD million	Constant 1998 USD mn.	Per cent share	Current USD million	Constant 1998 USD mn.	Per cent share	Current USD million	Constant 1998 USD mn.	Per cent share		
Turkey	253	332	7	Indonesia	417	413	9	China	396	403	10
India	237	312	7	Sts Ex-Yugoslavia unsp.	409	408	8	Indonesia	223	226	6
Egypt	218	287	6	China	314	311	6	India	217	220	6
Indonesia	165	216	5	Egypt	308	304	6	Turkey	148	151	4
China	126	167	4	India	285	283	6	Egypt	132	135	4
Top 5 recipients	999	1 313	29	Top 5 recipients	1 733	1 719	36	Top 5 recipients	1 117	1 134	30
Pakistan	118	155	3	Turkey	192	191	4	Tanzania	88	90	2
Israel	102	134	3	Pakistan	125	124	3	Brazil	88	89	2
Morocco	84	111	2	Zambia	125	124	3	Peru	81	83	2
Kenya	61	80	2	Israel	121	120	2	Yugoslavia (incl. Kosovo)	77	79	2
Tanzania	60	79	2	Mozambique	119	118	2	Pakistan	73	75	2
Top 10 recipients	1 425	1 871	42	Top 10 recipients	2 414	2 396	50	Top 10 recipients	1 525	1 549	40
Bangladesh	60	79	2	Ethiopia	109	107	2	Morocco	73	74	2
Brazil	57	74	2	Peru	105	105	2	Mozambique	68	69	2
Syria	56	73	2	Bangladesh	90	89	2	Iran	66	67	2
Nepal	53	70	2	Bolivia	84	83	2	Thailand	64	65	2
Tunisia	53	70	2	Brazil	80	79	2	Bolivia	64	65	2
Top 15 recipients	1 703	2 237	50	Top 15 recipients	2 882	2 860	59	Top 15 recipients	1 860	1 889	49
Peru	52	69	2	Philippines	76	79	2	Jordan	61	62	2
Sudan	50	66	1	Tanzania	68	75	1	Viet Nam	61	62	2
Congo, Dem. Rep.	49	64	1	Iran	63	68	1	Zambia	57	58	2
Ethiopia	46	60	1	Morocco	63	63	1	Bangladesh	56	57	1
Sri Lanka	45	60	1	Kenya	53	62	1	Bosnia and Herzegovina	54	55	1
Top 20 recipients	1 945	2 555	57	Top 20 recipients	3 206	3 207	66	Top 20 recipients	2 149	2 184	57
Total (136 recipients)	3 395	4 464	100	Total (153 recipients)	4 856	4 817	100	Total (143 recipients)	3 777	3 838	100
Unallocated	454	597		Unallocated	671	666		Unallocated	634	645	
Total bilateral gross	3 849	5 061		Total bilateral gross	5 528	5 483		Total bilateral gross	4 410	4 483	

Source: OECD.

Table I.5. **Bilateral ODA by major purposes**
at current prices and exchange rates

Commitments, two-year averages

Germany	1988-89		1993-94		1998-99		Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
Social infrastructure & services	1 309	28	1 917	33	1 682	39	31
Education	769	17	934	16	792	19	11
of which: basic education	-	-	91	2	97	2	1
Health	88	2	138	2	112	3	4
of which: basic health	-	-	79	1	83	2	2
Population programmes	12	0	50	1	51	1	2
Water supply & sanitation	198	4	360	6	341	8	5
Government & civil society	119	3	173	3	144	3	5
Other social infrastructure & services	123	3	262	5	241	6	5
Economic infrastructure & services	1 462	32	1 306	22	827	19	18
Transport & storage	772	17	686	12	349	8	9
Communications	121	3	118	2	16	0	1
Energy	451	10	448	8	245	6	5
Banking & financial services	115	3	53	1	152	4	1
Business & other services	2	0	1	0	64	1	2
Production sectors	915	20	651	11	372	9	9
Agriculture, forestry & fishing	405	9	427	7	317	7	7
Industry, mining & construction	482	10	138	2	36	1	2
Trade & tourism	27	1	39	1	18	0	0
Other	-	-	48	1	0	0	0
Multisector	204	4	180	3	486	11	8
Commodity and programme aid	391	9	260	4	109	3	8
Action relating to debt	92	2	687	12	295	7	8
Emergency assistance	33	1	470	8	220	5	9
Administrative costs of donors	96	2	229	4	269	6	6
Core support to NGOs	99	2	107	2	4	0	2
Total bilateral allocable	4 600	100	5 807	100	4 262	100	100
<i>For reference:</i>							
Total bilateral	4 719	73	6 120	69	4 384	60	72
of which: Unallocated	119	2	313	4	122	2	4
Total multilateral	1 706	27	2 767	31	2 884	40	28
Total ODA	6 425	100	8 887	100	7 268	100	100



Source: OECD.

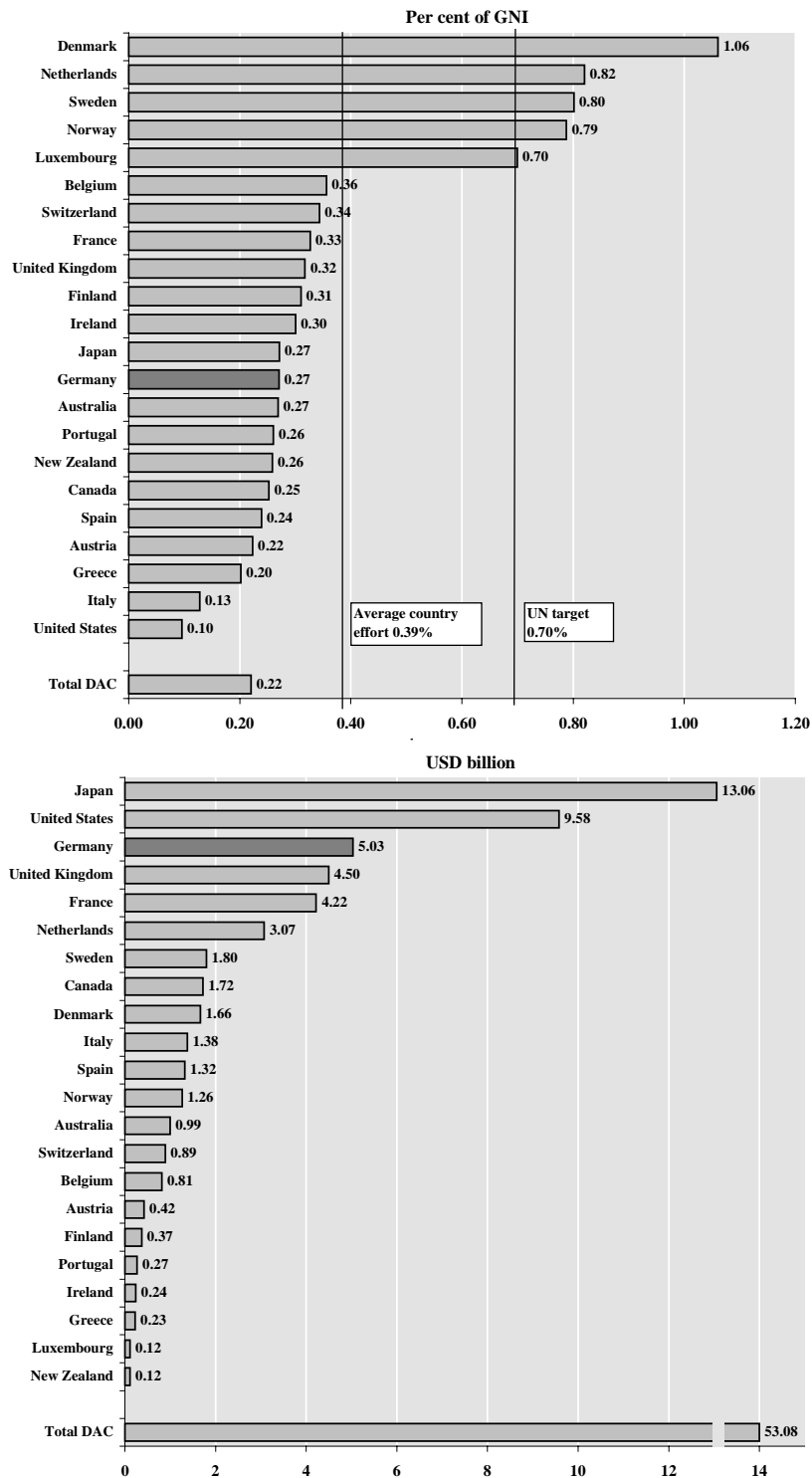
Table I.6. Comparative aid performance

	Official development assistance			Grant element of ODA (commitments) 1999 % (a)	Share of multilateral aid				ODA to LLDCs Bilateral and through multilateral agencies 1999		Net disbursements	
	1999		93-94 to 98-99 Ave. annual % change in real terms		1999		1999		1999		Official aid	
	USD million	% of GNI			% of ODA (b)	% of GNI (c)	% of ODA (b)	% of GNI (c)	% of ODA	% of GNI	USD million	% of GNI
Australia	982	0.26	-0.2	100.0	25.7	0.07			17.4	0.04	3	0.00
Austria	527	0.26	-3.5	88.2	34.7	11.9	0.09	0.03	13.5	0.03	184	0.09
Belgium	760	0.30	1.6	99.9	42.5	13.8	0.13	0.04	21.9	0.07	82	0.03
Canada	1 706	0.28	-4.9	100.0	31.3		0.09		18.1	0.05	165	0.03
Denmark	1 733	1.01	3.5	100.0	40.8	36.5	0.41	0.37	31.6	0.32	128	0.07
Finland	416	0.33	2.5	100.0	42.2	28.6	0.14	0.09	25.0	0.08	74	0.06
France	5 637	0.39	-6.8	94.4	26.8	12.7	0.11	0.05	16.0	0.06	550	0.04
Germany	5 515	0.26	-3.7	95.0	40.6	16.6	0.11	0.04	19.9	0.05	729	0.03
Greece	194	0.15	59.3	12.6	0.09	0.02	2.1	0.00	11	0.01
Ireland	245	0.31	15.9	100.0	39.4	16.1	0.12	0.05	37.3	0.12	-	-
Italy	1 806	0.15	-7.9	99.3	75.0	37.4	0.12	0.06	21.7	0.03	92	0.01
Japan	15 323	0.35	4.2	85.7	31.6		0.11		16.7	0.06	67	0.00
Luxembourg	119	0.66	15.9	100.0	25.4	12.2	0.17	0.08	24.8	0.16	3	0.01
Netherlands	3 134	0.79	4.3	100.0	31.0	23.2	0.25	0.18	19.8	0.16	22	0.01
New Zealand	134	0.27	4.8	100.0	24.3		0.07		24.1	0.06	0	0.00
Norway	1 370	0.91	3.6	99.8	26.5		0.24		33.0	0.30	28	0.02
Portugal	276	0.26	-1.6	97.7	24.8	2.7	0.06	0.01	44.8	0.11	28	0.03
Spain	1 363	0.23	0.9	92.7	39.2	12.3	0.09	0.03	10.8	0.02	13	0.00
Sweden	1 630	0.70	-3.1	100.0	29.7	24.2	0.21	0.17	25.0	0.17	99	0.04
Switzerland	984	0.35	1.5	100.0	25.4		0.09		26.7	0.09	70	0.03
United Kingdom	3 450	0.24	-0.7	100.0	34.8	10.4	0.08	0.02	20.7	0.05	326	0.02
United States	9 145	0.10	-4.0	99.5	25.1		0.02		15.8	0.02	3 521	0.04
Total DAC	56 449	0.24	-1.3	94.9	32.9	24.0	0.08	0.06	18.9	0.05	6 193	0.03
Memo: Average country effort		0.39										

Notes:
a. Excluding debt reorganisation.
b. Including European Community.
c. Excluding European Community.
.. Data not available.

Source: OECD.

Figure I.1. Net ODA from DAC countries in 2000 (preliminary figures)



Source: OECD.

ANNEX 2

IMPUTED STUDENTS COSTS

Statistical Reporting Directives

The relevant DAC statistical reporting directives read as follows [DCD/DAC(2000)10, Box 9.1, highlighting added]:

Indirect ("imputed") costs of tuition in donor countries are eligible for inclusion in ODA if the presence of students reflects the implementation of a **conscious policy of development co-operation** by the host country, that is, if as a minimum these **costs** are specifically **recognised in official budgets**, and there is an appropriate degree of **involvement by the authorities responsible for ODA programmes** in the formulation of policy on the intake and tuition of students, bearing special national factors in mind.

The demonstration of involvement should relate to such aspects as the role of the ODA authorities (whether central, state or local) in the **specification of sectors and levels of education**; the **needs of the aid recipients** concerned for particular qualifications; the numbers and **selection of the categories of students** or trainees to be brought into the host country; the extent to which tuition can be tailored to the needs of developing country students; the conduct of **discussions with aid recipients** on the co-ordination of the supply of places in the donor's educational system with **each country's requirements**; special **measures against brain drain**; and support for the **reintegration of students** into their home country.

The following specific principles apply as regards statistical quality and the technique for measuring imputed students' costs:

- The imputed costs to be reported are those borne by the official sector, including expenditures by central and state governments.
- The costs are calculated as the percentage of official expenditure on education that corresponds to the percentage of the student body that is accounted for by students from developing countries. The calculation should in principle cover both secondary and tertiary students.
- A separate computation should if possible be made for each faculty, since education in some disciplines is more costly to provide than in others. **Faculties not directly related to development concerns and expenditures connected with research facilities should be excluded from the calculation.**
- Capital costs should be excluded. However, expenditures for maintenance and short-life capital assets may be included. .

Germany's reporting of imputed students' costs

Tertiary education in Germany is free for both foreign and domestic students. In the case of developing country students, this makes an important contribution to student mobility and may assist in the development of their home countries.

In relation to paragraphs above, the Review could find little documentation of a conscious policy for development co-operation concerning the developing country students studying in German universities funded by the Länder. For example, BMZ is not involved in specifying or limiting the sectors of education available. Because most of the beneficiaries are private students, development co-operation officials do not discuss with recipient governments the specific requirements of students to study in particular German institutions. Nor are the amounts mentioned in bilateral agreements and country strategies or reported to the recipient countries as official transfers. The students also do not feature in discussions of a sector-wide approach to education for a particular country.

Costs are not specified *ex-ante* in the development co-operation budget. Instead, amounts reported as ODA are attributed *ex-post*: the average cost of a student is multiplied by the number of students from each country. Secondary students, as well as those tertiary students who undertook their secondary studies in Germany, are excluded. However, it has not been possible to make separate calculations for each faculty (subject). According to BMZ, faculties that are directly related to development concerns have been identified, but the Länder were unable to apply this list to the reporting. **The methodology used to calculate these costs should be revised so as to exclude non-developmental courses. Estimates can be used if necessary.** Methodologies used in Austria and Canada which exclude the costs of non-developmental courses might provide some guidance.

The issue of “brain drain”

The directives encourage DAC Members implementing these subsidised student programmes to take specific measures against brain drain and to support students' reintegration into their home country. Commenting on these provisions, the BMZ states that: “The most effective measures against brain-drain are the strict regulations of the immigration laws, which stipulates that foreign students must return to their home-country after having finished their studies because they lose their right to live in Germany.” However, proposed new immigration legislation may allow highly skilled foreign graduates from German universities to stay in Germany in order to “contribute to the economic development” of the Federal Republic and to “advance Germany as an educational and scientific location.” Moreover, an existing Green Card initiative has already been launched in which 10,000 IT specialists, mainly from developing countries, have been permitted to work in Germany, with another 10,000 to be accepted. The Review was unable to determine the proportion of these professionals who had been trained in Germany and whose education costs had been reported as ODA.

If new laws are passed that allow developing country students to remain in Germany after their studies, serious questions of policy coherence and ODA eligibility would arise. Given globalisation and ageing societies, several DAC countries are looking to import skilled labour particularly in the areas of IT and health care. At the same time, the new DAC Guidelines on Poverty Reduction state: “selective immigration policies contribute to the depletion of human resources. ‘Brain drain’ is an important coherence issue. Development co-operation policies in support of increasing employment opportunities in partner countries may contribute to resolving the problem.” **At a minimum, if the new law leads to an increase in the numbers of developing country students permitted to remain in Germany, appropriate deduction should be made from ODA statistical reporting, since students who remain in Germany cannot be considered to be making a direct developmental contribution to their home countries.**

Effectiveness

In its Annual Report to Parliament, Germany's Working Group on Evaluation made the following comments on the CDG scholarship programme: "Doubts about the development impact of the scholarship programmes have led the BMZ to commission a special evaluation of these programmes as a whole. The result was that on a micro-level, i.e. for the students involved, good results are achieved. In contrast, the broader development impact, such as the impact on institutional level of the developing country, the programme was assessed as limited. Moreover, the evaluators concluded that the sectoral impact of the instrument is also limited."⁴² These lessons may well be even more applicable to private students, who are self-selected and do not necessarily follow developmentally relevant courses, or even wish to return to their home countries after completing their studies.

In the future, to sharpen the developmental focus on the support to these students as well as to increase ownership and partnership of the recipient countries, Germany could consider the following recommendations: discuss the student intake with the co-operating countries and include it in bilateral agreements, official financial reporting to the countries, country strategies, and education sector strategies; encourage the Länder to establish separate budget lines to make explicit the ODA expenditure on these students; intensify efforts to ensure that students return to their home countries and to contribute to poverty reduction; and periodically evaluate the impact on poverty reduction of the education provided to these private students.

42. Translation by OECD.

ANNEX 3

ORGANISATION OF THE FEDERAL MINISTRY FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (BMZ)



Source: BMZ.

ANNEX 4

GERMANY'S AID PROGRAMME IN INDONESIA

Introduction

As part of the review by the Development Assistance Committee (DAC) of Germany's development co-operation policies and programmes, a team visited Indonesia from 28 May to 1 June 2001. The team comprised representatives of the examining countries (Japan and Switzerland) and the OECD Secretariat. Meetings took place with Indonesian officials, staff from the German Embassy, and BMZ, development agencies, project managers, civil society representatives and other donors. The team visited projects supported by Germany in transport, education, decentralisation and local government capacity, pollution control, and microfinance in Java and Eastern Indonesia.⁴³

This report sets out some of the challenges of development co-operation in Indonesia and assesses the way in which the German institutional arrangements have responded to those challenges. The report does not pretend, however, to be an assessment of Germany's field operations world-wide, but merely gives an illustration of Germany's approach in a particular situation, one that raises interesting issues for further reflection in Germany.

The main challenges for development in Indonesia⁴⁴

Size and regional diversity. Indonesia, with a population of roughly 213 million, is the fourth most populous country and the largest Islamic nation in the world. It is the world's largest archipelago, extending about 1 700 km from north to south and 5 200 km from east to west. Such a large country poses particular challenges for development. There has been rather unbalanced development among the regions, with some resentment of the development of Java and Sumatra and relative neglect elsewhere. A perennial concern has been the integration of the country, in view of the ethnic diversity. Indonesia's recent policy to address these issues has been to grant considerable autonomy through radical decentralisation to districts.

Economic growth, poverty, and economic reforms. Following strong and prolonged economic growth, marked by substantial gains in poverty reduction, Indonesia was hard hit by the Southeast Asian financial and economic crisis of 1997. In 1998, Indonesia's Gross National Product (GNP) shrank by about 13% and the country experienced an increase in the number of people living below the poverty line. This downward trend has now slowed down to a period of stagnation and, until recently, it was assumed that economic growth would regain its pre-crisis proportions. There are other major challenges to the economy – continued outflows of private capital and the undervalued currency.

43. An Annex on the Programme of Visit is available from the Secretariat upon request.

44. An Annex with Basic Data on Indonesia is available from the Secretariat upon request.

The government's statement to the Consultative Group in October 2000 forecast GDP growth of 4.5% in 2001, and expected further declines in the number of people living in poverty through its Recovery Programme. This gave priority to food security, poverty alleviation, employment (including promotion of small- and medium-size enterprises), reforms of government policy, and national unity. However, these plans have not been sufficient to bring back confidence in the economy. For the private sector the pace of banking and corporate sector reforms is too slow. Donor agencies remain concerned with corruption in the public sector and lack of confidence in the Indonesian government's ability to manage donor funds effectively.

Political situation. The democratically elected government in June 1999 had given rise to new hopes. Fiscal decentralisation - transferring authority to the local government while preserving the unity of the nation - was expected to be a great opportunity for improving the welfare of the nation. It was also seen as a major challenge. Recent political instability and interethnic conflicts have now increased doubts about the future direction of the economy, the current pace of decentralisation and the feasibility of fiscal decentralisation. However, since the time of the field mission, the Indonesian Parliament has installed a new President, Mrs Megawati.

Factors in development co-operation policy and strategy⁴⁵

Indonesian-German relations. Germany has provided development assistance to Indonesia since the 1960s, and has maintained good relations with Indonesia over a long period, with many Indonesians being trained in Germany, especially after independence. These good relations continued during the recent crisis period. The German Chancellor visited in 1997 and the President in February 2001. In 2000, 36 members of parliament visited, as well as numerous business representatives, reflecting the importance of Indonesia as a trading partner and a destination for private direct investment.

Reduced aid allocations. In 1998-99 Indonesia was the second largest recipient of German ODA (USD 223 million) and Germany was the 2nd largest bilateral donor to Indonesia. As a note, however, the World Bank, the Asian Development Bank and Japan contribute 80% of annual aid to Indonesia. Furthermore, in more recent years, the volume of aid from Germany has decreased substantially. The German authorities assert that the reduction in aid volume to Indonesia was caused by the difficulty for Indonesia to absorb German aid, resulting in a pipeline of DEM 300 million by 1999. There were two "zero-rounds" in 1997 and 1998 when only Technical Co-operation funds were allocated to Indonesia. It should also be noted that the decision in 1997 not to programme further financial co-operation funds for Indonesia coincided with the Indonesian financial crisis of 1997 and a reduction of the German aid budget.

German support for Indonesian reforms. In the last consultative group meeting, Germany commended the Indonesian government's attitude towards policy reforms, structural adjustment, promotion of democracy, transparency, and wider political participation. While appreciating the efforts to resolve conflicts that threaten national stability and sustainable development, Germany remained seriously concerned about these conflicts and the lack of international confidence in the economic reforms, especially in the concrete actions to fight corruption. These concerns have been justified by the recent political turmoil, and have implications for the policy context for German development co-operation.

Germany has given support over many years to decentralisation and local government reform, and intends to continue support in this area. However, Germany, like many other donors, recognises the

45. An Annex with Basic Data on German Development Co-operation in Indonesia is available from the Secretariat upon request.

possible risks associated with this reform—disruption of social services, fiscal imbalance, abuse of increased local authority, and spread of corrupt practices to the regions. The Indonesian government's resolution to overcome these potential problems is believed to justify Germany's focus on strengthening the capacities of local governments to facilitate the decentralisation process.

Germany has also given support over many years to sounder forestry sector management, recognising its importance for biodiversity, global climate change, and carbon sequestration. In this sector, Germany judged the government's progress on agreed policy commitments to be inadequate, which led to a review of its support in this area. The decision has now been taken to phase out of forestry, while maintaining a presence in environmental policy discussions.

Country strategy. The present country strategy was written in January 1999, with little involvement of Indonesian stakeholders. It noted the problems caused by the economic and financial crisis, particularly the estimate that 90 million Indonesians now live below the poverty line (42%). Core problems included food shortages, poor social and economic infrastructure, inadequate education, extensive extraction of natural resources (creating conflicts with ethnic groups), high level of internal and external debt, lack of integration of small enterprises with the development process, corruption and inefficient public services, and regional disparities. Other developmental constraints are the fragmentation of the landmass and the unequal distribution of population across islands. The German strategy was demand-driven and attempted to tackle a broad range of development problems in several sectors.

The country strategy will be revised during 2001. The intention is to have a more participatory and decentralised approach than previously. Although the overall parameters of development co-operation will still be defined by the Ministry of Development Co-operation (BMZ) in Bonn, there will be significant inputs by Indonesian and German partners in the field, including consultations with other donors. It is not yet clear how the new country strategy will reflect the new German emphasis on poverty reduction (Poverty Reduction Programme of Action 2015). Germany considers that it already aligns cross-cutting issues, such as the environment and gender, with the goal of poverty reduction in each individual programme and project. Nonetheless, further thinking will need to take place on how to mainstream this issue, since not all the present activities nor the proposed sectoral allocation seem to fit in obviously with this new orientation, and Indonesian decentralisation will affect all sectors.

Planned sectoral concentration. Germany now proposes to focus on three sectors: health, including clean water supply and sanitation and HIV/AIDS, support to the market economy, and transport. Furthermore, support for Indonesia's reform agenda, especially decentralisation and local governance, has been selected as a cross-cutting issue. In a response to a parliamentary question about Germany's development co-operation world-wide, the German government explained that the aim of greater sectoral concentration is to increase the significance, efficiency and effectiveness of development co-operation. This also applies to the German programme in Indonesia, which is facing resources constraints, and where the more focused sectoral policy is being implemented in the context of the decentralisation process and a new regional concentration on the less developed areas of Eastern Indonesia. The three sectors are potentially well suited to sector wide approaches. Sectoral concentration is also expected to help create a better linkage between bilateral and multilateral co-operation by Germany. However, some further focusing of activities will be required to fit in with this more restricted sectoral focus of German aid policy.

Programming

Shifting emphasis of the German programme. The new sectoral focus signals a relatively weaker emphasis on large-scale physical infrastructure and forestry. The previous Suharto government had

favoured the power sector, and this also fitted with Germany's priorities at that time, but the economic and political crisis in 1997 brought a new government. At the same time, Germany suspended its financial co-operation for some years and re-oriented the programme. Germany has now almost phased out of power projects in terms of new commitments, and is giving more attention to social infrastructure.

Main channels for development co-operation. Development co-operation funds are divided into two categories – technical assistance and financial co-operation – with separate channels of financing. All official financial co-operation funds for Indonesia have been channelled via *Kreditanstalt für Wiederaufbau* (KfW). The sectors of concentration have been power, transport, environment and forestry, health and water supply, and education and training. Technical assistance is provided mainly through the *Deutsche Gesellschaft für Technische Zusammenarbeit GmbH* (GTZ). The sectors of concentration have been local governance capacity building, economic and human resources development, environment and forestry, and public-private partnerships. There are also small programmes through the German Investment and Development Company (DEG), the political foundations, the German-Indonesian Chamber of Trade and Industry (EKONID), development institutions of the Catholic and Protestant relief organisations and other German NGOs.

Multi-year programmes. An important aspect of allocation of funds to KfW and GTZ is that the funds remain available in line with the gestation period of the respective individual projects and programmes. Unspent funds can be reprogrammed. This aspect of German development co-operation is appreciated by the Indonesian side, as it leads to greater predictability in the application of funds than is the case with more “volatile” donors.

Programme management

Management structures. The management of German development co-operation in Indonesia is complex. With the agreement of the German Ministry of Foreign Affairs (AA), BMZ has seconded one of its staff to the Embassy in Jakarta, but this Development Counsellor formally reports to the AA and not to BMZ. Liaison with the GTZ and KfW local Directors works satisfactorily; the Development Counsellor with the GTZ and KfW Directors consider themselves a team with the corporate identity of German Development Co-operation. The Counsellor co-ordinates German development co-operation and takes the lead role in policy discussions at national and sectoral levels, supported by KfW and GTZ staff. The Development Counsellor is ultimately responsible for reporting on the progress of the whole programme.

The country direction systems of KfW and GTZ are structured differently. The GTZ Country Director has some delegated authorities for the overall programme (e.g. reporting on the performance of the project), while the KfW Director does not have management responsibility for the overall programme, as project management is directly controlled by the Headquarters in Frankfurt.

There is some variation in views about the impact of these arrangements on the ability of Germany to respond to Indonesian needs. It can be highly responsive to Indonesian needs when confronted with a new technical problem in a familiar development co-operation environment (such as in the forestry sector, when confronted by the request to help with forest fire management). However, many of the development problems of present-day Indonesia are unconventional and unfamiliar, and pose challenges for all donors. In these situations, the German system, requiring reference back to several institutions in Germany, is often put under severe strain to respond in a flexible and timely manner. Germany asserts, however, that the quick implementation of the Competitive Law Support as a regular project required a high degree of flexibility to respond to the urgent needs of Indonesian partners, and that there are some fast-disbursing instruments such as the Studies and Expert Fund.

Measuring development effectiveness. Improvements in reporting on development impact will depend crucially on the elaboration of an Indonesian government development strategy, taking account of decentralisation. Without that, in common with many other donors, reporting appears to be in terms of inputs and outputs at the project level rather than in relation to overall outcomes. However, the preliminary findings of the review mission were that German reporting is also further constrained by the lack of sector analysis and lack of focus on development effectiveness.

Partnership and approaches to co-ordination

Partnership with the country. The long-term relationship with Indonesia potentially puts Germany in a good position to engage in policy dialogue. At the Consultative Group meetings, Germany had raised the difficult issue of corruption in 1997, before other donors, and has continued to do so. It has also been taking the lead on the discussion of decentralisation of the Indonesian administration. However, there is a view among donors that Germany has not really made the most effective use of its long-term relationship and its position as a major donor to pursue essential policy changes. For example, other donors feel that Germany could have taken a larger role in the shipping sector – if there had been more German attention to the macro level, rather than just to project activities. Another interesting example of this is in the forestry sector. Other donors involved in the forestry sector suggest that, even though Germany was involved over a long period, it did not effectively tackle the issue of logging that was in contradiction to the Indonesian policy. In contrast, the German authorities point out that the issue of rampant illegal logging and poor law enforcement was a topic of policy dialogue with Indonesia, and Germany pointedly addressed this issue in recent Consultative Group meetings. To mark its dissatisfaction with lack of government implementation of the agreed policy, Germany decided to phase out of the sector.

Donor co-ordination. While very few donors have confidence in the Indonesian government's ability to manage a sector-wide approach with pool funding, there is a wide range of views on how to overcome the limitations of the project approach. There has been greater attention among donors to sector-wide analyses and joint donor work, for example the Partnership for Governance. Germany has participated in this UNDP-managed joint programme through its policy leadership on decentralisation, where its knowledge of macro, meso and micro levels has been invaluable. Other donors have appreciated this role but would have also appreciated a financial contribution. However, Germany cannot contribute to this Trust Fund for the Partnership for Governance because of budget regulations. Instead, Germany has chosen to commit substantial technical co-operation funds (about USD 500 000) for assisting the Indonesian government in developing a National Capacity Building Programme for Local Governance. Germany asserts that this is intended to serve as an important reference for individual donor activities and co-ordinated donor initiatives in support of decentralization and local governance (including the Partnership for Governance).

Challenges and changes in development co-operation

Project approach⁴⁶ In essence, German development co-operation remains based on the project approach. Within this context, the projects appeared well designed and managed on the basis of substantial studies of the local areas, consultations with the people, and well-tried approaches. However, KfW projects embodied the classic project limitations by lacking adequate attention to the policy framework conditions, and thereby raising questions regarding its impact on the whole sector. For example, the challenges in the passenger vessel project were related to shipping sector issues, including government control of the market for sea transport, rather than to boat-building or spare

46. An Annex with a list of Ongoing Projects supported by KfW and DEG is available from the Secretariat upon request.

parts. In the case of GTZ, the grouping of projects into clusters operating at macro, meso, and micro level was a useful innovation, and there are programmes already existing in microfinance, decentralisation, and economic and human resources development. Whether Germany has undertaken sufficient analysis of the sustainability of these clusters remains an open question.

Changing nature of KfW loans. In the current economic crisis in Indonesia, KfW has been putting relatively greater emphasis on the preparation of fast disbursing rehabilitation and recovery measures in the transport, energy and health sectors compared with large-scale physical infrastructure projects. These are intended to support economic recovery and job creation, and maintain social services.

Different project funding arrangements. The global allocation of funds by KfW to different financial packages (loans, mixed credits, and grants) is arranged at KfW headquarters in Frankfurt, on behalf of the German government, and with standard terms and conditions. Depending on the country situation and the projects, loans, grants and mixed credits are then provided. However, this can lead to complexity in which anomalous situations may arise. Grants, or soft loans with different arrangements, may fund similar projects with different time frames.

Counterpart funds. In common with many other donors, KfW expects the Indonesian government to contribute part of the total project cost as counterpart funds, which would be an essential indicator of government commitment to the project. The amount differs by project type, but is often about 20%. In the present crisis, provision of counterpart funds has become difficult for Indonesia, which has engaged with donors to find a solution. While the World Bank, Asian Development Bank, and Islamic Development Bank have now reached an agreement, KfW is still considering the Indonesian suggestions. In the interests of furthering co-ordination, it would be helpful to give a clear response, so that any differences with partners could be discussed further.

Developing programmes in technical co-operation.⁴⁷ Many technical co-operation projects have been combined to form project clusters, with increasing co-ordination. GTZ calls these clusters “programmes.” During the mission, the team saw activities in the areas of decentralisation, microfinance, and self-help. A particularly good example of the German programme approach is decentralisation, where there are associated projects at macro, meso and micro levels. At the macro level, GTZ staff are working with the Indonesian Ministry of Home Affairs and Regional Autonomy to support the legislative programme and implementation of decentralisation.

Use of consultants. The German personnel were highly qualified, experienced, and committed to Indonesian development. In particular, GTZ has made use of these staff as long-term and short-term consultants in its projects. Germany believes that the employment of long-term staff, especially those with a long-term affiliation with GTZ, has considerable benefits and forms an indispensable complementary element to the assignment of short-term consultants. Indonesia’s Ministry of Home Affairs and Regional Autonomy recognises both advantages and disadvantages of this staffing policy. On the one hand, the personnel are knowledgeable about Indonesia and have been helpful in pointing out the various options for reform. On the other hand, their knowledge of current thinking in development co-operation deteriorates over time. The team felt that aid dependency might be another downside of technical assistance over an extended period of time. However, short-term consultants are not necessarily the solution either, as they may help with technical advice but do not help build local capacities. Germany, in recognition of these issues, is recruiting more local experts, but the number of external technical assistants in the German programme, especially for GTZ, remains high compared with many other donors in Indonesia.

47. An Annex with a list of programmes supported by GTZ is available from the Secretariat upon request.

German responsiveness to Indonesian needs. The current uncertainties of Indonesia present many situations requiring a rapid response. The Indonesian government and donors appreciated the relatively quick response of Germany to the forest fire emergency in 1997. In other situations, the German response can be quite slow, because of the complex decision making procedures of the German system and reliance on technical assistance rather than more flexible financial mechanisms.

Dealing with corruption. Germany was aware of the potential problems of corruption in development projects (and raised the issue in the Consultative Group in June 1997). Since a large proportion of German funds were disbursed directly to German suppliers, Germany claims not to have been much affected by the corruption. Presently, Germany is working with the World Bank on a technical assistance project "Support for Good Governance" where corrupt practices in public service delivery are being addressed through the improvement of internal control and incentive mechanisms and the empowerment of user groups to hold service providers accountable. Germany provides an expert to improve the procurement procedures of the Indonesian government, and is managing the procurement process.

Harmonising procedures. Germany is ready to engage in harmonising donor procedures and ready to reduce visibility of the German contribution to co-operation. However, there is a need for transparent accounting and credible auditing systems in the partner country for these ideas to be acceptable to German society. Many donors agree that intensive donor co-ordination is essential in Indonesia. Germany is a supporter of European Community efforts at co-ordination and participates in the monthly meetings of European Union member countries. Germany is also a member of the Utstein Group, but the co-ordinating efforts of this group are not very visible in Indonesia.

Use of political foundations. These Foundations are a unique element of German technical co-operation, associated with German political parties. They appear to be particularly useful in the decentralisation programme, where the foundations have helped with the training of Indonesian democratic representatives at different levels of the decentralised structures.

Main findings

Long term engagement and commitment. The long-term engagement of Germany with Indonesia has encouraged good relations. The budget planning cycle with multi-year commitments and the ability to re-programme unused funds has enabled predictability and consistency in the development co-operation relationship.

Responding to economic and political challenges. Indonesia is in a difficult and turbulent period, with civil society showing increasing dissatisfaction with the performance of the government⁴⁸. Germany has already shown that it can be responsive to Indonesia's needs (e.g. forest fires) but the present situation poses new challenges for German as well as other donors' co-operation policies and operations. On the policy level, there has already been a move away from the forestry sector. Germany has continued to support decentralisation, despite the difficulties of implementing a complex institutional change at a rapid pace, and is going forward with development activities. In particular, Germany's emphasis over many years on a grass roots focus and a participatory approach could be helpful during this period of decentralisation.

48. After the Peer Review mission the President of Indonesia was replaced and there is now a new government.

Country Strategy and sector focus. The plan to have a more participatory and decentralised country strategy process is encouraging, as it could enhance the Indonesian ownership of the programme. The intention to concentrate on three sectors, reflecting German comparative advantages in development co-operation, will be a positive step for management of development co-operation and also for increasing impact.

Staffing of the programme. With regard to staffing of the co-operation programme, Germany has made use of highly qualified and experienced experts with a knowledge of and commitment to Indonesian development. At the same time, more local people are being brought into the management of projects, which is in line with current good practice in development co-operation, and this trend should be encouraged.

Financial and technical co-operation issues. The trend for KfW to deal increasingly with the social sectors, is a positive step in view of the increased poverty that Indonesia has faced in recent years. In technical co-operation, there is an increased grouping of projects into clusters. This approach encourages vertical linkages between macro, meso and micro levels. The ability to make use of micro level experience in discussion of framework conditions and policy at the macro level is a positive feature, especially regarding the decentralisation programme. There has been a welcome trend for KfW and GTZ to develop their co-operation on programmes, including through joint appraisals.

Increasing German participation in aid co-ordination. Germany's role has been especially appreciated by the donor community in the field of decentralisation. On the other hand, other donors believe that Germany could undertake further sector-wide analyses in its fields of operation, so that it can contribute more effectively to sector-wide policy discussions.

Weaknesses in internal and external co-ordination. Internal weaknesses take several forms, and pose challenges for the personnel. In Indonesia, BMZ has a presence on the ground through the secondment to the Embassy of a development counsellor. This is potentially beneficial to the programme but the benefits are undermined by having the formal reporting line to the Ministry of Foreign Affairs, rather than to BMZ. This reporting line delays decision-making in some cases. KfW and GTZ have their own reporting arrangements to BMZ.

In the co-ordination of technical and financial co-operation, there is a mismatch in the organisational structures of KfW and GTZ that creates challenges. KfW has its decision making centre in Frankfurt, while GTZ has some decentralised powers to the project and group leaders. These arrangements make it more complicated to provide oversight of the whole programme. In practice, the good working relationships of the personnel involved locally compensate to some extent for the weaknesses.

These complex internal arrangements also lead to some lack of flexibility, which poses problems in dealing with a very dynamic situation in Indonesia. While Germany can respond to needs in well-understood areas, the new situation presents many uncertainties for which reference has to be made to several institutions in Germany. The personnel maintaining effective relationships with each other have to compensate for the structural weaknesses.

Challenges in policy discussions. Despite some examples to the contrary, Germany has not really made use of its long-term engagement with Indonesia and position as a major donor to develop its policy dialogue. This is partly explained by the weaknesses of the arrangements between the Embassy, GTZ and KfW, which are apparent in policy discussions that take place continuously in Indonesia. The Embassy cannot be everywhere, but GTZ and KfW cannot fully stand in. An underlying

explanation is that Germany has been content to respond to Indonesian demands in certain areas, rather than with engaging in policy dialogue to achieve increased impact on the whole sector.

The approaches of GTZ and KfW to framework discussions on microfinance and the shipping sectors provide an interesting contrast. In the case of microfinance, GTZ was committed from the beginning to dialogue on the framework conditions for this part of the financial sector, though not for the whole sector. In the case of the shipping sector, KfW primarily provides passenger vessels and spare parts but has increasingly been drawn into discussions of the whole sector policy, including setting loan conditions regarding reforms in tariffs and management.

Financial co-operation issues. The German criteria for allocating funding instruments (grants, loans, equity) through a cascade system to countries and projects led to complexities, in which similar projects were funded with different conditions and instruments, including counterpart funds, which placed extra burdens on Indonesian administrative capacity.

Need for consideration of exit strategy and sustainability in projects. The team noted that the long-term commitment of Germany also had a downside – the risk of encouraging aid dependency, there is consideration of the exit strategies and sustainability for projects. There is a possibility that the programme concept through grouping of projects is a step in the direction of a sector wide approach, which could help resolve this difficulty.

New challenge of the poverty reduction policy. Indonesia is the second largest recipient of German ODA, which is justified by the increased numbers of poor people since the financial crisis. However, the new German policy emphasis on poverty reduction as the overarching goal of co-operation may create a challenge for the country strategy process, and for integrating cross-cutting issues more systematically into the programme.

There are also questions about the role of KfW within this new context. KfW considers Indonesia an important area for the private sector. KfW states that there is still an important role for financial co-operation: support for important initial investments to attract foreign investors; mobilising funds and being a catalyst for joint financing; and financing sectors that are less attractive to the private investor. In the present economic climate, there is a need for a return to normality before private investors will regain their confidence in the Indonesian market. Is there a role for KfW when the private sector regains its confidence? This could be an area for Germany to develop its concept of Public Private Partnerships through DEG.

Lack of clarity on tying policy. According to German policy, ODA is increasingly untied. GTZ appears to be untying its technical co-operation, but the results of untying financial co-operation by KfW indicate that there may be some way to go to implement the policy fully. At present, in the case of mixed financing, only tied aid is possible. The problems of coherence between implementing policies on untying aid and promoting German exports need to be tackled by BMZ and other Ministries in Germany. The application of the untying policies may also be hampered by the lack of an effective analytical capacity on this issue in the Embassy.

ANNEX 5

GERMANY'S AID PROGRAMME IN MOZAMBIQUE

Introduction

As part of the review by the Development Assistance Committee (DAC) of Germany's development co-operation policies and programmes, a team visited Mozambique from 4 - 14 September 2001. The team was comprised of representatives from the two examining countries (Japan and Switzerland) and the OECD Secretariat⁴⁹. Meetings took place with Mozambique officials, staff from the German Embassy and the German development agencies, project managers, civil society representatives and other donors. The team visited projects supported by Germany in the provinces of Maputo, Beira and Manica in a range of sectors, including health, basic education, rural development, demining, credit, electrification, private sector promotion, and rural roads.⁵⁰

German aid involvement in Mozambique reflects the recent political history of both countries. It began in the 1970s with political support by the former German Democratic Republic (GDR) for the Marxist independence movement and created numerous early relationships between the two countries. Following Mozambican independence in 1980, the Federal Republic of Germany also initiated some aid activities. By the time of German unification in 1990, over 20 000 Mozambicans spoke German and many of them had worked in the GDR as part of a swap arrangement that was then current within COMECON countries. Mozambicans had, therefore, special personal and linguistic ties with Germany when its modern development co-operation involvement began about a decade ago. Over that time, the content of German assistance has evolved considerably, including major special assistance following the 1999 and 2000 floods. German official assistance levels have fluctuated considerably over the last decade, but are currently (and for the foreseeable future) at a level of 85 million DEM every two years (about USD 20 million per year). Germany is currently the 10th largest donor in Mozambique.

German programming considerations

Shift in strategy

Recent changes in German development planning requirements have caused the Mozambican programme to take on new and much more focused contours. It is currently in the middle of a visible shift in strategic approach, the sequence of events for which began early in 2000 and which will not be

49. The DAC Delegate for Japan, a Japanese representative of the Economic Co-operation Bureau, MOFA/Tokyo, the Swiss Assistant Director General, SDC/Berne, and one principle administrator of the OECD, DCD/PRPM Division. Visit co-ordination was provided by the German Embassy in Maputo.

50. This review of Germany was also part of a DAC joint assessment of Germany, The Netherlands and the United Kingdom in Mozambique. See separate report DCD/DAC(2001)24.

complete until early 2002. The previous country strategy was essentially an accumulation of the multiple directions contained in 46 different projects in financial and technical co-operation, was spread over several provinces, and included a wide range of German implementation agencies. The future strategy is one which, in conformity with new guidelines of the Ministry of Economic Co-operation and Development (BMZ), will be built around a framework of three “focal” areas: **rural development; basic/vocational education; promotion of the market economy**. Cross-cutting topics of involvement are HIV/AIDS and environmental protection. This strategic framework will be used by all official German implementation agencies. It will be geographically focussed in the three provinces of Sofala, Manica and Inhambane.⁵¹ This new approach will offer the perspective of a more focused and better co-ordinated German aid programme in Mozambique.

In the field, local reactions to this necessary shift in strategic approach have been pragmatic and perhaps somewhat conservative. With guidance from the German Embassy and the German Agency for Technical Co-operation (GTZ), these new directions were drawn up, largely around past field experience. The design of the more specific content of each of the three focal areas is now being led by the same agencies that are expected to then implement them. This approach, while not exactly a “white paper” strategy exercise, nevertheless has permitted Germany to make a fairly rapid and efficient shift in the strategic organisation and concentration of its assistance. Although relatively modest, these strategic adjustments carried a price. Some difficult decisions had to be made in this context, including the dropping the health sector from the German list of focal area priorities, and the reorientation of aid away from provinces such as Maputo and Nampula.

BMZ has recognised the value of the special poverty reduction effort that is currently being attempted by Mozambique, as reflected in the country’s PRSP substitute, the PARPA. The GTZ provided technical assistance in support of PARPA, specifically by sharing PRSP experience from elsewhere in the world, and by supporting the development of a PRSP monitoring system. The current draft of the new German strategy for Mozambique is very consistent with the PARPA, and was the product of several joint discussions with Mozambican partners. The recent choice of Germany’s three focal areas used the criteria of “relevance to poverty reduction” as one of the key indicators in the selection of these strategic priorities. German field staff are now helping to translate PARPA national objectives in poverty reduction into more operational guidance at the provincial level and below.

The programming of aid

The German aid programming cycle technically takes place every two years in the context of government-to-government formal negotiations for new commitments of funds. However, extensive prior and subsequent consultation and field analysis is used to arrive at the substantive implementation details of this aid. The GTZ and the German Bank for Reconstruction (KfW) play a primary role in defining the content of the overall German portfolio in Mozambique, through an ongoing dialogue with Mozambican partners at the national and provincial level. In addition to their leadership in the initial generation of focal area proposals (which are then officially presented to the Mozambican government for review), they conduct informal negotiations and design, then generally implement, most aspects of downstream activities ultimately funded by the German development co-operation programme. Currently and for the foreseeable future, the bulk of German official aid to Mozambique is implemented by the GTZ (40% of total) and the KfW (45%).

51. The “Beira corridor”, which cuts across Sofala and Manica provinces, has the highest HIV/AIDS prevalence rate in the country (30% of the adult population).

German approaches to co-ordination

Most local donors appreciate the professional and collaborative behaviour of the Germany Embassy and key German technical experts. To the outside observer, however, the role of Germany in local dialogue and collaboration on key strategic and sector development issues is not always clear. To quote one local observer: “Although in fact a medium-size donor, Germany is not perceived as such in Mozambique. This is largely due to a lack of corporate identity. There is GTZ (widely perceived to be an NGO), the Ebert Foundation, the German Red Cross, the Embassy, etc., but no single German actor that would represent a coherent German support strategy.” This perception can be perhaps explained by the fact that German development co-operation authorities tend to be centralised in Germany, while German field experience is located in individual projects in the provinces, and the Embassy local capacity to co-ordinate is constrained by extremely limited staffing.

In discussions with local German actors engaged in development assistance, most appreciated and agreed with the need for strategy and sector co-ordination among partners, but felt limited in their ability to act accordingly. Most admitted that co-ordination is the most cost-effective way to avoid unnecessary overlaps with other donors, a way of best focussing their individual development agendas, and a way to promote common group learning. The Ambassador and development co-operation head generally attend monthly Development Partner Group (DPG) and annual Consultative Group (CG) meetings. Germany is not yet a member of the Macroeconomic Support Group⁵² but may do so in the future. Germany also expects to participate actively, in the new, yet-to-be-formulated, PARPA co-ordinating mechanisms. Other key co-ordinating meetings include the EU Head of Co-operation meetings and sector meetings at the national level, and sector working groups (e.g., HIV/AIDS) and the Governor’s Consultative Group at the provincial level.

Donor and Mozambican government co-ordination at the province and below is one special area of concern, however. One specific example of failed co-ordination at this level was in the context of EU, UK and German rural road projects in Zambezia Province. Both EU and UK felt they had made an innovative breakthrough by obtaining agreement to undertake road maintenance through a more efficient, local private sector mechanism. The effort to enlist German (KfW) agreement to follow suit failed, purportedly because of KfW contract requirements which precluded this change in approach. This and other examples noted locally do suggest, however, the need to maintain the aim of flexible local co-ordination as an ongoing priority for all forms of German aid.

German system management

Overview

To understand the workings of German development assistance in Mozambique, it is important to obtain a comprehensive view of its organisation, most of which is physically outside the German Embassy.

Embassy development structure

The German Embassy in Maputo has responsibility for official German oversight of Mozambique and Swaziland. The Embassy contains ten German staff, including six administrative staff and one full-time development co-operation professional. Both Embassy officials and external observers agree that Germany (and Mozambique) is fortunate to have a development specialist seconded by BMZ to

52. A group of nine donor countries in Mozambique that provide budget support and regularly meet to discuss issues of macroeconomic reform.

the Embassy here. This specialist is temporarily integrated into the German Federal Foreign Office (AA) staff for the duration of his presence in Maputo, and is required to work within all aspects of Foreign Office regulations and hierarchy. The incumbent is a fully employed on development issues. He is supported by a Foreign Office generalist professional (70% employed on development issues), and by a part-time expatriate secretary. The Ambassador and the Counsellor provide both an oversight and a supporting role, particularly in the political arena.

The Embassy also co-ordinates regional actions such as the training offered by the Harare-based Carl Duisberg Society (CDG), the academic programmes offered by the German Academic Exchange Service (DAAD), and the small project fund that it uses to promote selected small activities in focal areas.

German implementation agencies in Mozambique

As is the case throughout the German aid system, the actual implementation of development assistance in the field takes place through a number of designated implementation agencies, the most important of which are the GTZ (technical co-operation) and the KfW (financial co-operation). Smaller German agencies in-country include the German Development Service (DED) volunteer group, the Friedrich Ebert Foundation (Social Democratic Party affiliation), the Centre for International Migration (CIM) technical assistance group, and various NGOs, including AgroAction, Freedom from Hunger, and church groups, most of which obtain varying percentages of their funding from the BMZ. The Konrad Adenauer Foundation (Christian Democratic Party affiliate) has recently also indicated that it intends to set up an office in Maputo. These smaller groups play much specific, although sometimes very important roles within the broader context of German development assistance.

GTZ has its office near the Embassy and serves, in an *ad hoc* and informal manner, as an important technical staff and support group to the Embassy development co-operation office. The Director of the GTZ, an expatriate who has been in-country since 1994, is in daily contact with the Embassy development unit and has easy access to other Embassy staff, including the Ambassador. GTZ notes that it has a staff of 20 persons in Maputo which provide logistic and financial oversight of the GTZ portfolio of 30 projects, including 30 experts⁵³ (60% German nationals) and 300 additional local contractors⁵⁴, ranging from professional to support functions. KfW has no field presence and works from its Frankfurt headquarters with its consultants in the field, supplemented by occasional field trips. Field co-ordination between the GTZ and KfW is informal and infrequent, usually in the form of *ad hoc* consultation and co-ordination, as the need arises. Some agencies, particularly DED, integrate some of their activities into the field operations of GTZ.

53. Includes 13 GTZ Field Staff Members (of which one Canadian, Belgian and Mozambican national), two international project experts, six seconded project consulting staff (of which one Peru, UK and Mozambican national), and nine DED development workers in projects.

54. Of which one-half are support staff (guards, drivers, cleaning). Many local contractors were hired for short-term employment in the context of the 2000 and 2001 flood relief efforts.

Operational management

Project orientation

The German aid system is one built upon the individual projects of the implementation agencies. In the course of implementation, each project depends on a decision-making system that is essentially managed from the agency's office in Germany (or in Mozambique in the case of GTZ and a few other decentralised agencies). The implementation agencies co-ordinated with BMZ headquarters, the Mozambican Government, and the German Embassy, as the need arises. While the focus on projects is pragmatic, it is more conservative than alternative approaches to operational management that are now being suggested by other donors in-country, including a current trend in Mozambique toward budget support. Although Germany shares the concerns of some donors towards the current capacity of the Mozambican Government to manage these funds, some experimentation with budget support instruments is admitted (e.g., previous programmes in structural adjustment, emergency relief and education, and support for the Education Sector Strategic Plan fund, now under preparation). Most actors in the German system believe that strong sector co-ordination with other partners is important. They generally also feel that their field implementation orientation ("where the poor are living") gives them a comparative advantage in building from practical field experience, which they then hope to use to inject operational advice into the sector and national strategy perspectives, particularly in the context of the PARPA poverty reduction strategy.

German leadership vs. Mozambican ownership

At the earliest level of portfolio decision-making (strategy paper), identification of priorities officially originates in discussions with the appropriate Mozambican authority. Because of the Mozambican government's extremely thin capacity to deal with the specific issues of German co-operation, however, considerable latitude is given to the German side to identify what is possible. In reality, therefore, emphasis in this country was initially placed in creating an intra-German dialogue, first in Bonn, then in the field, where draft thinking is then more formally shared and discussed with Mozambican partners, including civil society and the private sector. Leadership in actually writing the statement of country strategy (at this point an internal BMZ management paper) is assumed by the BMZ/Bonn country desk officer. At the level of sector (focal area) or project design, leadership is taken by the implementing agency, essentially GTZ and KfW (who have funds for this purpose), using various forms of consultation with their Mozambican and German counterparts. GTZ tends to take advantage of its considerable field presence to design activities, in parallel with consultations with its German headquarters and the German Embassy. KfW, on the other hand, tends to depend on headquarter co-ordination of design, which includes specially contracted consultant inputs. The German Embassy, BMZ/Bonn and Mozambican officials and civil society subsequently have the opportunity to review the drafts of both GTZ and KfW.

One specific issue in this respect is the size of German technical assistance on the ground. Germany generally justifies this technical assistance on the need to support local capacity building, and concurrently, on the need for experienced external support in the management of its funds. As noted earlier, GTZ (and other agencies such as CIM, DED, German Agro Action, a variety of NGOs and others) funds significant technical assistance, a large portion of which is German or other expatriate, in the context of its provincial development activities. One representative statistic cited in Manica Province was that 40% of overall GTZ funding there is for technical assistance. While it is true that local capacity is extremely weak, it would seem prudent for GTZ to move its choice of technical assistance more toward the use of Mozambican or, at least, third-country African professionals, if possible. This could then build up the hands-on experience of local staff while introducing local

perspectives into the German programming and implementation operations and simultaneously reducing (and freeing up for operations) the amount of German funding that goes to expensive expatriate assistance.

The issue of centralisation

Germany development co-operation in Mozambique remains highly centralised. At the level of strategy, formal decision-making lies essentially with BMZ in Bonn. Whereas initial funding decisions are made by the Ministry, subsequent project-level decision-making is frequently held by the implementing agency headquarters (e.g. Frankfurt, Eschborn, Bonn, Berlin), although some informal and formal leadership may be exercised in agencies where field representation is stronger (e.g. GTZ, DED, Friedrich Ebert Foundation). In this sense, the fairly large German programme differs from many other key donors in Mozambique (e.g. USAID, Netherlands, DFID, European Commission), who have well-staffed, local missions, with considerable delegations of authority. Even at the level of the German Embassy, its small development co-operation office functions formally within a centrally controlled and hierarchical system that channels communications and decision-making upward, through Berlin, then Bonn and onward to other partners throughout Germany. This, in turn, forces all partners to resort to informal behaviour so as to allow for reasonably efficient implementation of development assistance. All of these manifestations of central hierarchy and control seem substantially out of synch with best practice and modern aid management, which emphasise the importance of a team environment and a process of local, ongoing dialogue and decision-making.

In the interest of reducing transaction costs while optimising the impact of its development assistance, of improving co-ordination with local donors, of promoting Mozambican ownership, and simply of “representing Germany” best, it would seem important that Germany re-examine its current, centralised management arrangement. In view of the fact that Mozambique is a priority poverty reduction country for German co-operation, some innovation could even be immediately possible. Plausible constructive suggestions in this respect include:

- i. **Embassy leadership:** Most multilateral and bilateral organisations in Maputo have recognised the need for specialised development staff to address the needs of co-ordination of effort and oversight of their field activities. Especially given the centralised and pluralistic institutional approach of German development assistance world-wide, it would seem important that a greater decision-making capacity be placed at the level of the German Embassy, which by German law is the unique official voice of the German Government in Mozambique.
- ii. **Support considerations:** Because the Foreign Office in Berlin has a restrictive policy in terms of the number of BMZ technical specialists that it will allow in embassies around the world, it does not appear currently possible, although desirable, to expand the official development presence in Maputo in this manner. Creative support arrangements for the one development professional at post would seem easily possible, however. The German government has already formalised the relationship between the Embassy and the GTZ ((1996) and the KfW (1998). The German government could plausibly **contract for additional support** with the local GTZ office to provide professional or secretarial support, or to assist in supporting internal German co-ordination and liaising requirements. Improvements could be made in **communications** to and from Germany, both in the sense of improving the communications technology, and in the sense of simplifying and facilitating current regulations (e.g. officially permitting direct email contacts with aid agencies in Germany, perhaps on a “pilot” basis, for non-sensitive technical development issues). **Orientation training** (what to expect, German political

issues, Mozambique issues and background) of the sole BMZ employee and the Foreign Office professionals dealing with development issues, prior to their departure for post, including clearer terms of reference, would seem necessary. Finally, some form of **networking** arrangement for the 20 BMZ officials seconded to German embassies around the world would seem desirable so that they could learn from each other on how to improve their efficiency while at post.

- iii. **Encouragement to strategic co-ordination:** Improvements to co-ordination with key partners such as the Mozambican Government, civil society, and other donors, would seem immediately possible by strengthening the Embassy development staff's ability to push for such action. This could include the reinforcement of Embassy technical capacity and special GTZ funding for improved provincial and sector co-ordination noted above, or simply the assignment of higher priority by all German partners to this issue. The responsibility for leadership on German country strategy development should appropriately be shifted from the Bonn desk officer to the development specialist in the Maputo Embassy. Finally, the specific need for GTZ-KfW field co-ordination is a special issue of importance in this respect, and merits their focused attention, in terms of strategy co-ordination as well as that of field operations.

Monitoring and evaluation

The BMZ is officially attempting to turn the overall German development co-operation system into one learning organisation. While a lofty goal, especially given the pluralistic organisational nature of the system, some improvements have already been made, especially at the level of the KfW and GTZ parts of the system.

In Mozambique, German monitoring and evaluation of its aid projects today is the responsibility of its individual implementation agents. They seem to be doing the best that they can to comply with their reporting requirements in this respect, but complain of the lack the base line data and local skill mix needed to effectively and creatively carry out these functions. Their reports and conclusions tend to remain within their respective organisations and are not systematically shared or discussed with other German (or non-German) partners⁵⁵, and frequently are only in the German language. At a minimum, it would seem possible to more frequently and more widely diffuse an abstract of findings within the relevant community of partners.

Given the limited technical oversight capability of the Embassy, it has little time to read the reports or participate in the substantive use of these monitoring and evaluation efforts. Increased attention to monitoring and evaluation is an important feature of PARPA and implies the need for German Embassy development office to play an active role in its implementation and use. The previously noted German assistance to PARPA helped to identify several conceptual and methodological issues in relation to the monitoring and evaluation of poverty reduction, starting with the need for a choice of indicators and the development of appropriate baseline information.

The more decentralised and strengthened local organisation suggested above would give the German system more opportunity to develop a local learning experience, and thereby help the BMZ significantly to understand how to create a stronger German system monitoring and evaluation arrangement.

55. Officially, all major reports are sent to the BMZ, "relevant" ministries in Mozambique, and GTZ or other partner German agencies in country. For whatever reason, this policy did not appear to be systematically followed in the case of Mozambique.

Commentary on the impact of German aid, drawn from numerous evaluation studies and local observers, was globally positive. This was particularly so in the provinces, where the German “hands-on” approach was very much appreciated, especially by local government officials.

Key findings and conclusions

Key findings and conclusions noted in the context of this review of German development assistance in Mozambique include the following:

- *Overview*: Germany operates a highly appreciated, although not always well understood, programme of development assistance in Mozambique. The German desire for Mozambican ownership and the “hands-on” assistance provided at the provincial level and below are especially appreciated by local authorities.
- *Strategy*: German development strategy, while progressively moving in a more focussed and coherent manner, has several structural constraints (e.g. complexity of internal co-ordination among German agencies, weak capacity at the level of local counterparts) which need to be gradually improved as the environment for change permits. Much of this issue is common to other local donors, as well.
- *PRSP*: The PRSP (or PARPA in Mozambique) offers one future option for a more Mozambican-led and more broadly co-ordinated German strategy. Viewed from Mozambique, however, the PRSP is clearly not seen as playing the more operational role (design, implementation, monitoring and evaluation, policy dialogue) frequently cited in German headquarters. This was similarly true of other local donors.
- *Responsibility for programme design*: Germany seeks pragmatic approaches to the design of its programme in Mozambique, and frequently turns this responsibility over to the German agencies that will later implement it. GTZ (40%) and the KfW (45%) implement the vast majority of German assistance in Mozambique. In some ways this contradicts the declared German desire to promote Mozambican ownership of its aid programmes.
- *GTZ-KfW collaboration*: GTZ has a very large field presence in Mozambique. KfW has none. Co-ordination and co-operation between these two agencies in Mozambique has been difficult and should be a priority for German development in-country.
- *Technical assistance*: The GTZ maintains a visible expatriate presence (60% of which are German nationals). While technical assistance is undoubtedly necessary in the Mozambican context of weak local capacity, one suggestion is to explore the further use Mozambican or third-country African technical assistance in its projects.
- *Sector approaches and budget support*: German aid is heavily built around projects, and sees them as building blocks of its sector strategic priorities. Germany is doubtful about budget support (as are some other donors) because of accountability issues, but is open to testing such mechanisms.
- *Organisational centralisation*: German development assistance overall is centralised. It would seem important and relevant to decentralise key aspects of operational decision-making to the level of the Embassy and the German implementation agencies (e.g. recent decentralisation of the GTZ). This is both consistent with the

practice of many key donors in Mozambique and would facilitate the efficiency with which German aid is conceived and implemented.

- *Monitoring and evaluation:* Germany has made considerable recent progress in improving its M&E systems. Current monitoring and evaluation of German aid implementation in Mozambique is largely the responsibility of the individual German implementation agency in the field. While vertical learning within the agency appears to take place, there is far less sharing among other German, donor and Mozambican agents. Reinforcement of the sharing of monitoring and evaluation at the country level would appear important to the current desire to reshape overall German development co-operation into one, larger learning system.

PRESS RELEASE OF THE DAC PEER REVIEW OF GERMANY

Germany is now the third largest donor among member countries of the Development Assistance Committee (DAC), after Japan and the United States. In 2000, Germany's ODA was USD 5.0 billion and its ratio of ODA to gross national income (GNI) increased to 0.27%. The implementation of the German government's political commitment to uphold an ODA level consistent with the United Nation's 0.7% target ratio remains constrained by the government's overall national objective of balancing the federal budget by 2006. Germany's current ratio is above the DAC (weighted) average of 0.22%, but below the DAC average country effort (unweighted) of 0.39%.

Germany has put development issues high on its domestic political agenda. It made poverty reduction a visible priority in the *Programme of Action 2015* that establishes global poverty reduction as an important element of overall government policy and an overarching goal in development co-operation. Greater coherence in policies affecting developing countries is now a government-wide priority and is also being pursued internationally, especially with other Members of the European Union. The Federal Ministry for Economic Co-operation and Development (BMZ) now has greater authority to enhance this policy coherence. A detailed implementation plan for the programme is being developed and is expected in early 2002.

A number of organisational changes have been introduced in the last three years to enhance cohesion, streamlining, and operational efficiency among German development institutions. This has reduced the organisational size and further simplified the operations of the overall German system. Some streamlining of effort is now taking place in the partner countries, as well.

The DAC reviewed Germany's development co-operation policies and programmes on 20 November 2001. It commended Germany on the quality of its co-operation on the ground and welcomed the progressive changes that have been made to the German aid programme since the last Peer Review in 1998. In addition to the changes mentioned above, they include the implementation of DAC recommendations to untie development aid to the LDC's, a closer involvement with selected multilateral and bilateral agencies, and a broader and more strategic approach to working with civil society.

This new vision for German development co-operation raises a number of operational challenges. Recognising that the *Programme of Action 2015* sets out an ambitious agenda for development co-operation within a global perspective, and that it will be essential to align policies, resources, operations and organisation with this vision, the DAC Chairman, Mr. Jean-Claude Faure, summarised the committee's recommendations:

- The DAC welcomed the reversal in declining ODA volumes and share of GNI from 1999 onwards. It encourages Germany to sustain efforts to increase the size of its ODA and to generate greater support for development co-operation amongst the general public. Central to this will be the maintenance of an active dialogue with

parliamentarians, civil society, the media and the public on the aims, benefits and risks associated with delivering Germany's aid programme.

- Strengthen the German focus on priority allocation of ODA resources around its *Programme of Action 2015*, including the geographic and sector dimensions.
- Continue to seek, and develop, effective ways and instruments for the promotion of greater policy coherence in such areas as trade, agriculture, environment and conflict reduction, across the German government and at European and international levels.
- Take full advantage of the new generation of German operational country strategies to address the challenges of greater sector focus and the appropriate mix of aid instruments, including the best approaches to partner country capacity building, in collaboration with the broader donor community.
- Give urgent consideration to the reinforcement of German field capabilities, whether official or contractual, so as to improve efficiency by shifting the locus of German aid co-ordination and decision-making progressively towards the field.
- Review options for improvement in communications and learning, both among German development agencies in the field and between the field and headquarters in Germany.
- Look closely at the issue of horizontal learning within the partner country as one area for future improvement. The DAC supports current German efforts to reinforce its monitoring, evaluation and knowledge management capacity.
- While recognising the high quality of German development personnel, the DAC is concerned by the prospect of continued staff reductions. In view of this special challenge, the DAC welcomes Germany's efforts to maintain a personnel management vision that anticipates its staffing needs (quality, skills, location) in this evolving context.

During the review, the German Delegation was led by Dr. Ursula Schäfer-Preuss, Director-General, Instruments of Bilateral Co-operation, Federal Ministry for Economic Co-operation and Development. The examiners were Japan and Switzerland.

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. The DAC list is updated immediately to reflect any change in the LLDC group.

Other LICs: Other Low-Income Countries. Includes all non-LLDC countries with per capita GNI less than USD 760 in 1998 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, i.e. with GNI per capita (World Bank Atlas basis) between USD 761 and USD 3 030 in 1998. LLDCs which are also LMICs are only shown as LLDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, i.e. with GNI per capita (World Bank Atlas basis) between USD 3 031 and USD 9 360 in 1998.

HICs: High-Income Countries, i.e. with GNI per capita (World Bank Atlas basis) more than USD 9 360 in 1998.

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

DEBT REORGANISATION: 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 commitment: 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%; it is 100% for a GRANT; and it lies between these two limits for a LOAN at less than 10% interest.

LOANS: Transfers for which repayment is required. Data on **net 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 II of the DAC LIST OF AID RECIPIENTS.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): GRANTS or LOANS to countries and territories on Part I of the DAC LIST OF AID RECIPIENTS (developing countries) 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%).

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 recipient countries.

PRIVATE 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. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

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 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 recipient countries.

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.