

DAC Peer Review

GERMANY

Development Assistance Committee



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and efforts of each member are critically examined approximately once every four years. Five or six programmes are examined annually. The OECD's Development Co-operation Directorate (DCD) provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC members who are designated as "examiners". The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the member concerned. Field visits assess how members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination. A recent innovation is to organise "joint assessments", in which the activities of several members are reviewed in a single field mission.

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.

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from France and the Netherlands for the Peer Review on 13 December 2005.

*In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

List of Acronyms

AA*	Federal Foreign Office
ALNAP	Active Learning Network for Accountability and Performance in Humanitarian Action
AURA*	Mandate Framework
BMZ*	Federal Ministry for Economic Cooperation and Development
CAP	Common Agricultural Policy
CIM	International Centre for Migration and Development
CPS	Civil Peace Service
DAC	Development Assistance Committee (OECD)
DAAD*	German Academic Exchange Service
DED*	German Development Service
DEG*	German Investment and Development Company
DSE*	German Foundation for International Development
EC	European Community
ECG	Export Credit Guarantees
EDF	European Development Fund
EU	European Union
FAO	Food and Agriculture Organization (UN)
GDI	German Development Institute
GHD	Principles and Good Practice of Humanitarian Donorship
GNI	Gross national income
GTZ*	German Agency for Technical Cooperation
HIPCs	Heavily-indebted poor countries
IDA	International Development Association
InWEnt*	Capacity Building International
ISDR	International Strategy for Disaster Reduction (UN)
KfW*	KfW Development Bank
MDGs	Millennium Development Goals
NGOs	Non-governmental organisations
ODA	Official development assistance
OSCE	Organization for Security and Co-operation in Europe
PBA	Programme-based approach
PPP	Public Private Partnership
PRS	Poverty Reduction Strategy

SDPRP	Sustainable Development and Poverty Reduction Programme
SSR	Security System Reform
UN	United Nations
UN-CAP	UN Consolidated Inter-Agency Appeal
UNDP	UN Development Programme
UNHCR	UN High Commissioner for Refugees
UN-OCHA	UN Office for the Co-ordination of Humanitarian Affairs
VENRO*	Association of German Development NGOs
WFP	World Food Programme
WHO	World Health Organization

* Denotes acronym in original language.

Signs used:

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

Slight discrepancies in totals are due to rounding

Exchange rate (euro per USD)

2000	2001	2002	2003	2004
1.0851	1.1166	1.0611	0.8851	0.8049

Germany's Aid-at-a-glance

GERMANY

Net ODA	2003	2004	Change 2003/04
Current (USD m)	6 784	7 534	11.1%
Constant (2003 USD m)	6 784	6 788	0.1%
In Euro (million)	6 005	6 064	1.0%
ODA/GNI	0.28%	0.28%	
Bilateral share	60%	51%	
Net Official Aid (OA)			
Current (USD m)	1 181	1 434	21.5%

Top Ten Recipients of Gross ODA/OA (USD million)	
1 China	396
2 Congo, Dem. Rep.	314
3 Nicaragua	307
4 Cameroon	278
5 Indonesia	163
6 India	157
7 Zambia	135
8 Egypt	134
9 Serbia & Montenegro	119
10 Turkey	104

Gross Bilateral ODA, 2003-04 average, unless otherwise shown

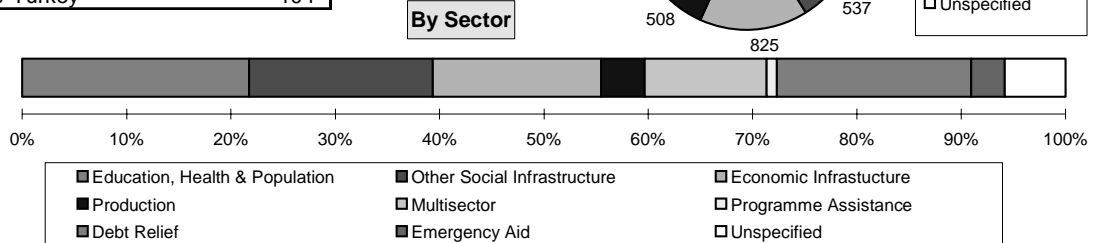
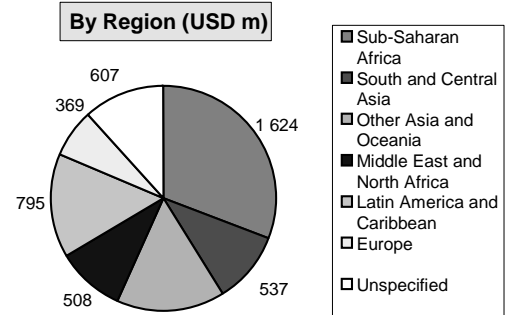
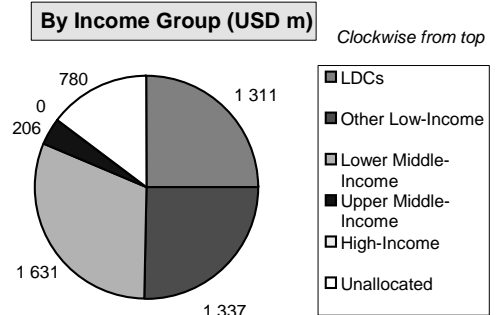


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DAC'S MAIN FINDINGS AND RECOMMENDATIONS

General framework and current directions

Since the 2001 DAC Peer Review, the process of change in Germany's approach to development co-operation has gained momentum enabling it to adapt to the evolving international context regarding development policy and practice, while at the same time taking into consideration DAC recommendations. Like most other donors, Germany has committed to increase its Official Development Assistance (ODA) in support of the Millennium Development Goals (MDGs) and to improve the quality of aid in line with the 2005 *Paris Declaration on Aid Effectiveness*. Responding to current development challenges will require further adjustments in Germany's aid delivery modalities that the German government is open to address.

The critical issue of implementing the poverty reduction agenda

The *Programme of Action 2015 on Poverty Reduction (PA2015)*, which had just been adopted by Cabinet at the time of the previous DAC Peer Review, set out an ambitious agenda for development with a global perspective. Germany was among the first DAC members to adopt such a comprehensive government-wide policy statement providing a ground-breaking approach to poverty reduction, which was established as an overarching task in development co-operation and an important element in all national policies. Poverty reduction is not the only objective of German development policy which also includes peace building and the promotion of equitable globalisation and is guided by sustainable development. The philosophy underpinning PA2015, which is based on a broad understanding of poverty reduction, is that economic growth - together with governance - are needed in addition to social development in order to make progress on the MDGs. All these objectives and themes, though in some ways complementary to PA2015, can lead to confusion over German priority objectives. The process of defining the operational implications of such a comprehensive approach was not forthcoming until 2004 when an internal monitoring and time-bound implementation plan was agreed upon.

In its efforts to fulfil international commitments, notably in the context of the MDGs, the German government has made considerable progress in adjusting its policies and approaches. It needs to persevere in implementing them effectively and efficiently and in doing so, to enhance the focus on poverty reduction. Germany can be commended for being active in a number of areas which tend to attract less funding from other donors, notably in the field of governance and environment. The challenge for Germany is to demonstrate the right balance between direct and indirect approaches to poverty reduction and the impact of its broad-based approach. Germany's approach to poverty reduction and the MDGs is now basically linked with its strategy on harmonisation and alignment, which provides a promising basis for a more effective poverty reduction strategy.

Streamlining the institutional setting

The German development co-operation system is multi-organisational. The Federal Ministry for Economic Cooperation and Development (BMZ) plays a central role and has been reorganised in 2003 to better integrate bilateral, multilateral and sectoral responsibilities. It relies principally on two

implementing agencies: the Agency for Technical Co-operation (GTZ) and the KfW Development Bank. The full range of German organisations that rely on ODA funding is more diverse than this organisational core and includes more than 30 institutions, including other federal ministries, official agencies and organisations outside government (political foundations, church-based organisations and non-governmental organisations) as well as federal states and municipalities.

In a context of development co-operation based on the principles of partnership and ownership the German model of development co-operation may no longer be appropriate from a partner country perspective. The institutional distinction between financial and technical co-operation and within technical co-operation itself has major implications throughout the entire development co-operation process. First, the German system - which relies on a wide range of organisations, instruments and approaches - runs the risk of being donor-driven in designing strategies and programmes. Second, the internal co-ordination needs absorb German staff time and energy away from more important strategic tasks. Finally, developing country partners are required to deal with multiple organisations and procedures, an unnecessary burden on their often limited capacity.

In recent years, BMZ has introduced a number of practical measures which better integrate the various instruments of German development co-operation with the aim of making the system function better. A conclusion of this review is that, within the existing structure, the potential for further efficiency gains is limited. Structural changes will be needed for Germany to respond effectively to current development challenges. The modernisation of the traditionally compartmentalised German development co-operation system is not a new topic and has been frequently discussed over the years both inside and outside German development co-operation. The new government might provide a useful window of opportunity in this regard and should undertake a major reform of the overall structure of the German development co-operation system and the associated complex political, financial, administrative and cultural issues.

Recommendations

- In order to keep the poverty focus throughout its development programme, Germany is encouraged to continue adjusting its policies and approaches. There is in particular a need for a systematic and consistent approach to **assess the poverty impact** of Germany's comprehensive way of addressing poverty reduction which should be built into bilateral country programmes.
- The German government is encouraged to go further in its **reform efforts** with a view to joining up the individual structures of German development co-operation into a more cohesive force for development change. This may include abolishing the increasingly artificial distinction between financial and technical co-operation.
- The fulfilment of international commitments will require broad-based support within the government and civil society, building on political foundations, church-based organisations and NGOs. Germany is encouraged to rethink communication to ensure a better public understanding of development issues and outcomes in general, including the rationale underlying delivery modalities that are more conducive to aid effectiveness.

Aid volume and distribution

Securing political support to fulfil commitments for increased ODA

Germany's new government has reaffirmed in its coalition agreement the country's long-standing commitment to the UN target of 0.7% ODA/GNI, in line with the agreement reached within the European Union (EU) in May 2005, according to which Germany's objective is to reach 0.51% by 2010 and 0.7% by 2015. This is a welcome commitment given Germany's overall tight fiscal situation and the need to balance the federal budget in a context of economic and social reform difficulties. Despite the cross-party support to Germany's development co-operation and its focus on poverty reduction, it will be important for BMZ to secure the necessary political support for increasing Germany's development co-operation budget. This may require a more forceful presentation of development co-operation work and results achieved in a context of globalisation and increasing interdependency among nations.

A significant budgetary effort will be needed for Germany to fulfil its international commitment. Achieving the target of 0.51% by 2010 would imply an increase of net ODA to USD 15.5 billion, a doubling from its 2004 level of USD 7.5 billion. After a decade of decline, Germany's ODA has grown modestly since 2000 in real terms bringing the ODA/GNI ratio from 0.27% to 0.28%. Given its tight fiscal situation, Germany intends to fulfil its longer-term commitments through not only additional budgetary resources but also debt relief and resources mobilised through new and innovative financing mechanisms. However, debt relief, which represented 9% of total gross ODA in 2004 and 18% in 2002 and 2003, is likely to decline by 2008. In addition, there is still uncertainty regarding the scope for mobilising ODA resources through innovative mechanisms.

Achieving the 0.51% target raises the double challenge of mobilising the necessary resources and the capacity to spend them effectively. An ODA growth implementation plan has yet to be defined and agreed upon by the new government. Such a plan would be needed for a better overview of the prospects of future ODA growth and for the predictability necessary to effectively programme and spend important amounts of additional resources. Such a plan should clearly state how much of the ODA growth will be funded by additional budgetary resources versus innovative financing sources. As the perspective of a rapidly expanding ODA budget raises issues of overall organisational capacity and will put growing pressure to adapt delivery modalities, the ODA growth implementation plan should also indicate how ODA will be spent, based on which allocation criteria (countries, sectors, instruments and modalities, including the multilateral-bilateral split). Finally, such a plan would also be useful in the context of global ODA scaling-up which requires better exchange of information among donors to ensure predictability of external resources for developing countries and complementarity among donor support.

A movement in favour of poorer countries but need for greater strategic selectivity

Germany has never stated a preference in favor of specific groups of countries. Germany admits that poorest countries need donors' full support but also considers co-operation with economically more advanced countries as vital for achieving the MDGs since 50% of the world's poor live in China and India alone. In shaping its approach to economically more advanced countries (the "anchor countries"), most of which have access to international capital markets to finance their development needs, Germany intends to engage in strategic partnerships with these countries including the greater use of market funds in place of budgetary resources. Historically there has been a strong focus of Germany on middle-income countries, which received more than 50% of bilateral funds until the early 2000s. Least developed and other low income countries now account for more than 50% of bilateral ODA (partly due to the increasing importance of debt relief).

To increase the strategic focus of bilateral co-operation, BMZ emphasises action in some 80 co-operation countries and in each of them on a limited number of areas. Distinction is made between “priority partner countries”, where BMZ intends to focus on up to three priority areas and “partner countries”, where co-operation is limited to one priority area. The optimal number of co-operation countries remains an open question in light of Germany’s commitment to greater aid effectiveness and more efficient aid delivery modes based on a better division of labour among donors. BMZ is now reviewing a possible set of criteria to better take into account emerging challenges of aid effectiveness. In reviewing its list of co-operation countries, BMZ should also take into account the appropriate mix of countries and instruments as well as the delivery capacity required to enable Germany to contribute effectively to poverty reduction and achieving the MDGs.

Towards more effective multilateral co-operation

Germany’s multilateral ODA usually accounts for about a third of total gross ODA but was higher in 2004 (42%) due to a large contribution to the World Bank. In an increasingly globalised world, Germany attaches growing importance to multilateral co-operation. In order to better focus on the effectiveness of international agencies, BMZ intends to monitor their progress in implementing the internationally agreed upon development agenda, including the fight against poverty and the MDGs at the field level. The internal reorganisation of BMZ in 2003, which combined multilateral, bilateral and sectoral responsibilities across the ministry, has enhanced the consistency between multilateral and bilateral policy making.

The shift towards greater focus on performance assessment has not yet been used to guide levels of financial contributions to multilateral agencies. Germany has traditionally supported the European Community (EC) and International Financial Institutions but recognises that United Nations agencies deserve greater support given the role they should play on global issues. This increased focus on multilateralism has yet to be accompanied by similar levels of strategic thinking and performance monitoring. An immediate implication for the increased multilateral focus is, therefore, the formulation of a clear multilateral strategy, and an organised approach involving Germany’s implementing agencies which more systematically tracks the performance of the multilateral institutions.

Recommendations

- Germany needs to address urgently the challenge of implementing its ODA commitments. This requires the new government to adopt an **ODA growth implementation plan**, focusing both on the resourcing and spending dimensions of the equation.
- Germany needs to pursue its attempt to adopt in its development policy a **more strategic approach towards geographic and thematic focus** that better reflects its overarching poverty reduction objective. Further thinking is needed around the balance between middle-income countries and low-income countries and the determination of the appropriate mix of countries and instruments to enable Germany to contribute effectively to poverty reduction and achieving the MDGs.
- Greater emphasis on the performance of multilateral agencies could be better translated into a funding allocation policy. This may require a more adequate framework for **multilateral co-operation**, encompassing global funds, based on a methodology that includes an assessment of effectiveness, preferably in collaboration with other donors.

Policy coherence for development

A growing political interest

The broader German interest in policy coherence originates in constitutional requirements which are actively monitored and co-ordinated by the Chancellery. Germany's independent development ministry with cabinet status provides room for active involvement at the highest levels of government which has led to a number of specific policy coherence statements over the last five years (*e.g.* arms exports; crisis prevention, conflict resolution, peace building; export guarantees; sustainability strategy). BMZ is also responsible for examining the impact on development of all government legislation. In 2001, the government specifically re-affirmed its commitment to a coherent cross-government approach to development with the adoption of PA2015. The PA2015 agenda did not become organisationally consolidated until 2004, when BMZ produced a "coherence agenda" that identified 14 priority goals with targeted division-level responsibilities and a sense of time frame. In part, due to further encouragement from the EU and international bodies such as the DAC, policy coherence for development is becoming a top BMZ priority and now figures prominently in the BMZ management guidelines for 2005.

This growing attention to policy coherence for development has given Germany a more solid organisational foundation for it to more systematically and specifically shape its actions in Germany and within the EU, internationally and in developing countries themselves. Turning this more ambitious vision into operational reality will require additional strategic clarity and resources.

Better operationalising policy coherence: policy, capacity and monitoring

The BMZ coherence agenda adopted in 2004 represents an initial framework for greater operational clarity in this broad area, but its current goals are set at different levels (activities, outputs or organisational change), lack a sense of priorities among actions and their inter-linkages have yet to be highlighted. It should now be possible to move this action agenda from process considerations to more specific priority issues of policy coherence. This process requires extensive consultation and involvement of key partners, including parliament, the Chancellery, other ministries and targeted, influential elements of civil society.

BMZ currently has a limited capacity to identify, analyse and play an advocacy role in the policy coherence area. Few experienced development professionals currently play an active role in policy coherence. BMZ should look beyond its own organisational boundaries to supplement skill level and resources required to undertake its vision, including relationships with other bilateral efforts or that of the EC, which is currently attempting to build its own informal member network. Such efforts simultaneously enhance analytical capacity and the ability to mobilise public and political forces in favour of policy coherence.

Reference to policy coherence implementation to date has been essentially limited to the modest information on the topic contained in the biannual reports on implementation of PA2015. Now that BMZ has initiated its more operationally specific coherence agenda, a meaningful effort can similarly be initiated to track and report on Germany's efforts to promote greater coherence, whether in Germany or in the field.

Recommendations

- A clearer and more operational **BMZ policy statement on coherence for development** should be framed to better focus and organise national action around specific substantive priority issues, and to promote greater political and public support.
- **The organisational and resource considerations** of BMZ need to be addressed as it further attempts to implement the priority accorded to policy coherence. Additionally, current efforts to work through networks on policy coherence, such as that of the EC, can be an effective approach to reinforcing German capacity.
- In relation to the existing monitoring of PA2015, the operational definition of policy coherence afforded by the BMZ coherence agenda should lead to improved **tracking and reporting** of progress.

Aid management and implementation

Progress on aid effectiveness: programming and modalities

As recently embodied in the principles of the Paris Declaration on Aid Effectiveness, DAC members are increasingly aware of the need to creatively rethink their own national aid systems in ways that focus on most effective delivery in the field, rather than historic or domestic considerations. Germany strongly supports this international vision and has expressed its desire to be a “champion” in this area. To date it has undertaken a number of pilot efforts to modernise its aid system, including renewed attention to field-based German co-ordination (*e.g.* additional BMZ staff in embassies; use of country and sector teams, including team leaders; use of one country strategy for all agencies), or more flexible use of delivery modalities that go beyond a project-based system, including programme-based approaches and budget support. Germany can now build upon these experiences. Additional suggestions contained in the main Secretariat report include the further strengthening of the role of the Development Co-operation Officer under the substantive leadership of BMZ and the secondment of additional BMZ staff to embassies, the further integration of German implementation agency operations and programmes in the field, and the review of current use of country sector strategies that could be merged into one document better aligned with partner country-led strategies.

Much of the change process described above relates to the more efficient internal functioning of the German aid system. With a more efficient and better co-ordinated local national presence, Germany will want to continue its efforts to match its system requirements with those of other partners in country. This will vary from country to country and the local country team should have leadership responsibility to determine the optimally appropriate approaches required by local realities.

Field perspectives and their impact on headquarters

The shift to a more organisationally decentralised and locally efficient aid approach also invites consequential re-examination of organisational relationships at the level of headquarters and the field (*e.g.* between BMZ and the implementing agencies; among implementation agencies; between BMZ and the Federal Foreign Office), as well as the whole gamut of domestic procedures from aid strategic planning to annual budgeting. BMZ is now promoting a network approach at all levels to encourage pragmatic team building among relevant actors around topics of operational specificity. These are interim steps toward a rethinking of the entire aid system. In the longer term, active team building across bureaucratic boundaries can permit a gradually improved understanding of key relationships that should help to simplify procedures and mechanisms of collaboration. At the level of headquarters, as well as in the field, it would seem desirable to shape these organisational relationships against a backdrop of results.

Critical to both internal reform and the improvement of relationships to external partners is the role of German development staff. Because of the current fragmented institutional nature of the German system, the overall deployment of human resources is not seen as a “system” responsibility. Human resource planning could be both more proactive and better co-ordinated to work toward optimal resource allocation, especially in the new context of decentralisation and international donor effectiveness.

One specific field perspective of particular relevance is Germany’s traditional approach to “technical” and “financial” co-operation, for which the distinction is becoming increasingly artificial in the current environment of more joined up approaches to development co-operation. The realities of field delivery and an emphasis on results mean that distinctions between funding source or agency of delivery are less important than the impact that the aid is expected to achieve. One key operational consideration pursued by Germany over the last decade has been a deliberate conceptual shift away from narrow technical assistance to technical co-operation in support of capacity development at broader levels of the national setting. This should be pursued. Further, Germany’s considerable attention to technical co-operation as a means to promote local capacity development suggests that it could play a role of conceptual leadership at the field level on issues of local capacity development.

Need to better demonstrate results and strengthen knowledge management

Germany has improved the effectiveness of monitoring and evaluation since the last DAC Peer Review. Each of the core organisations has made an effort to upgrade the quality of its own part of the development co-operation system, especially at the project level. Nevertheless, at a more specific level, Germany needs to make a greater effort to build in its results monitoring and evaluation systems at the outset of its implementation planning, including possible support for building capacity of local systems or joint approaches with other donors. Most importantly, it is possible for BMZ to review the extent to which this loosely co-ordinated network of performance tracking can now come together to promote collective learning and greater management effectiveness at the system level. Such an approach could be usefully informed by recent success in promoting cross agency team building and work undertaken by GTZ at the sector level which could lay the groundwork for future sector learning across agencies.

Recommendations

- In support of the Paris Declaration **aid effectiveness agenda** and taking account of the **scaling up** of its aid, Germany should enhance its efforts to integrate the operations of its implementation agencies in the field. It should intensify co-operation with other donors, including the use of modalities such as budget support and forms of delegated partnership, to the extent they support country realities. Linkages with country-led poverty reduction strategies should be used more systematically, with programme emphasis at the sector level.
- The current push for operational **decentralisation** should gain speed and, to the extent feasible, go beyond only co-ordinating German aid to actively managing it under the authority of the Development Co-operation Officer. This will require a new understanding between BMZ and the Federal Foreign Office on their relationships in the field.
- BMZ, in collaboration with all technical co-operation agencies, should strengthen the implementation of its policy aimed at using **technical assistance** in support of **capacity development**. It should consider playing an active leadership role in exploring these issues with other donors at the local level.

- Any forward thinking on new approaches to German development co-operation in the field must include parallel **human resources** planning (number, seniority, skill mix, location, support from headquarters or other sources).
- BMZ should intensify its efforts to join up the different parts of the German system to harmonise evaluation activities and promote **learning** and should ensure adequate resources are committed to this effect.

Humanitarian aid

Need for an integrated approach

Germany is an important contributor to financing humanitarian action. Considering its national capacity, G7 status and expected ODA levels in relation to the 0.51% and 0.7% targets, however Germany's potential in financing humanitarian action is not optimised. Humanitarian aid remains a small part of Germany's development co-operation expenditure. According to DAC data "Emergency and distress relief" in 2004 totalled USD 186 million, accounting for only 2% of total German ODA compared with the DAC average of 7%. Of all DAC members, Germany is the second largest contributor to the Indian Ocean tsunami with pledges of USD 634 million planned to be disbursed by 2009. There has been an important German political commitment on the additionality of these pledges. As for other donors, an ongoing challenge will be to turn pledges into disbursements while ensuring that the needs of other emergencies are not compromised.

An assessment of the German policy framework indicates a need to synchronise, update and broaden policies to better reflect the scope of actions as required by *The principles and good practices of good humanitarian donorship* (GHD). There is no comprehensive policy on humanitarian aid to guide actors within the German development system. Humanitarian aid managed by the Federal Foreign Office focuses on emergency response. Detailed funding principles are not spelled out apart from what is regulated by legislation and in the 12 guiding principles. Humanitarian aid funding is always earmarked and may not be subject to any form of conditionality other than for auditing and reporting purposes. Projects are limited to short-term funding and ideally should be completed within a six month period. Funds managed by BMZ are regulated by different procedures. A budget line introduced in 2005 on "development oriented emergency and transitional aid" has increased Germany's ability to have a broader and more flexible humanitarian response.

The German humanitarian aid system is compartmentalised. It is managed by two ministries with interdependent areas of responsibility. A detailed and rather inflexible budget system contributes further to a fragmented approach. On one side, the Federal Foreign Office holds responsibility over a strong and independent unit focused on emergency response. On the other side, BMZ operates a smaller unit with a broad and more loosely defined mandate. This divided management approach creates a disconnected structure where the sum of the parts is less than the total. The effect is to isolate parts of humanitarian operations both from each other and from other parts of the ministries in which they reside. This reduces their ability to address the complexity of contemporary emergencies and thus makes the aid less effective. It complicates synchronisation of actions both within humanitarian action and in how it relates to development co-operation. The challenge applies to all aspects of planning, operations, as well as follow-up and learning.

Whereas the strength of the present system rests in the timeliness of funding, approaches to other funding principles (flexibility, predictability) need to be further addressed. Germany should explore opportunities to use new aid modalities for humanitarian allocations, such as common humanitarian action plans and pooled funding.

Recommendations

- Germany should develop a **comprehensive humanitarian policy** reflecting the GHD principles and good practices. Such a policy should reflect strategies for implementation providing guidance on civil-military relations, disaster risk reduction, environmental and social aspects.
- While increasing its ODA Germany is encouraged to **increase allocations** to humanitarian aid. Germany should also explore opportunities of using new humanitarian aid modalities such as pooled funding and humanitarian funds.
- In order to facilitate a broadened humanitarian approach, Germany should consider **enhancing the coherence** of all components of humanitarian aid (prevention and preparedness, emergency response, recovery and reconstruction) which should be facilitated within a common budget.
- As Germany's humanitarian aid expands it should consider developing its evaluation system in this field. Germany should also consider evaluating the overall performance of its humanitarian aid system involving the Federal Foreign Office and BMZ.

SECRETARIAT REPORT

Chapter 1

Overall Framework and New Orientations

Strategic context of German development co-operation

A long-standing commitment to development co-operation

Germany has been a major bilateral donor of world development co-operation over the past five decades. The justification for Germany's development co-operation is motivated on the one hand by an ethical-humanitarian responsibility and on the other hand by its interest "in ensuring human security and a peaceful, more equitable, ecologically stable and economically prospering world future". It also reflects the country's acknowledgement of its responsibility as one of the richest nations in the world which itself benefited considerably from foreign aid under the Marshall Plan for reconstruction after World War II. Yet other foreign policy interests contributed to shaping German development co-operation. Aid was extended to almost every developing country as Germany was striving for international recognition in the 1950s and the 1960s. Trade and economic policies also had an influence with the resulting emphasis on infrastructure. The focus on effectiveness in promoting development took centre stage over time and German bilateral development co-operation has earned a good reputation for its sound technical expertise. Non-governmental organisations (NGOs), church-based organisations and political foundations have also played an active role through their partnerships with counterparts in developing countries.

At the time of the last DAC Peer Review in 2001, the Federal Government had just approved the *Programme of Action 2015 on Poverty Reduction – A Global Responsibility* (BMZ, 2001), a major policy innovation which has given development co-operation a profile and a vision of its own. There are three levels of action for Germany's development policy: internationally, in partner countries and in Germany itself. The adoption of a global poverty reduction strategy, which rests on principles such as partnership and shared responsibility, has logically increased multilateralism in Germany's approach to development co-operation. At the European and international level, Germany is seeking to bring about changes to international regimes, agreements and institutions that will benefit developing countries. Germany has played a prominent role in advocating a greater participation by developing countries in international decision-making processes, for example by engaging in the "Voice and Participation" discussion within the Bretton Woods Institutions or by strengthening their position in bodies such as the Security Council or the World Trade Organisation. Germany also demonstrated its ability to play a leading role in mobilising support from the international community to help Afghanistan after the fall of the Taliban regime in 2001 by hosting several key international gatherings aimed at forging the country's political future.

Since 2001, the Federal Government has confirmed on several occasions its commitment to development, which shows the value of having a separate ministry for development co-operation, headed by a dedicated minister with full cabinet rank, providing a permanent platform for advocacy of development co-operation. Germany's decision to increase Official Development Assistance (ODA) to attain the United Nations (UN) target of 0.7% of the Gross National Income (GNI) is consistent with

its support to the Millennium Development Goals (MDGs). Given the overall tight fiscal situation and the need to balance the federal budget in a context of economic and social reform difficulties, this is a remarkable commitment which reverses a decade of downward ODA trend in the 1990s.

Poverty reduction as the overarching objective

The aim of German development policy has always been to improve economic and social development in developing countries. The concepts and policies for pursuing such a goal as well as its operational priorities have been updated on a regular basis. Since the early 1990s, poverty reduction has been given more prominence in German development co-operation. Germany was among the first DAC members to respond to the UN Millennium Declaration by adopting in 2001 a comprehensive policy statement on poverty reduction, the Programme of Action 2015 (PA2015). PA2015 sets out an ambitious agenda for development co-operation centred on poverty reduction in a global perspective. Poverty reduction is established as an overarching task in development co-operation and an important element in all national policies. Such an agenda calls for a coherent approach in the field of environment, agriculture, trade, economy, finance, science and technology with improvements needed for the benefit of the poor at the global level, in partner countries and in Germany itself. An interesting feature of PA2015 is its ambition to pool all the forces in society to foster a collective responsibility of all government departments at the federal level, non-governmental organisations, the churches and the private sector.

PA2015 is based on a broad understanding of the concept of poverty, which is defined not just in terms of low income but also deprivation, vulnerability, injustice and lack of prospects. In Germany's view, poverty reduction efforts must tackle the various causes of poverty. In line with its vision of global sustainable development, a holistic approach is needed to improve social, economic and environmental structures and to enhance the stabilization of political structures by promoting democracy, the rule of law and non-violent conflict resolution. Because of its ambitious vision, PA2015 encompasses a range of broad priority areas for action listed in Box 1. Each of the ten priority areas in turn include specific actions, resulting in a total of 75 actions, which indicate the measures the government could take at various levels. However, the process of defining the operational implications of PA2015 and its translation into geographic, sector and instrument priorities proved far more difficult than initially intended. Only in 2004 was an internal monitoring and time-bound implementation plan agreed upon.

Box 1. The Programme of Action 2015

The government has identified the following ten priority areas where it intends to take concrete steps as a contribution to achieving the aim of halving extreme poverty worldwide by 2015:

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

Source: BMZ (2001).

Another difficulty is created by the existence of overlapping and not mutually excluding layers of themes and cross-cutting issues. Poverty reduction is not the only objective of development policy. It also includes peace building and the promotion of equitable globalisation (BMZ, 2005e) and is guided by sustainable development. Germany has also recently adopted a rights-based approach to development and will ensure the realisation of the economic, social, cultural, civil and political rights of people in partner countries. Cross-cutting issues, which need to be mainstreamed in German bilateral co-operation programmes but which are also considered as issues in their own right, include: poverty reduction; HIV/AIDS prevention; gender equality; good governance and participatory development; environment and protection of natural resources; conflict prevention; and human rights. The possible priority sectors for bilateral development co-operation include: democracy, civil society and public administration; development of peace and crisis prevention; education; health, family planning and HIV/AIDS; drinking water, water management and sanitation and waste management; food security and agriculture; environmental policy, protection and sustainable use of natural resources; economic reform and development of the market system; energy; and transport and communication. These themes are in some ways complementary to PA2015, in some ways new and can lead to confusion over German priority objectives.

Notwithstanding challenges in implementation described in Chapter 3, PA2015 has created a useful momentum for enhancing the profile of development policy on the overall political agenda as well as the status of the Federal Ministry for Economic Cooperation and Development (BMZ) as a credible government partner. It has also established itself as a basis for greater policy coherence for development (Chapter 4).

A pluralistic approach to development

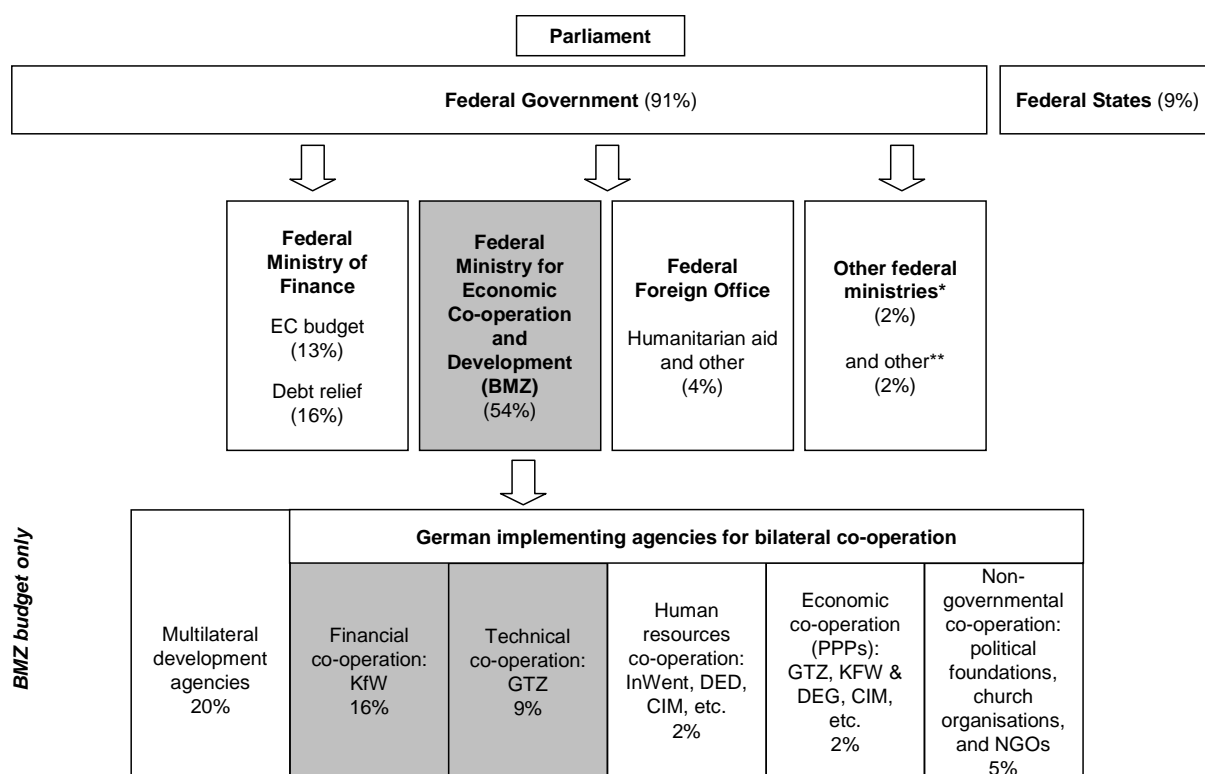
Consistent with the federal system of government that has characterised overall German administration for the latter half of the 20th century, Germany's approach to development co-operation is multi-organisational (Figure 1). BMZ plays a central policy-making role and relies principally on two implementing agencies which can be considered as the main pillars of German bilateral development co-operation: the Agency for Technical Cooperation (GTZ) and the KfW Development Bank (KfW). The German system is characterised by a clear institutional distinction between "financial" and "technical" co-operation, the implications for which (strategies, programming, budgeting) are explored elsewhere in this report (Chapters 5 and 6). A more detailed description of the organisation and management of the German development co-operation system can be found in Chapter 5 while the list of the full range of German institutions relying on ODA funding is provided in Annex D. Finally, a significant share of ODA is provided by Germany's federal states, the *Länder*.¹

A special feature of German development co-operation is the role played by the political foundations. There are six such foundations affiliated to the main political parties² but autonomous in the conduct of their activities. They promote democratic development and respect for human rights in developing countries with funding from the federal budget for development co-operation (Chapter 2).

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1. Most of the ODA from the 16 *Länder* is composed of imputed student costs (Chapter 2) while budgetary resources allocated to development co-operation amounted to about EUR 50 million in 2003 (less than 10% of the total ODA contribution by *Länder*).
 2. 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).

Figure 1. Overview of the German development co-operation system

(%) refers to share of total ODA gross disbursements in 2003



* Other federal ministries include: Consumer Protection, Food and Agriculture; Defence; Economics and Labour; Education and Research; Environment, Nature Conservation and Nuclear Safety; Family Affairs, Senior Citizen, Women and Youth; Finance; Health and Social Security; Interior; Justice; Transport, and the Press and Information Office.

** ODA eligible KfW market funds and DEG equity investment.

New orientations since the 2001 DAC Peer Review

An on-going process of strategic and organisational renewal

Germany's Memorandum to the DAC (BMZ, 2005c) provides a good sense of the government's vision for development policy and of the challenges ahead. The Federal Government is committed to conduct the necessary changes to be in a better position to fulfil international commitments, notably the MDGs, as reflected in PA2015, as well as the aid effectiveness agenda embedded in the *Paris Declaration on Aid Effectiveness* adopted by the international community in 2005. Key strategic changes since the DAC 2001 Peer Review include:

- A shift in the strategic focus of German assistance on the MDGs and efforts to align bilateral development co-operation with partner country-led poverty reduction strategies (PRSs), including participation in joint funding programmes (Chapters 3 and 6).
- A stronger focus of German development co-operation through concentration on a smaller number of co-operation countries and fewer priority areas (Chapter 2).
- Close links between bilateral and multilateral initiatives (Chapter 2).

- The pursuit of a "joined-up" approach which better integrates the various instruments of German development co-operation (Chapters 5 and 6).
- The shift of focus on results and impact (Chapters 5 and 6).

The above orientations have led to a number of organisational and management changes which are described in more detail in Chapter 5. They include an internal reorganisation of BMZ, the further merging of some organisations, the modification of contracting arrangements between BMZ and implementing agencies, the review of guidelines for technical and financial co-operation, and strengthened field presence notably through the establishment of country teams and priority area co-ordinators together with a modest increase of BMZ development specialists in German embassies.

Overall Germany has made considerable progress over the past five years but must redouble its efforts if it wishes to achieve its current political commitment to greater aid effectiveness, as noted in subsequent chapters. At the field level, Germany continues to face the challenge of addressing multiple issues, including greater alignment on PRSs, the shift to programme-based approaches (PBAs) and greater delegation of authority to field representations. The German pluralist system, relying on a ministry for development co-operation and separate implementation agencies, and the distinction between financial and technical co-operation, formerly considered a model of efficient division of labour, may no longer be appropriate in a context of comprehensive forms of development co-operation based on the principles of partnership and ownership. The complexity of the German aid system entails not only cost in terms of internal co-ordination but also increases the risk of a donor-driven approach to programming and contributes to the burden on partner countries' limited administrative capacity.

The DAC recommendations from the 2001 Peer Review (OECD/DAC, 2001) and Germany's progress in responding to them are noted in Annex A. A number of recommendations have been addressed as part of the strategic and organisational renewal process under way.

Anchor countries: a new approach to co-operation with economically more advanced developing countries

The German development policy does not include an explicit preference in favour of specific groups of countries nor regions. Historically there has been a strong focus of German aid on middle income countries with five countries typically being the top recipients of German ODA: China, India, Indonesia, Egypt and Turkey. Germany does not intend to focus only on the poorest countries although it admits that poorest countries need donors' full support. However, a trend in favour of low income countries is emerging, partly due to the increasing importance of debt relief.

Germany considers co-operation with economically more advanced countries as vital in the perspective of achieving the MDGs - 50% the world's poor live in China and India alone, and these two countries represent also a major challenge for the protection of global environment and management of natural resources. BMZ (2004a) has identified a specific group of countries, the so-called "**anchor countries**",³ as key partners for achieving the objective of global poverty reduction, peace building and an equitable globalisation process. Due to their economic weight and political influence, anchor countries play a growing role in shaping international politics in their respective regions and increasingly on a global scale. BMZ intends to adapt its co-operation with these countries

3. Anchor countries, most of which are currently "co-operation countries" of German development co-operation, include: Argentina, Brazil, China, Egypt, India, Indonesia, Iran, Mexico, Nigeria, Pakistan, Russia, Saudi Arabia, South Africa, Thailand and Turkey.

according to their changing role in the context of globalisation and to focus on fostering social cohesion, protecting global public goods (particularly in the area of natural resources and renewable energies) and strengthening good governance and regional security.

As many of these countries have access to international capital markets, Germany plans to make greater use of innovative financing instruments under which official budget funds are replaced by, or supplemented with market funds (composite or mixed financing). Financial co-operation should focus on projects that help break new technological ground while the role of technical co-operation should be seen as a knowledge broker. The German government intends to boost partnerships with these countries by linking development co-operation with initiatives in other policy areas such as economics, research, technology, consumer protection and the environment. The interesting vision about future co-operation with anchor countries remains to be translated into strategic and programming principles.

Public awareness

Continuity in the political support to development

Over the past decade, the orientations of German development co-operation have had broad support from all parliamentary groups and the government in place. Germany's development policy has been guided since the early 1990s by a model of global sustainable development, a theme that has resonance within German society. Poverty reduction in developing countries is in turn broadly supported in the context of globalisation and the interdependency of nations which have global sustainable development implications. Development was included in most political party programmes for the September 2005 federal election campaign. The cross-party support to poverty reduction and Germany's international commitments will likely lead to continuity in development policy broad orientations with the new government. The challenge will be to ensure the political support for increasing ODA in line with Germany's international commitment to reach its 0.51% target by 2010 and 0.7% by 2015. Although development policy is debated intensively in the Committee for Economic Cooperation and Development, this parliamentary body's influence is less important than that of the Budget Committee. It will be of prime importance for BMZ to assess carefully how best to present its work on development co-operation and results achieved to decision makers in order to secure the necessary political support for increasing Germany's development co-operation budget.

Growing public support

Public perception of development co-operation has improved significantly in Germany in recent years, in contrast to when the previous DAC Peer Review was conducted for public support had been on a downward trend since the 1990s. According to the most recent Eurobarometer (European Commission, 2005), a vast majority of German citizens believe in the importance of helping poor people in developing countries (50% of the people interviewed indicating that it is "very important" and 41% "fairly important"). Germany is the European Union (EU) Member State with the highest proportion of respondents (90%) who consider that their government helps poor people in developing countries. This indicates a solid knowledge and understanding of German development co-operation. Despite this overall strong support, a somewhat less positive trend emerges when it comes to the volume of aid. When asked about the proportion of the government's budget spent on aid, 37% of German citizens believe that this share is "about right" and 22% think that it is "too big" and 25% that it is "too small".

The overwhelming response by the German population to the post-tsunami relief and reconstruction efforts for Indian Ocean countries, with contributions reaching EUR 500 million is another indication of strong public support. However, the German authorities want to ensure that the public supports not only emergency relief but also longer-term development. BMZ recognises that it needs to continue to reach out to its public to ensure that it remains properly informed of the issues at stake with respect to poverty reduction and aid effectiveness and the evolving international perspectives.

Promoting public awareness

In order to strengthen public awareness, parliament has increased BMZ's budget for development education and information from EUR 2.2 million in 1998 to EUR 10 million in 2005. About 60% of this budget is used to support development education projects by NGOs. BMZ co-operates with the Standing Conference of the Ministers of Education of the *Länder* for the integration of development education in regular school curriculum. Other activities include: information campaigns, production of audio-visual and print media products. BMZ also awards an annual prize to journalists who have demonstrated in their work a specific contribution to public awareness of development policy.

Development education has a decentralised dimension as the *Länder* and the municipalities play an important role. *Länder* provide funding for development education activities by NGOs (EUR 3.4 million in 2003 or 6% of the ODA contribution by the *Länder*, imputed student costs excluded). In 2001, BMZ participated in the establishment of "Communities in One World", an agency whose mandate is to support municipalities in their development policy efforts through information, advisory services and training activities. In early 2005, the "Partnership Initiative" was launched as part of Communities in One World to collect pledges from German local authorities, NGOs and citizens for the Indian Ocean tsunami victims. The purpose was to create longer-term partnerships by strengthening people's and communities' interest in and action for developing countries beyond their immediate demonstration of solidarity in response to emergency relief.

BMZ also contributes to broader public awareness building through the high-level dialogue that was launched in the PA2015 context to create social alliances in Germany in support of the MDGs. The Dialogue Forum 2015 has met five times since 2002 under the leadership of the Minister for Economic Co-operation and Development and comprises selected influential participants including politicians and academics, as well as representatives from the *Länder*, the trade and industry circles, civil society organisations, trade unions and the media. This initiative had the merit of creating a useful platform for dialogue but lacked operational connections for having a real and lasting impact.

Future considerations

- In its efforts to fulfil **international commitments**, notably in the context of the MDGs, the German government is getting its policies right. It needs to persevere in implementing them effectively and efficiently. In doing so and to maintain policy consistency, Germany needs to enhance its focus on poverty reduction.
- The fulfilment of international commitments, including the increase of ODA and the necessary adjustment in delivery modalities, will require **broad-based support**, within the government and civil society building on political foundations, church-based organisations and NGOs. This may require a rethinking of communication and how to ensure a better public understanding of development issues and outcomes in general, including the rationale underlying delivery modalities that are more conducive to aid effectiveness.

Chapter 2

ODA Volume, Channels and Allocation

Overall official development assistance

With a net ODA volume of USD 7.5 billion in 2004, Germany ranked fifth after the United States, Japan, France and the United Kingdom. Germany's ODA as a share of GNI was 0.28% in 2004. This was above the total DAC average of 0.26% but below the DAC average country effort of 0.42%.

A commitment to increase ODA

Despite a tight fiscal policy context, Germany has recently reaffirmed its long-standing commitment to the UN target of 0.7% in the coalition agreement underlying the future action of the new government formed after the September 2005 federal elections. The objective is to achieve this target by 2015 with an intermediate step of 0.51% by 2010, in line with the agreement reached in May 2005 by the EU Council which aims at accelerating progress towards attaining the MDGs. In the meantime, Germany has to reach a target of 0.33% by 2006 as part of the previous EU 2002 Barcelona commitment.

Germany's net ODA increased from USD 6.4 billion in 2000 to USD 6.8 billion in 2004 (in constant 2003 prices and exchange rates) while the ODA/GNI ratio increased during the same period from 0.27% to 0.28%. This is a positive though modest trend which reverses a decade of declining ODA (as shown in the graph under Table B.1, Annex B).⁴ A greater effort will be needed for Germany to fulfil its international commitments. According to current financial planning, the BMZ budget is expected to rise by 8% during the period 2003-07. Achieving the target of 0.51% by 2010 would imply an ODA level of USD 15.5 billion or a 106% increase in real terms as compared with 2004. The German government is nevertheless confident that it is on track to achieve its objective of 0.33% by 2006 chiefly via the significant response to the post-tsunami relief and reconstruction efforts for Indian Ocean countries (Box 2) and debt relief operations in the pipeline. Germany intends to fulfil its longer-term commitments of 0.51% (2010) and 0.7% (2015) through increased budgetary resources and debt relief, as well as resources mobilised through new and innovative financing mechanisms.

The challenge of increasing real ODA flows to developing countries

A significant share of the recent ODA growth is attributable to the process of debt cancellation in the context of the heavily indebted poor countries (HIPC)s initiative. The amount of ODA devoted to debt treatment increased from 3-5% of total gross ODA in 2000-01 to 18% in 2002 and 2003 before dropping to 9% in 2004. In 2005, the forgiveness of Iraqi debt could have a major impact on German ODA: up to USD 2.2 billion could be reported as ODA representing 29% of total ODA (at the 2004 level).⁵ As a result of the importance of debt relief in Germany's ODA, the increase in ODA has, to date seen little by way of additional budgetary resources translating into new money for developing countries although the reduction in debt service may free fiscal resources for development purposes in those countries (depending on the extent to which the debt that is being cancelled was being serviced).

4. Germany's lowest ODA levels ever were in 1998 at USD 5.9 billion, or 0.26% of ODA/GNI.

5. According to DAC Secretariat estimates, and providing the IMF programme is approved by end 2005.

According to the German government's estimates, debt forgiveness efforts are likely to trend down by 2008. It will then become necessary to maintain ODA levels through the mobilisation of additional budgetary resources and innovative financing instruments. An ODA growth implementation plan has yet to be defined and agreed upon by the new government. Such a plan is needed for a better overview of the prospects of future ODA growth and for the programming of significant amounts of additional resources, and to take into account the human resource requirements to manage a rapidly expanding programme. This plan would be all the more necessary given the fact that Germany does not have an overall budget for ODA,⁶ which is computed *ex post* based on the aggregation of disbursements by different ministries and the *Länder*, which qualify as ODA according to the DAC guidelines.

In comparison to the modest ODA growth over the past five years, Official Aid (OA) has grown rapidly from USD 0.6 billion in 2000 to USD 1.4 billion in 2004 (Table B.1). Germany has been an important donor to the countries of Central and Eastern Europe and the former Soviet Union. Given the prospective EU accession for a number of these countries, it will be important for the German government to consider the scope of its future involvement in this region and the prospects for freeing up OA resources for ODA.

Box 2. Response to the 2004 Indian Ocean tsunami

German pledges and response: As in other DAC countries, the enormous destruction caused by the 2004 Indian Ocean tsunami prompted an unprecedented response in terms of government pledged funds and public donations. Germany's public and the private sector raised over USD 600 million with political leaders following suit by committing USD 600 million in humanitarian emergency response and reconstruction funds over a three to five-year period. This commitment makes Germany the second largest contributor to the tsunami response of all DAC members.

Operations outlined: Government pledges were launched as additional funds. Of the total USD 634 million Germany disbursed USD 30 million as emergency response during the initial nine months. Funding for these activities was entirely additional to existing budgets and channelled through UN agencies through a Flash Appeal. Emergency response was also provided through international and German NGOs, the federal emergency response unit as well as GTZ and KfW. Reconstruction efforts were initiated parallel to the emergency response. Based on the national reconstruction plans developed by Indonesia and Sri Lanka, Germany has pledged USD 192 million for Indonesia and USD 148 million for Sri Lanka. Germany has allocated another USD 294 million (unspecified) of which USD 57 million is earmarked for the development of a tsunami early warning system. Germany will also give grants to the Multi-Donor Trust Fund managed by the World Bank. Overall co-ordination of Germany's tsunami response takes place through an inter-ministerial crisis management group.

Issues emerging: Lessons learnt from humanitarian action in response to natural disasters such as Hurricane Mitch and the Bam earthquake include: pledges failing to materialise; activities bypassing local capacities and national ownership; contracting being tied by earmarked contributions; and sustainability being dependant on ongoing needs and capacity assessments and investments in disaster risk reduction. As for other donors, with its large commitments, Germany will come under pressure to deliver its pledged funding. As of September 2005, USD 82 million of the pledged amount by Germany was disbursed. With its large commitments, an ongoing challenge for Germany as for other donors will be to turn pledges into disbursements while ensuring that the needs of other emergencies are not compromised.

In terms of delivery Germany should make further efforts to concentrate its actions and build on local ownership. Programming and activities must ensure a conflict-sensitive approach and Germany should make full use of its new methods and guiding principles in this area. Selection of contractors, tendering processes and procurement should be untied and local contracting and purchasing should be prioritised. Measures for tracking disbursements and combating corruption need to be developed and disaster risk reduction must be integrated as an articulated objective. Germany should also take full advantage of multi-donor evaluations of the tsunami aid.

6. The existing medium-term expenditure framework (covering the current as well as the four following fiscal years) relates to BMZ budget and is not ODA specific nor inclusive of total ODA.

Bilateral channel: policies and allocations

Approximately two-thirds of Germany's gross ODA have historically been disbursed bilaterally. In 2004, the bilateral share of Germany's ODA was 58% and the multilateral share 42% - the latter being higher than usual mainly because of an important contribution to the World Bank in that year.

"Technical co-operation" represents 28% of total gross ODA in 2004 (Table B.2) and remains the most important category (about a quarter of which consists of imputed student costs). The share of ODA going to "projects and programmes" is in reality more important than it appears in statistics when "new development lending", which serves mainly to finance projects, is added to this category (13% versus 7%). "Action relating to debt" (9%) has become an important delivery channel of ODA because of the HIPC initiative. "Emergency and distress relief" (2%) is relatively low compared to the DAC average of 7%.

The changing composition of financial co-operation

Since the last DAC Peer Review, new development lending has continued to decrease both in absolute and relative terms from USD 905 million in 2000 (13% of total gross ODA) to USD 607 million in 2004 (8%), with a low level of USD 474 million in 2003 (7%). As a matter of policy, least developed countries (LDCs) receive grants only. Other developing countries receive concessional loans with IDA terms (for low-income countries) and standard terms (for other countries). Grants are nevertheless provided to all types of countries for specific areas (*e.g.* targeted participatory poverty alleviation actions, environmental protection, basic education and vocational training, health including population programmes). As a result, more than half the funds available for Germany's financial co-operation are spent in the form of grants.

While most of the funds for financial co-operation come from the BMZ's budget, KfW has increasingly mobilised its own funds, thus contributing to a significant leveraging effect on ODA as indicated in Table 1. Additional funds amounted to EUR 621 million in 2004 (as compared to EUR 392 in 2001) more than 70% of which are ODA eligible.

Table 1. Composition of financial co-operation

ODA/OA in EUR million (2004)

	BMZ budget funds		KfW own funds loans	Total ODA/OA	
	grants	loans		ODA	OA
Grants	685 (685)			685	0
Loans (at IDA and standard conditions)		298 (295)		295	3
Development loans (mixed and composite finance, interest subsidy) ²		321 (321)	461 (443)	764	18
Promotion loans (at market conditions) ³			160 (0)	0	0
Total funds	685 (685)	619 (616)	621 (443)	1744	21

Notes:

1. Amounts between brackets indicate funds that are ODA eligible
2. Development loans combine BMZ budget funds and KfW funds. In the case of interest subsidies, grants from the BMZ budget are used to lower KfW loans' interest rates. The resulting loans are ODA-eligible according to the DAC Directives (but the interest subsidies themselves cannot be reported as ODA to avoid double-counting). In the case of mixed and composite financing, loans using BMZ budget resources are added to KfW loans, and the resulting loans satisfy the ODA criteria in terms of concessionality.
3. Promotional loans are accounted for as "other official flows".

Co-operation with civil society

In Germany, co-operation with civil society encompasses a wide range of civil society organisations. Between 1999 and 2003, ODA channelled to and through NGOs ranged between USD 439 and 471 million with a peak at USD 514 million in 2002 (Table B.2), which was about 6% of total gross ODA. As a share of BMZ's budget, funding has increased from 9% to 12% between 1998 and 2005. In terms of funding levels and mechanisms, BMZ distinguishes between political foundations (39% of the total budget line for co-operation with civil society), church organisations (35%) and NGOs (about 20% when taking into account various sub-categories including projects in developing countries, development education, emergency, etc.). The German government cannot provide core funding to civil society organisations and funding is mainly released on the basis of specific programmes proposals. The level of funding for political foundations is determined by parliament on a three-year basis and with contributions from five different ministries. BMZ is the main funding source for their activities in developing countries. In addition, NGOs have access to some funding from the humanitarian aid envelope of the Foreign Office and from the *Länder*, mainly for development education activities.

Geographical distribution

Increased geographical focus

In 1998, BMZ decided to increase the strategic focus of its bilateral co-operation by concentrating on a smaller number of co-operation countries and in each of them on fewer areas with the aim to improve the efficiency and effectiveness of development co-operation. The list of co-operation countries established at that time reduced the number of countries from 120 to about 70. The distinction between “**priority partner**” and “**partner**” countries does not influence the level of funding but has implications in terms of the co-operation intensity and the programming modalities. In priority partner countries, BMZ intends to deploy the full range of German development co-operation instruments and to focus on up to three “priority areas” while co-operation in partner countries is limited to one priority area. A discussion is provided in Chapters 3 and 6 regarding the implementation of this approach - including the criteria used to select co-operation countries and priority areas - and its relevance in terms of poverty reduction.

In 2003, priority partner countries and partner countries received respectively about 73% and 19% of total bilateral allocable ODA. This indicates a high degree of concentration. However, the remaining 8% of bilateral allocable ODA was dispersed to more than 60 countries: this includes important amounts of debt relief (notably to the Democratic Republic of Congo) and of humanitarian assistance (e.g. Iraq and Sudan) which by nature cannot be restricted to co-operation countries. According to their most recent annual reports, KfW and GTZ, the two main implementing agencies, were still active in 113 and 131 countries respectively. While financial co-operation commitments in recent years have been strictly limited to co-operation countries, suggesting that a phasing out is under way, there remain a number of non-cooperation countries with relatively significant amounts of technical co-operation.⁷

Furthermore, the optimal number of co-operation countries remains an open question in light of BMZ's limited field capacity (Chapter 5) and the need for more efficient aid delivery modes based on a better division of labour among donors. The list of co-operation countries (Table 2) has not been

7. This includes amounts of USD 5-15 million in 2003-04 for Angola, Argentina, Congo, Lebanon, Malaysia, Sudan, Togo, Venezuela, and Zimbabwe and USD 28-38 million for Iran (consisting mainly of imputed student costs).

revised extensively since the last DAC Peer Review and actually has got longer (84 countries) when transformation countries (namely countries from southern, central and eastern Europe and from the former Soviet Union) are added, most of them ODA-eligible. BMZ has also identified a series of potential partner countries where no - or only limited - development co-operation is possible at present. In addition, the concept of anchor countries (Chapter 1) could prevent BMZ from reducing its geographic spread since most of these countries are important co-operation countries. BMZ has started a process of revising the country list in view of emerging aid effectiveness challenges and a more efficient division of labour among donors.

Table 2. Co-operation countries of German development co-operation

“Priority partner” countries	“Partner” countries
Europe	
Turkey (until 2007-08)	
North Africa and Middle East	
Egypt , Morocco, Palestinian Territories, Yemen	Algeria, Jordan, Syria, Tunisia
Sub-Saharan Africa	
Benin, Burkina Faso, Cameroon, Ethiopia, Ghana, Kenya, Malawi, Mali, Mozambique, Namibia, Rwanda, Senegal, South Africa , Tanzania, Uganda, Zambia	Burundi, Chad, Cote d'Ivoire, Eritrea, Guinea, Lesotho, Madagascar, Mauritania, Niger, Nigeria
<i>Potential co-operation countries: Angola, Congo (DR), Sierra Leone, Sudan, Togo, Zimbabwe</i>	
Asia	
Afghanistan, Bangladesh, Cambodia, China , India , Indonesia , Nepal, Pakistan , Philippines, Vietnam	Laos, Mongolia, Sri Lanka, Thailand , Timor Leste
<i>Potential co-operation countries: Iran, Myanmar</i>	
Latin America	
Bolivia, El Salvador, Honduras, Nicaragua, Peru	Brazil , Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Mexico , Paraguay
<i>Potential co-operation country: Haiti</i>	
Central and Eastern Europe + New Independent States of Former Soviet Union	
Georgia	Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan
<i>Special status: *Belarus, *Russia, *Ukraine</i>	
Southern Europe (Stability Pact)	
Albania, Bosnia Herzegovina, Macedonia	Serbia (incl. Kosovo) & Montenegro, *Bulgaria (2006), Croatia (2009), *Romania (2006)
<i>Special status: Moldova</i>	

*not ODA eligible⁸

Note: **Anchor countries** are highlighted in bold (and include in addition: Argentina and Saudi Arabia).

An emerging movement in favour of poorer countries

Africa remains the highest recipient region (with 34% of bilateral ODA in 2004) followed by Asia (32%), America (22%), Europe (7%) and the Middle East (5%) (Table B.3). This regional distribution has been quite stable over the past five years with the exception of 2003. In terms of income-levels of beneficiary countries, statistics indicate a changing trend. While there was a preference for middle income countries with more than 50% of bilateral ODA disbursed to countries in this category up to 2002, this share was 44% in 2004 (above the DAC average of 40%). Disbursements to low-income countries accounted for 56% of bilateral ODA in 2004 (below the DAC average of 59%), with a marked increase for the “other low-income countries” category (from a level of 22% in 2000 to 33% in 2004).

8. According to the DAC List of Aid Recipients revised in December 2005, Belarus and Ukraine are ODA eligible starting with reporting of 2005 ODA flows.

Although the German government has never stated any preference for a specific category of countries, it is committed to the UN target of 0.15% of ODA/GNI for LDCs which was 0.10% in 2003, above the DAC average of 0.08% (Table B.6). The share of bilateral disbursements to LDCs (23% in 2004, below the DAC average of 36%) has been relatively stable during the past five years with the exception of 2003. BMZ intends to increase ODA to Africa by allocating additional budgetary resources to priority partner and partner countries in this region. So far, this has translated in a one percentage point annual budget increase for the past five years. The exceptionally high distribution in favour of sub-Saharan Africa (43%) and LDCs (35%) in 2003 is explained by the importance of debt relief, the majority of which (84%) benefited sub-Saharan African countries;⁹ most of them are LDCs. Nicaragua was also an important beneficiary of debt relief in 2003 (9%) and in 2004 (54%). As a result, there has been a change in the traditional top-five recipients (India, Indonesia, China, Egypt and Turkey) with Congo, Cameroon and Nicaragua appearing on the list in 2003-04 (Table B.4).

Given Germany's long-standing tradition of co-operation with middle-income countries and its emerging vision on anchor countries mentioned in Chapter 1, BMZ should continue the current process of assessing the level of support, areas of intervention, and mix of instruments and modalities that are needed to promote the MDGs in such countries. As part of the current discussion on anchor countries, Germany intends to reduce the amount of grants and to replace official budget resources by market funds as many of them now have better access to private capital markets for financing their development.

Sector distribution

Germany's bilateral aid sector distributions (Table B.5) indicate a strong orientation towards social infrastructure and services, with education, water supply and sanitation, and government and civil society being the most important areas. Support to economic infrastructure and services¹⁰ and to production sectors has continued to decline. The establishment of sector priorities in relation to poverty reduction, including Germany's support to basic social services, is discussed in Chapter 3.

The growing importance of imputed student costs

Education remains the most important sector supported through German development co-operation (18% of total bilateral ODA in 2003-04). Close to 70% of the aid to the education sector consists of the imputed costs of subsidised tertiary education provided by the *Länder* benefiting developing country students. This is a relatively significant portion of ODA that does not contribute to strengthening education systems in developing countries and may have a limited impact on capacity development in the education sector. Germany is among the few DAC members to include significant amounts of imputed student costs in ODA. These costs have continued to increase from a level of USD 323 million in 2000 (representing 6% of total gross ODA) to USD 774 million in 2004 (or 9% of total gross ODA). Following reforms in tertiary education in Germany and the introduction of internationally recognised diplomas in the late 1990s, the number of foreign students has increased, including from developing countries. In 2003, the main beneficiary countries were: China (USD 130 million), Cameroon (USD 39 million), Morocco (USD 35 million), Turkey (USD 35 million), Iran (USD 27 million), India (USD 25 million), Indonesia (USD 17 million), Syria,

9. In 2003, the major recipients of debt forgiveness (including debt rescheduling) were: the Democratic Republic of Congo (USD 531 million); Cameroon (USD 279 million); Zambia (USD 195 million); Tanzania (USD 58 million); Madagascar (USD 49 million); and Cote d'Ivoire (USD 36 million).

10. This decline is mainly due to a shift in responsibility to the EC, particularly for transport.

(USD 12 million), Georgia (USD 11 million) and Tunisia (USD 11 million), totalling close to half the total ODA being reported as imputed student costs, the other half being dispersed to more than 100 other countries.

As recommended by the last DAC Peer Review, Germany revised the reporting procedures for these costs in 2002. Reporting no longer includes the costs for students in certain disciplines (*e.g.* language, culture, art and sport) and excludes students who stay in Germany after graduation on an “IT Green Card”. Until recently, it was difficult for foreign students to get a work permit other than the IT Green Card upon completion of their studies. German authorities did therefore not have to be concerned about whether students were returning to their country of origin. In the future, Germany will need to exclude from its reporting of imputed student costs the students who stay in Germany on a permit issued according to a new immigration law that came into force on 1 January 2005.

Multilateral aid

The multilateral share of Germany’s ODA was 42% in 2004, significantly higher than the DAC average of 24% (or 32 % for DAC members that are EU Member States), mainly due to a large contribution to the World Bank. This share has shifted within a range of 30-42% over the past five years although German multilateral aid traditionally accounts for about a third of total gross ODA. The parliament’s budget committee considers a 30% ceiling for multilateral contributions in BMZ’s budget appropriate. Most of the responsibility for multilateral aid lies with BMZ, including for the international financial institutions. As in the case of most EU Member States, one of the features of German multilateral aid is the predominance of European aid.

Towards greater integration of multilateral and bilateral co-operation

In order to meet international goals and commitments, the German government has devoted more attention to multilateral co-operation. BMZ is in the process of shifting its multilateral approach from a focus on the mandate of international agencies and global funds to the **effectiveness** of their action. In the past, Germany supported various international agencies because of the intrinsic merits of their respective mandates. In the meantime, most of these organisations have developed into multi-task organisations often as a response to member states’ various requests; as a result they have lost their focus, and competencies overlap. BMZ has prepared multilateral strategies which state the poverty-related areas where the ministry intends to monitor the action of international agencies so as to ensure more consistency in implementing agreed policies. BMZ also evaluates the performance of multilateral institutions either by commissioning its own evaluations or by participating in joint donor evaluations. Performance assessment has not yet been used to guide funding levels. Germany admits that some organisations are not performing well but has preferred to maintain its support so as to help them launch the necessary reforms.

Enhancing consistency between multilateral and bilateral co-operation is an underpinning principle of PA2015. The reorganisation of BMZ in 2003 with the creation of three directorates general each combining bilateral, multilateral and sectoral responsibilities (Chapter 5) serves the purpose of ensuring a more comprehensive and constant support to international organisations. In addition, increased field presence in partner countries (Chapters 5 and 6) enables BMZ to participate more effectively in the processes of policy dialogue with partner governments and co-ordination with other donors, including multilateral agencies. Specific guidelines have been introduced in 2004 for a better co-ordination of bilateral and multilateral decision making within BMZ. This includes a monitoring role for the country teams as well as the embassy’s development co-operation officers based in partner countries who are mandated to participate in field-level consultations for the preparation of country strategies of key multilateral agencies and provide regular feedback to BMZ

headquarters on these agencies' activities. For optimal influence, BMZ may wish to further think how to intervene in a quick and efficient manner as early as possible in the decision-making process of these agencies. This may call for a greater role for GTZ and KfW, given their extensive operational experience, and require a facilitation of direct relations between BMZ field staff and Germany's representatives in the executive boards of the agencies concerned. Another issue deserving increased attention is how to best learn from multilateral agencies and disseminate their knowledge base and best-practice throughout the German development co-operation system.

Important contributions which do not necessarily reflect strategic choices

European aid

Germany's contributions to the European Community (EC)¹¹ constitute the largest single category of its multilateral ODA (about 60% of multilateral aid or on average 20% of total gross ODA). Germany's contribution is the largest of all EU Members in absolute terms and has increased since 2001 because of the recent acceleration in EDF disbursements. In relative terms, for total ODA funding there were seven EU Members with higher and another seven Members with lower proportions of EC funding compared to Germany. This places Germany in the middle range of EU Members (similar to France and the United Kingdom) using the EC as a preferred channel. Germany contributes to the debate on European aid effectiveness by focusing on complementarity. It promotes a better division of labour and stronger co-ordination between the EC and Member States in the field as well as enhanced decentralisation in the management of European aid. Based on the two field visits by the DAC Peer Review team to Nicaragua and Ethiopia (Chapter 6), Germany has yet to demonstrate how the complementarity between the EC and German programmes can become a strategic and operational reality.

International Financial Institutions

As the third largest contributor after the United States and Japan in terms of cumulative contributions up to the 13th replenishment of International Development Association (IDA), Germany is a strong supporter of the World Bank group. Contributions to this group account on average for 6% of total ODA¹² which is slightly above the total DAC ratio of 4%. Germany's funding of the regional development banks (2% of total ODA) is similar to the total DAC ratio. Germany has participated actively in the international debate on the post-Washington consensus and its strategy for co-operation with the World Bank emphasises the need for stronger focus on country-specific institutional reforms.

UN agencies

Germany's overall contribution to UN agencies is the smallest category of its multilateral ODA. Funding to UN agencies has decreased from a peak at USD 597 million in 2001 after a marked increase during the late 1990s. As a share of total ODA gross disbursements contributions to UN agencies decreased from 7% to 4% between 2000 and 2003, which is below the total DAC of 6%. Funding to UN agencies does not follow a clear preference pattern: UNDP, WHO, WFP, FAO, UNFPA and UNO are the top recipient agencies and account for 47% of total contributions to UN agencies in 2003-04 with individual shares of 5-11%, while the remaining 53% are dispersed to various other agencies.

11. It comprises contributions to the European Development Fund (EDF) and to the general budget of the European Commission, earmarked for development activities.

12. This share was 13% in 2004 due to an exceptionally high IDA payment.

BMZ admits that funding to UN agencies could be stepped up (including through humanitarian aid contributions) to better reflect Germany's enhanced multilateral strategic approach and the important role that UN agencies can play in an increasingly global world. Because of budget restrictions the ministry has not been able so far to make any change in this respect. In comparison, Germany's contributions to UN agencies are significantly less than those of the United States and Japan but close to those of other EU Member States (notably Denmark, the Netherlands, Sweden and the United Kingdom).¹³

Future considerations

- Germany needs to address the challenge of implementing the 0.7% commitment, notably through the mobilization of budget funds as well as innovative funding sources from 2007 onward once debt relief is declining. This requires an **ODA growth implementation plan** which clearly states how much will be funded by additional budgetary resources versus innovative financing sources and, most importantly, how ODA will be spent and based on which allocation criteria (countries, sectors, instruments and modalities, including the multilateral-bilateral split). Such a plan would also be necessary in the international context of ODA scaling up which requires better exchange of information among donors to ensure predictability of external resources for developing countries and complementarity among donor support.
- Germany needs to pursue its attempt to adopt in its development policy a more strategic approach towards **geographic and thematic focus** that better reflects the overarching perspective of poverty reduction. Further thinking is needed around the balance between middle-income countries and low-income countries and the determination of the appropriate mix of countries and instruments to enable Germany to contribute effectively to poverty reduction and achieving the MDGs.
- The importance of imputed student costs in German ODA has increased since 2001. Given the increased scope for foreign students to stay in Germany upon completion of their studies, it is important for the government to continue to monitor closely the reporting of such costs.
- The shift from a "mandate" to "effectiveness" approach in dealing with multilateral agencies and global funds could be better translated into allocation policy and may require a more adequate framework for **multilateral co-operation** based on criteria (*ex ante*) and sound methodology (*ex post*) to assess effectiveness, preferably in collaboration with other donors.

13. See table 15 of the Development Co-operation Report (OECD, 2005)

Chapter 3

Poverty Reduction and Special Themes

This chapter covers three themes of special importance for Germany's development co-operation. With the Programme of Action 2015, poverty reduction has become an overarching objective. The two other themes selected are also of current interest to the DAC: Germany's contribution to private sector development in developing countries through public-private partnerships (PPPs); and Germany's approach to conflict prevention and peace building.

Poverty reduction

During the last Peer Review in 2001, the DAC commended the German government for setting out an ambitious agenda for development within a global perspective with the *Programme of Action 2015 on Poverty Reduction – A Global Responsibility*. Germany was among the first DAC members to adopt such a comprehensive policy statement providing a ground breaking approach to poverty reduction as described in Chapter 1. The DAC also highlighted the importance of the implementation plan, which the German government intended to draw up subsequently, for a better understanding of how PA2015 would be implemented and monitored. A detailed implementation strategy was considered necessary to translate the vision into operational terms and establish a hierarchy among the 10 priorities and 75 steps for individual actions, which should also include time-bound measurable objectives as well as assignment of responsibilities. Instead, the operational contours of the overall programme evolved on an *ad hoc* basis, involving a regular process of dialogue and consultation with a variety of German stakeholders. Only in 2004 was an internal monitoring and time-bound implementation plan agreed upon. BMZ considers it more useful to keep a flexible approach which is better adapted to make use of political windows of opportunity than a rigid planning process. The implementation of PA2015, which is the responsibility of a lightly staffed division within BMZ (Division 300: "PA2015" also the focal point for policy coherence), is monitored with modest resources. In the meantime, the focus of attention within BMZ has shifted to the implementation of the international aid effectiveness agenda which integrates several aspects related to Germany's commitments to the MDGs.

PA2015 created a momentum for change within the German development co-operation system. While PA2015 has established itself as a basis for greater policy coherence for development, it has been less useful in providing a specific operational framework to guide development co-operation. The absence of an implementation plan makes it difficult to assess the extent to which PA2015 serves as a basis for shaping Germany's priorities and approaches. In addition, bi-annual reporting (BMZ, 2002a and 2004d) has so far not been done according to a consistent and systematic format which does not help to convey a proper account of progress to date. Some of the more specific issues that the government needs to take into account for a more effective approach to poverty reduction are noted below.

Greater strategic clarity needed

In fact, PA2015 did not supersede existing policy orientations, strategies and guidelines. Most of the priority areas identified in PA2015 were already part of German development co-operation. In the meantime, some specific themes may have become more prominent on the development policy agenda

depending on the evolving political dialogue internationally and domestically. This has resulted in multiple layers of priority areas, themes and cross-cutting issues which can be complementary but also overlap. In view of the requirements for greater aid effectiveness, Germany should review carefully its selectivity approach which does not appear to be sufficiently driven by country needs and poverty reduction criteria.¹⁴ BMZ is currently reviewing selection criteria on the basis of the 2005 *Paris Declaration on Aid Effectiveness* and has commissioned a study to discuss the implications of an MDG orientation combined with a shift in aid modalities on the selection of co-operation countries.

In terms of sector focus for the programming of technical and financial co-operation, it is interesting to note that there are five “core areas” which are the only ones to benefit from predetermined overall annual allocations (basic education: at least EUR 75 million; HIV/AIDS: EUR 70 million; energy efficiency: EUR 100 million; renewable energies: EUR 100 million; and tropical forests: EUR 100 million). Otherwise the resulting sector distribution depends on priority setting at the field level as part of the country programming process which has to select up to three priority areas in priority partner countries and one priority area in partner countries out of a range of ten possible choices.¹⁵ There are also some important budget allocations in support to the MDGs (Box 3). The picture presented to outside observers is of a complex programming process as well as challenges for partner countries. A more explicit statement to guide operational decisions would appear now all the more necessary as BMZ addresses the challenge of managing a potentially rapidly growing ODA in the years to come.

Box 3. Germany's approach to support the MDGs

In 2003 BMZ nominated a high-ranking MDGs commissioner to support the mainstreaming of the MDGs in the work of the ministry with the support of a task force. A policy paper that defines the implications of the MDGs for bilateral co-operation was released in 2004. The German government does not use the MDG-related sectors as a strict basis for delineating priority areas and allocating budget resources. The German government sees the MDGs as development results, the achievement of which may require activities in very different fields. Germany has nevertheless allocated considerable financial resources to directly MDG-related sectors like basic education, health, water and forestry. In this context, Germany's support to environment also deserves special attention, notably in the area of renewable energy and energy efficiency.

Germany's operational approach regarding the MDGs is now practically linked with its strategy on harmonization and alignment (BMZ, 2005a). This strategy points out how the instruments and procedures of German development policy are being developed further with a view to making as effective a contribution as possible to the achievement of the MDGs in line with the *Paris Declaration on Aid Effectiveness*. It is based on a comprehensive understanding of poverty reduction and refers to three principles for guidance: partnership/ shared responsibility, results orientation and coherence.

14. Currently, the list of co-operation countries is reviewed annually as part of an inter-ministerial process co-ordinated by BMZ. Criteria include: the need for co-operation in the context of Germany's own economic, social, ecological and political planning and development targets and interests; Germany's ability to make relevant contributions and to achieve significant development results; contribution by other bilateral and multilateral donors; and partner country's general situation. In addition, the annual programming and resource allocation process takes into account an additional set of governance-related criteria: human rights, rule of law, participation, development orientation and market economic order.
15. In practice, there has been a concentration on the following areas: institutional building (including e.g. decentralisation and state building), promotion of pro-poor growth (mainly through microfinance and infrastructure programmes), social sectors (particularly water and sanitation and to a lesser extent education, health and HIV/AIDS) and environment (including renewable energy).

Poverty impact to be measured

Because of its ambitious vision, PA2015 has created high expectations within the German development community. The scope for increased dialogue between the Federal Government, including at ministerial level, and civil society organizations has been welcome but many NGOs fail to see a consistent focus on poverty reduction in German development co-operation. They would like to see poor countries given greater priority and more support to basic social services.

Some misunderstanding can arise because the German government defines poverty reduction in its broad sense as an overarching task with contributions from all fields of sustainable development (social justice, ecological compatibility and a thriving economy) and measures relating to the political dimension (fostering democracy, the rule of law and peaceful conflict settlement). The philosophy underpinning PA2015 is that economic growth, together with governance, are needed in addition to social development for making progress in achieving the MDGs. Accordingly, the German government has always been keen to promote both direct and indirect approaches to poverty reduction. The philosophy is in line with the international development consensus, but the challenge for the development community as a whole, and Germany more particularly, lies in demonstrating the poverty impact of such a comprehensive approach. Another challenge is to demonstrate that the balance between direct and indirect approaches is the right one. The answer lies at the level of the recipient country (in the complementarity of overall donor support to that country's poverty reduction programme), not at the level of one individual donor. Germany can be commended for working in a number of important sectors (*e.g.* governance and environment) that tend to attract less funding from donors as compared to health and education. Evidence from the field suggests that the desired leverage effect of indirect support to poverty reduction is not always obvious. The need remains to better assess the contribution of German aid to poverty reduction, especially the contribution of the "indirect approach", in a systematic and consistent way.

Adjusting aid delivery modalities

A promising approach for a more effective poverty reduction strategy lies in Germany's commitment to aid effectiveness. Germany rightly sees increased aid effectiveness as an intermediate step in terms of helping developing countries achieve the MDGs. Since the last DAC Peer Review, a major change in German development co-operation is the shift in aid implementation modalities and Germany's ability to participate in programme-oriented joint financing mechanisms. An assessment of Germany's efforts in this context is provided in Chapter 6.

The establishment of country and priority area teams (Chapter 5) has contributed to foster a common approach to poverty reduction within the German development co-operation system. As part of PA2015, four pilot countries (Bolivia, Mozambique, Vietnam and Yemen) were selected in which special efforts have been made to promote innovative approaches (*e.g.* support to education linked to the co-ordinated approach agreed among donors under the Fast Track Initiative) so as to draw on them for German development co-operation as a whole. Germany has supported PRS processes in a number of co-operation countries notably through capacity development. Germany is particularly committed to support developing countries in preparing and implementing effective country-led poverty reduction strategies by promoting participation by parliaments and civil society and decentralisation in their implementation and monitoring. Germany intends to increase the share of its aid being delivered through PBAs. BMZ has recently declared that up to 50% of Germany's financial co-operation in Africa will be undertaken by means of budget support.

Private sector development

PA2015 emphasises the importance for the poor to participate in and benefit from economic growth as essential for sustainable poverty reduction.¹⁶ This calls for Germany to support economic policy reforms, to promote private sector development, to develop the productive potential of the poor and to reduce the digital divide in developing countries. This orientation has generated increased efforts by German development co-operation to support private sector development in developing countries. Germany is aware of the challenges in operationalising a pro-poor growth approach, which requires focus on institutions and policies that influence market outcomes rather than targeted support to improve the livelihoods of the poor. BMZ, GTZ and KfW are all actively engaged in the on-going exchange of experience and best practice in this area with other donors, notably through the DAC Network on Poverty Reduction and its various task teams on agriculture, infrastructure and private sector.

An important instrument of German development co-operation is the Public-Private Partnership (PPP) programme. With this approach, BMZ intends to strengthen the concerted action of official development co-operation and the business community. PPPs not only enable the mobilisation of additional resources for development from the private sector but also facilitate the use of private management know-how in view of more efficient service delivery and promote private sector investment as an engine of growth in developing countries. Since 1999, more than 1 650 partnerships have been launched in about 70 countries involving private partners ranging from small and medium-size enterprises to multinational companies in a broad spectrum of sectors. This represents funding of more than EUR 8.2 billion, with private contributions representing twice the government contributions (Table 3). DEG¹⁷ is by far the most important actor, with its activities accounting for more than 80% of Germany's overall PPP portfolio. PPPs are also carried out as part of bilateral country programmes and through the PPP facility involving various implementing agencies (DEG, KfW, GTZ, DED, InWEnt and CIM).

Table 3. PPP funding

in million EUR (1999-2004)

	Number of projects	Financial contributions		Total
		Public	Private	
PPP facility	720	104.8	199.8	304.6
Bilateral country programmes	709	1 137.5	95.8	1 233.3
DEG	236	1 466.1	5 203.3	6 669.4
Total (1999-2004)	1 665	2 708.4	5 498.9	8 207.3

Source: BMZ (2004b)

BMZ established the PPP facility in 1999 to provide funding for projects that could otherwise not be supported because of their short duration or their small scale, or because they cover more than one country. The PPP facility has been designed as a simple and flexible tool to allow implementing agencies to respond swiftly to proposals from European enterprises that are engaged in business relations with enterprises in developing countries (*e.g.* investment, joint ventures or import-export

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16. The first of the ten priority areas for action is “boosting the economy and enhancing the active participation of the poor”.
 17. DEG's main activity is to provide long-term investment capital for private enterprises in developing countries at market conditions.

activities). In order to receive public funding, PPP projects must fulfil the following criteria: (i) compatibility with the objectives and priorities of Germany's development policy; (ii) complementarity so as to achieve cost-effectiveness and efficiency; (iii) subsidiarity (public funding to be provided only if the project cannot be carried out otherwise); (iv) absence of distortion (no competitive advantage to be gained by the private partner on account of public funding); and (v) substantive mobilisation of private funds which must amount to at least 50% of the total project costs.

The assessment of the first three years of implementation of the PPP facility showed mixed results (Altenburg and Chahoud, 2003). The PPP approach, which has produced many innovative initiatives, intensified dialogue with the private sector and mobilised extra funds for development, also presented shortcomings such as: proliferation of small-scale stand-alone projects; limited focus on poorer countries, regions and target groups; no involvement of partner governments; and risks of distortions in the markets of partner countries to the cost of local competitors. In addition, the German development co-operation field representatives were, in many cases, not sufficiently equipped to steer PPP measures. Finally, PPPs' contribution to development (in terms of creation of new jobs, transfer of know-how, increased energy efficiency or promotion of environmental and social standards) is hardly measurable.

Recommendations from the PPP facility evaluation have been taken into account. PPPs have increasingly become integrated in bilateral country programmes. To increase the potential impact of PPPs, longer-term strategic partnerships have been established often organised industry-wide and transnationally and involving various relevant stakeholders such as companies, trade unions and NGOs (Box 4). Germany supports the Global Compact initiated by the UN Secretary-General, which promotes responsible corporate citizenship and universal social and environmental principles for a more inclusive and equitable globalization. The German government has actively encouraged the participation of German companies by supporting the creation of the German Global Compact Network, involving currently 50 companies dedicated to implementation of the principles of the Global Compact with regard to the promotion of human rights, compliance with labour and social standards, protection of the environment and the fight against corruption.

Box 4. Common code for the coffee community

Coffee is one of the world's largest traded commodities and is produced in more than 60 countries which are often heavily dependant on coffee export earnings and generates income for more than 100 million people. In this sector, PPP has proven a useful approach to combine business interests with development objectives. As a result of several PPP projects, national quality assurance and certification systems have been established. The public-private collaboration resulted in better income for small producers through quality improvement and increased market opportunities.

On a parallel basis, BMZ and the German Coffee Association - which promotes the interests of the whole spectrum of coffee trade and industry in Germany - launched a multi-stakeholder dialogue which resulted in the adoption of the Common Code for the Coffee Community in 2004. While the German companies involved were initially interested in securing good quality coffee, the contribution of technical co-operation was to facilitate the participation of local communities. Coffee producers and traders, unions and NGOs agreed on a global code of conduct to increase the sustainability of coffee production and trade. The objective is to promote social, economic and environmental standards including various aspects from better working conditions for workers to sound use of chemicals and protection of tropical forests. The parties to the agreement include coffee producers, associations and unions from more than 20 Latin American, African and Asian countries, 10 of the largest coffee companies as well as several international and German NGOs. The code of conduct is also supported by the European Coffee Federation, Switzerland's State Secretariat for Economic Affairs and major international organisations including the International Coffee Organisation, the World Bank and the Inter-American Development Bank. The code of conduct provides for a verification process of compliance under the ultimate authority of an international steering committee but arbitration procedures have yet to be established. Secretariat support is provided by the German Coffee Association and GTZ.

Conflict prevention and peace-building

Since the last DAC Peer Review, Germany has increased its efforts in the area of conflict prevention and peace building. New analytical, conceptual and operational initiatives have been developed including an ambitious government-wide action plan which could have a significant impact on development co-operation, once implementation challenges have been addressed. Germany participates actively in the DAC Network on Conflict, Peace and Development as well as in the Utstein group¹⁸ to identify good practices for peace building activities.

New and far-reaching action plan

In response to international developments, and recognising the need for better interaction and coherence between the instruments of foreign, development and security policies, Germany developed a strategy for “Civilian Crisis Prevention, Conflict Resolution and Peace-Building” in 2000. The strategy is reflected in PA2015 which identifies “Conflict Resolution and Human Security” as one of ten priority areas. In 2004, the Federal Government adopted an action plan which takes the strategy forward (Federal Government, 2004a) in establishing conflict prevention and peace building as a cross-sectoral objective and outlines national, multilateral and bilateral approaches. It identifies more than 160 action points to be implemented within the next five to ten years through a “whole-of-government” approach directly involving the Foreign Office, BMZ and the Ministry of Defence and other ministries. An Inter-ministerial Steering Group for Civilian Crisis Prevention led by the Foreign Office has been established to implement and monitor the action plan. Within this group, task teams have been set up to co-ordinate efforts in four work streams: i) security system reform (SSR); ii) Nigeria as model case for jointly established option for actions; iii) secondment of civilian personnel for international peace keeping missions; and iv) pooling of resources for conflict prevention and peace building. To strengthen its approach, the inter-ministerial steering group has appointed an advisory board with members from civil society and academia.

Ministries and implementing agencies have developed their own strategies to further operationalise the action plan. BMZ’s strategy on “crisis prevention, conflict transformation and peace-building within development assistance” aims at mainstreaming conflict perspectives throughout German development co-operation (BMZ, 2005d). The strategy stresses the legitimate state monopoly on the use of force based on civilian and democratic control through a structure of the rule of law. This recognition has opened new strategic approaches to areas of co-operation *i.e.* within the judiciary, parliamentary institutions, budget procedures and human rights. These approaches have started to influence development co-operation programmes most noticeably in the field of governance which has been introduced as a priority area in approximately 50% of Germany’s co-operation countries. Allocations for governance programmes have almost tripled from EUR 80 million in 2000 to EUR 220 million in 2004. Peace-building and conflict prevention have been defined as a specific priority area in four partner countries (Colombia, Guatemala, Senegal and Sri Lanka) and as a cross-cutting issue in eight other countries.

Examples of innovative initiatives

The BMZ strategy includes interesting tools to assist implementation. The indicator model for risk assessments of partner countries is a mandatory tool to be applied in all country planning processes within BMZ from October 2005. This assessment tool includes 39 indicators grouped into

18. The original Utstein group was established in 1999 when the development ministers of Germany, the Netherlands, Norway and the United Kingdom formed a partnership to co-ordinate development assistance policies. The group now also includes Canada and Sweden.

four topical areas and 10 sectors and relating to processes, events and trends. After its introduction BMZ concluded that nearly half of its co-operation countries were in “increasing or acute” need of prevention measures. Consequently BMZ needs to reconsider its development co-operation programming to better address conflict issues. Tools for mainstreaming should be further developed for this purpose. The question remains as to how this tool will be used by other ministries and the agencies involved. The Federal Government should consider the value of developing joint country and regional strategies in this regard based on the experience with the Nigerian model case. To further facilitate the assessment of conflict-sensitive design of projects or programmes, BMZ introduced a conflict marker in its statistical reporting. This “C-marker” serves both as a statistical tool used for monitoring purposes and as a checkpoint to ensure conflict perspectives are included in preparations of programmes and projects.

The initial phase of establishing approaches to SSR is coming to an end and planning is underway to move into specific programmes. Regional approaches in Africa will be a priority. The steering group is currently working on “whole-of-government approaches” for SSR in selected countries (*e.g.* Indonesia).

Germany has made staff training in conflict prevention and peace building a key component for advancing its methods of conflict analysis. At headquarter level, joint training for staff of BMZ and the implementing agencies takes place on a regular basis. Targeted training focusing on country-specific challenges has been conducted for field staff so far in 10-15 countries. Germany, together with the European Commission, Norway and Denmark, has launched a joint donor competency training network. Germany has also set up a new training facility within the German Centre for International Peace Missions to train personnel to be deployed through the UN, the EU, OSCE or NATO as part of the civilian instruments of the European Security and Defence Policy.

A special feature of German development co-operation is the Civil Peace Service (CPS). CPS is a voluntary service which aims to reduce and prevent the use of violence in resolving conflicts. The CPS secretariat is run by the German Development Service (DED) in Bonn and receives funding from BMZ (EUR 14.5 million in 2005). Since its establishment in 1999 CPS has deployed almost 200 civil peace officers in various partner organisations. Most projects are active in post-conflict peace building, and about one-quarter of them in crisis prevention. In 2002, an evaluation of the build-up phase of CPS (BMZ, 2002b) acknowledged that it is an innovative approach. The evaluation also brought to light some shortcomings, which have been addressed by BMZ in the meantime, mainly in the area of administrative procedures and vaguely defined mandates during missions.

Challenges of implementation

When implemented the action plan will bring about important changes in German development co-operation, principally in the areas of development co-operation planning and approaches to fragile states, which in turn is likely to influence resource allocations. The detailed list of action points is one of the main challenges to implementation. Whilst the action plan is both ambitious and comprehensive the number of action points raises concerns regarding prioritisation. The action plan does not provide clear guidance on priorities nor does it provide a time bound plan. Some of the action points are of general nature, some might require separate strategies for implementation.

Questions of management and co-ordination might bring about another dilemma. Given the multitude of actors involved in implementing Germany’s development co-operation programmes, broad ministerial support will need to be mobilised to create a common sense of ownership of this action plan among the implementing agencies. Although the plan provides an opportunity for coherence between the involved ministries and the government is aware of the need for enhanced

inter-ministerial co-ordination, clearer operating structures need to be elaborated. This remains one of the major challenges for the Inter-ministerial Steering Group for Civilian Crisis Prevention, which could be addressed by more clearly assigning responsibility and decision-making authority. The Inter-ministerial Task Team on SSR illustrates the complexity of finding a common approach as security-related issues encompass different positions among ministries and implementing agencies. The action plan also offers guidance for implementing agencies, although improvements in this area will need to be informed by practical experiences from development co-operation.

Another major challenge relates to the resources to implement the action plan as well as monitor its effects. Implementation will place high demand on an already strained organisation, directly and indirectly. Initially BMZ and other affected ministries will need to be equipped with appropriate resources to carry out the action plan and management will then need to be adjusted to meet the new demands. Germany should carefully examine where additional resources will be needed to ensure the full implementation. The action plan is a long-term investment and the Federal Government has been tasked to submit a report to parliament every two years. A first review is scheduled for 2006. The Inter-ministerial Steering Group for Civilian Crisis Prevention will be the key actor of this process with involvement of the Federal Security Council¹⁹ when relevant. The importance of setting priorities and monitoring implementation should not be underestimated and methods for internal and external monitoring should be developed further.

Future considerations

- For a more effective translation of Germany's commitment to poverty reduction into German development co-operation programmes, greater strategic clarity and prioritisation would be needed so as to guide operational decisions (such as selection of co-operation countries and priority areas as well as resource allocation and delivery modalities). There is also a need for a systematic and consistent approach to assessing the **poverty impact** of Germany's comprehensive way of addressing poverty reduction which should be built into bilateral country programmes.
- Germany's new **Action Plan** for Crisis Prevention, Conflict Resolution and Post-Conflict Peace-Building constitutes an important and far-reaching framework. It should serve as a catalyst and sound reference for coherence among national actors involved in humanitarian and development co-operation activities. Listing a large number of action points, the plan will require careful prioritisation, and its implementation will also need significant investment in monitoring and greater involvement by field posts.

19. The Federal Security Council is a Cabinet Commission tasked to co-ordinate the German security and defence policy. It is also responsible for decisions on arms export. It is led by the Federal Chancellor and consists of nine members. BMZ participates to cover development co-operation aspects. Meetings are confidential.

Chapter 4

Policy Coherence for Development

The growing consensus on policy coherence for development

In adopting the 2002 *Action for a Shared Development Agenda*, OECD members acknowledged that successful poverty reduction requires mutually supportive policies across a wide range of economic, social and environmental issues. Strengthened policy coherence for development takes account of the needs and interests of developing countries in the context of the evolving world economy. This is a challenge for industrialised countries, where domestic interest groups and government departments are often preoccupied with concerns and responsibilities other than combating world poverty.

EU Member States can act simultaneously at the national and community level, since the European Commission has jurisdiction in certain areas of government action (Box 5). The goal of promoting and enhancing policy coherence was reconfirmed by the EU Council in May 2005. The Council called on EU Member States and the Commission "... to strengthen policy coherence for development procedures, instruments and mechanisms and secure adequate resources in their respective administrations, looking at the best practices developed by some Member States" (Council of the EU, 2005). Member States can use their influence, individually or through strategic alliances, to bring coherence to policies emanating from the various European institutions. Germany, as an EU Member State, has strongly supported, for example, the reform of the Common Agricultural Policy (CAP) and the world trade system in order to take greater account of the interests of developing countries.

Box 5. Policy coherence for development in the European Union

Within the EU, the principle of policy coherence is stated in Article 178 of the Treaty establishing the European Community. It obliges the Community to take account of the effects on developing countries of the policies that it implements. Institutional mechanisms subsequently have been adapted to this purpose, including the grouping of the various directorates involved in the EU's external policies under the code name RELEX.

Given the size of the EU economic area, the ability to access European markets is essential for developing countries. The "Everything but Arms" initiative adopted in 2001 removed quantitative and tariff barriers to the EU market for LDC exports. However, developing countries may still face difficulties in overcoming non-tariff barriers. These provisions become increasingly important obstacles, as other barriers to trade disappear.

Internal EU policies, such as the CAP, can also impact substantially on developing countries. The CAP subsidises agricultural production within the EU. Export subsidies then allow overproduction to be sold in other markets at less than production cost. Evidence suggests that subsidised EU farm products can create unfair competition in some local markets, including in developing countries where agriculture may provide livelihoods for most of the population. EU Member States and the European Commission continue to reform the CAP to reduce its trade distorting aspects.

Potential policy coherence issues in Germany

In addition to its work in the EU context, Germany has paid considerable attention to the domestic side of policy coherence over the last five years. A number of development-related statements have been approved by the German government, including the amended Political Principles for Arms Exports (2000), a strategy for Civilian Crisis Prevention, Conflict Resolution and Post-Conflict Peace-Building (2000) and its subsequent related action plan (2005), Guidelines for Granting Export Guarantees (2001) and a Sustainability Strategy for Germany (2002). Involvement in these areas has underscored the fact that **implementation** can involve some of the most difficult aspects of the policy coherence agenda, examples of which are noted below. These examples offer insight to the complexity of coherence issues, as well as the need for Germany to persevere in organising its coherence effort, with similarly motivated international and German partners, around the results it hopes to achieve.

Arms export

In its 2000 **political principles governing arms exports**²⁰ the German government commits itself to contribute to peace, crime prevention, human rights and global sustainable development. Exports of war weapons and other armaments are not to be licensed if there is sufficient reason to suspect that the equipment concerned will be used for internal repression or for other violations of human rights. A particularly restrictive policy applies to the exports of armaments to “third” countries outside the EU, NATO member states and Australia, New Zealand, Switzerland and Japan. At the last UN General Assembly, the Minister for Economic Co-operation and Development stated that “[...] global spending on armaments has now reached a level of more than a trillion US dollars, while global expenditure on development co-operation is only 78 billion US dollars” and called on “all players to shift expenditure priorities towards development”.

Despite high-level political support in favour of reducing global military spending and restrictive political principles for German arms exports, Germany now appears to be increasing the size of its arms exports. The latest *Report on Military Equipment Exports* (Federal Government, 2004b) reveals an upward trend, with war weapon exports reaching EUR 1.3 billion in 2003, twice the 2000 level and about four times the 2002 level.²¹ This report also substantiates Germany’s ranking as the fourth largest supplier in international arms transfers.

The share of war weapon exports going to **developing countries** (DAC list of aid recipients, Part I) accounted for about 49% of the total in 2003. However, statistics on the overall range of arms transfers can only be identified by examining export license applications for military equipment. Of the EUR 4.9 billion-worth of such licences issued in 2003, developing countries (mainly middle-income and high-income countries) accounted for 30% of the total.

Concern has been voiced within the German development community over the extent to which these arms are moving to developing countries. German NGOs criticise both the rise in arms sales to developing countries and the fact that arms are exported to countries engaged in conflict, or with questionable human rights records, and therefore contrast with the restrictive political principles noted above.

20. These principles include the 1998 EU Code of Conduct on Arms Exports as minimum standard.

21. This increase can partly be explained by the sale in 2003 of German corvettes to Malaysia (EUR 308 million) and South Africa (EUR 260 million).

Export credits

Germany's programme of **export credit guarantees** (ECG) supports German enterprises in their efforts to open markets and expand the size of traditional markets in a difficult economic environment. It is a major element of federal government action to promote foreign trade and to secure jobs in Germany, while offering recipient countries access to German exports on advantageous terms. The private firm generally known as Euler Hermes administers the scheme on behalf of the government. In 2004, the size of the export guarantee coverage reached the all-time high of EUR 21 billion. About 75% of these guarantees were for exports to developing and transition countries.

Given the potential conflict of interests with human rights and environmental objectives of its development co-operation policy, the German government strives to ensure that requests for risk and credit guarantees are considered in light of a more coherent stance. In 2001, the **Inter-ministerial Committee for Guarantees** (comprising officials from the ministries of Economics and Labour Affairs, Finance, Foreign Affairs and BMZ) adopted new "Guiding Principles" that included ecological, social and developmental aspects. About one year later, Germany voluntarily integrated the *OECD Recommendations on Common Approaches on Environment and Officially Supported Export Credit* into its environmental procedures before they became binding for all OECD ECG agencies in 2004. These common approaches also seek to enhance transparency in environmental assessment procedures.

Germany is an important creditor of developing countries. Given the current scope of its debt relief programme (Chapter 2), the German government is concerned about ways of preventing these countries, in particular the HIPCs, from falling back into an unsustainable debt cycle. Germany has also adopted the precepts in the 2001 OECD Statement of Principles whereby officially supported export credits are not to be used for unproductive purposes in HIPCs. These principles were adopted in recognition of the debt creating aspects of ECGs. At the same time, export credit guarantees have the potential to facilitate developing countries' access to private sector financing. Given that large companies within OECD countries can generally assess risks and mitigate them, ECGs should be targeted at exporters with projects that will generate direct benefits for the poor in developing countries. A better consideration of ECGs as trade-promoting, development-oriented instrument calls for an intensification of BMZ's role in the Inter-ministerial Committee on Guarantees to ensure that interests of developing countries are taken into account in ECG-related decision making.

Germany's approach to policy coherence for development

A government-wide framework supportive of policy coherence

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. The **Chancellery** has political importance as a centre for government policy co-ordination. Its organisational structure parallels, at a far smaller scale, the structure of the Federal Government as a whole. It liaises constantly with ministries and other federal authorities and keeps the Chancellor regularly informed. Decisions taken by Cabinet are prepared and their implementation monitored in the Chancellery. As the "co-ordination centre" for government policy it is, at times, called upon to support BMZ in its efforts to foster policy coherence for development and act as a moderator between ministries in cases of policy incoherence. Staff capacity within the Chancellery for development policy, however, is limited.

Having an **independent ministry (BMZ) responsible for development co-operation** with cabinet status is an important aspect of Germany's approach to policy coherence for development. This was reinforced in 2000 when Cabinet amended its "Joint Rules of Procedure" to provide lead ministries (including BMZ in the area of development) with the responsibility to examine the impact of legislation planned by other government departments. This function is co-ordinated within BMZ by its Division 03: "Parliamentary and Cabinet Affairs". It should be noted that this responsibility only refers to the estimated two-thirds of legislative proposals that are advanced by government itself and does not cover those emanating from the legislative bodies (*Bundestag* and *Bundesrat*). Further ministry coherence responsibilities include its membership in the **Federal Security Council** (since 1998), responsibility for which includes arms export policy. Also, BMZ is a longstanding member of the **Inter-ministerial Committee for Export Guarantees** and has played a more active role on that body in recent years. Finally (since 1998), some responsibilities relevant to development co-operation have been transferred from other ministries to BMZ (e.g. responsibility for EU development co-operation).

A statement of policy: PA2015

A political commitment to policy coherence for development among the different ministries was included in the government 1998 coalition vision statement.²² However, it was not until 2001 that the concept of policy coherence for development was formalised in the *Programme of Action 2015 policy paper*. PA2015 specifically calls for a coherent approach to development among all policy fields in Germany, the EU and on an international level. It further highlights the importance of support from the public and civil society in this area and thus of development education and awareness building. This poverty strategy, because of its widespread political acceptability and strategically framed agenda, promised to be an opportunity for international and national partnership toward a more common and coherent development policy. However, policy coherence for development was not initially defined in PA2015 in operational terms. A PA2015 implementation plan, which the German government promised to draw up at the time, was never finalised. As is noted below, a more comprehensive and organised statement on the operational aspects of the policy coherence agenda (actions, individual responsibilities, deadlines) was not forthcoming until 2004.

Making policy coherence operational: the BMZ response

To respond to the need for an explicit policy coherence statement and an implementation plan, in 2003 BMZ commissioned the German Development Institute (GDI) to evaluate the government's ongoing coherence activities and institutional approaches in order to give recommendations on further improvements. Based on this study, BMZ internally reviewed options and produced a **coherence agenda** which contained 14 time-bound measures to improve instruments and processes for policy coherence (Table 4). In 2004, the coherence agenda was endorsed by the Minister for Economic Co-operation and Development and is now under implementation. It should be mentioned that some aspects of the agenda were acted upon at an earlier stage. For example, Goal 2: "coherence talks" have been carried out since 2002 and more than 20 such events have taken place to date. The second report on PA2015 implementation (BMZ, 2004d) lists a range of actions undertaken to promote greater coherence in relation to each of the ten priority areas.

22. "Development policy today is global structural policy, aiming at the improvement of the economic, social, ecological, and political conditions in developing countries... The new Federal Government will reform, develop, and improve development policy along these principles, ensuring the coherence of this policy among the different ministries." (1998 Coalition Paper Statement of Vision).

Table 4. BMZ coherence agenda - the 14 goals

	Goal	Timetable
Goal 1	Whole-of-government country assistance strategies, particularly in relation to “anchor” countries (Division 220).	Spring 2005
Goal 2	Coherence talks with DGs of other ministries to improve mutual understanding and to discuss strategic issues (DGs, directors and division heads, Division 300).	Continuous
Goal 3	Topic-based inter-ministerial working groups – with aim of producing common position papers or “coherence” dossiers (Division 300, sector and institution divisions).	First dossier in first half 2005
Goal 4	Further defining the PA2015 through use of a structured and time-bound “Management and Priority-setting Matrix” (Division 300).	Autumn 2004, continuous updating
Goal 5	Revise and issue internal decree to include coherence aspects and requirements in BMZ sector papers (Division 310).	End of 2004
Goal 6	Include coherence aspects/requirements in BMZ country papers (Division 220)	August 2004
Goal 7	Coherence-based use of sector projects and topic teams (Division 310).	2004, thereafter continuously
Goal 8	Making greater use of research and evaluation for coherence (Division 210, 120).	Continuous, starting 2004, initial results end 2005
Goal 9	Concentration of competencies for coherence issues within BMZ (Division 100, 300).	September 2004
Goal 10	Promoting inter-ministerial specialist competence and culture of co-operation (Division 100).	Continuous
Goal 11	Greater sensitization of parliament for questions of development policy coherence (Division 03, Minister, State Secretary, institution and sector divisions).	Continuous
Goal 12	Coherence-based co-operation with NGOs (Division 110).	Continuous
Goal 13	Participation in topic-based coherence networks, especially the European Community PCD network (Division 300, sector and institutional divisions).	From September 2004 onward
Goal 14	Public relations; planning publications (Division 02).	Continuous

Source: *BMZ implementation matrix for coherence (2004)*

Driven in part by sustained international encouragement from the EU and bodies such as the DAC, policy coherence for development now appears to have become a top political priority. BMZ management guidelines for 2005²³ explicitly target policy coherence as one of four current BMZ priority goals. In contrast, however, relatively modest ministry **resources** have been attributed to it. Current staff resources include: (i) part of one professional (Division 300: “PA2015”) responsible for overall co-ordination of BMZ coherence work, including the oversight of the implementation of the coherence agenda; (ii) 1-2 staff generalists (Division 03) to assist in screening new legislation; and (iii) *ad hoc* staff contributed by a range of other divisions to address issues contained in the coherence agenda. Also, sector divisions may be involved when specific incoherencies are treated (*e.g.* agriculture, trade, health, or environment) and working groups may be used to assemble relevant elements of BMZ staff to deliberate on coherence planning issues.

Promoting further policy coherence for development in Germany

The new attention given to the topic of policy coherence for development since the 2001 DAC Peer Review has given Germany a more solid foundation from which to address these issues in the future. The German government has demonstrated the political will to move on, more systematically and specifically, the integration of policy coherence into the overall government agenda at the country, as well as the macro level. However it needs to better reflect on just how to make that vision more operational (*e.g.* neither the Nicaragua nor Ethiopia country strategy contained a reference to policy coherence, as would have been suggested in Goal 6 of the coherence agenda). Suggestions for promoting further policy coherence for development in Germany are made below.

Policy: The coherence agenda is a critical first step in laying down a framework for a more operational understanding of the German approach to policy coherence for development and, importantly, has given the entire effort a time frame. However, the goals of that agenda are set at different levels (activities, outputs, or organisational changes) and their inter-linkages have yet to be brought out in the agenda. Overall, it is felt that the current BMZ agenda could usefully be restructured so as to more systematically reflect Germany’s policy coherence priorities. Also, it should now be possible to progressively move this action agenda from process considerations to more specific substantive priority issues of policy coherence. One possible area for immediate conceptual improvement of this agenda is in the way it relates to PA2015. A clearer and more operational statement would be an important starting point for a more organised approach to coherence, elements of which could include:

- Formulation of more explicit coherence objectives for each priority area of PA2015 and for current cross-sector priorities.²⁴
- Clearer understanding of how Germany will work at the international, national and recipient country level for each of these objectives.

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23. The four priority goals include: (i) aligning policies and activities with the Millennium Declaration, Monterrey Consensus and Johannesburg Action Plan; (ii) basing work in the ministry on the principles of ownership and partnership, including alliances with civil society groups; (iii) improving policy coherence for development within the government and increasing acceptance of the public; (iv) shaping ministry organisation and field structures so that it joins up development co-operation, takes into account the needs of the co-operation countries and plays a more active role among donors.
 24. One example of an explicit and useful reference to coherence in PA2015 can be found in its second implementation report, section 3.2. “Coherence in Peace and Security Policy” (BMZ, 2004d).

- More specific direction on how to better join up the different parts of government, including development co-operation organisation (including actors inside BMZ), around coherence issues.
- Guidance on enhancing political and public support for policy coherence, notably addressing the need for transparency and credibility through regular tracking and reporting.

Parliament, the Chancellery, other ministries, NGOs and the public all are necessary partners in the effort to achieve policy coherence for development. There is already considerable NGO interest and expertise in policy coherence topics. Goal 12 of the BMZ coherence agenda (“Coherence-based co-operation with NGOs”) is a starting point for this effort. NGO focus on specific content and their international networks and media presence give them considerable political influence. This could be particularly useful given today’s context of limited parliamentary interest in policy coherence. Parliament needs to be sensitised and given information on a continuous basis as foreseen in Goal 11 (“Greater sensitisation of Parliament for questions of development policy coherence”). Finally, such a vision also could provide more clarity on the German position concerning the role of European Community or other donor networks on the topic of coherence. Goal 13 of the coherence agenda encourages attention to this area. However, these networks have virtually no free standing capacity and have to rely primarily on national mechanisms to support their work. Germany may wish to consider lending more active support to this collective effort.

Analytical capacity: The 2000 amendment of Cabinet Joint Rules of Procedure to assign BMZ responsibility for examining the legislative proposals of other ministries was an innovation worthy of note by DAC members. Building on that approach, improvements could be made by: (i) expanding the scope of that review to regularly deal with priority legislation generated by parliamentary institutions; and (ii) setting up a more organised system of workload oversight in the coherence area, led by development professionals who can help to prioritise analysis and better focus scarce analytical resources.

Clearer thinking on the locus of leadership for analysis and the appropriate level of skills required would appear needed. There are few experienced development professionals playing an active role in this area. One pragmatic approach could be simply to focus greater analytical attention to a fewer number of coherence questions of strategic importance. The interface with the Chancellery could be re-examined and merits re-negotiation. Support of BMZ efforts to foster policy coherence for development by the Chancellery could become more targeted through collaborative monitoring of the implementation of PA2015 and through regular exchange of information. The Chancellery could act more actively, if required, as a moderator between ministries in cases of policy incoherence.

Monitoring mechanisms: Current, regular reference to implementation of policy coherence is limited to biannual BMZ reports on the implementation progress of PA2015. As policy coherence is not one of the priority themes of PA2015 and it is mentioned only generally in implementation reports, German policy coherence monitoring and reporting has yet to become explicit and systematic.²⁵ Now that BMZ has developed a more formal coherence agenda and has established policy coherence as one of its key management objectives in 2005, a special effort can be made to improve the tracking and reporting of its implementation, including the introduction and use of pertinent coherence indicators. Such coherence monitoring should include all of today’s German development priorities, including

25. It should be noted, however, that the second PA2015 implementation report (BMZ, 2004d) dedicates more attention to coherence issues than the first version (BMZ, 2002). Also of reference is the publication *Germany’s Contribution to Achieving the Millennium Development Goals* (BMZ, 2005b) which devotes a short chapter to the topic.

those of a cross-sector nature (*e.g.* governance, HIV/AIDS, gender), accompanied by time-bound results monitoring and reporting.

Future considerations

- A clearer and more operational BMZ **policy statement** on coherence for development should be framed to better focus and organise national action, and to promote greater political and public support. As implementation of policy coherence becomes more transparent and specific, greater effort will be needed to build awareness and to solicit greater action on the part of key partners, including parliament, the Chancellery, other ministries, NGOs and the public.
- **Organisational** and **resource** considerations need to be addressed as BMZ further attempts to implement the priority accorded to policy coherence. Current efforts to work through networks on policy coherence, such as that of the EC, can be an effective approach to reinforcing German coherence for development at minimal cost.
- The operational definition of policy coherence policy afforded by the coherence agenda should lead to improved **tracking** and **reporting** of progress in a more regular manner, potentially in relation to the existing monitoring of PA2015.

Chapter 5

Organisation and Management Systems

Organisation

A national “network” of German aid organisations

The broad lines of Germany’s organisational hierarchy have already been presented in Chapter 1 (Figure 1) and feature the Federal Ministry for Economic Co-operation and Development (**BMZ**) and two main implementation agencies, one for technical co-operation (**GTZ**) and another for financial co-operation (**KfW**).

The full range of German institutions that rely on ODA funding is more diverse. A more complete mapping of this system results in a “network” of implementing agencies, often rooted in different locations in Germany and generally with modestly defined operational relationships between each other. The essential contours of this network are listed in Annex D and include **official agencies** (technical co-operation, financial co-operation, human resource development, economic co-operation) as well as institutions **outside of government** (NGOs, political foundations) which can have functions that overlap those of the official agencies. In total, more than 30 German development institutions are included in this network. Finally, a number of other federal **ministries**, previously noted in Figure 1 (Foreign Office and Finance, particularly) and the **federal states and municipalities** participate in national development co-operation. Where the states and municipalities have activities in the field, they generally do so through the above mentioned implementation agencies and institutions.

Past DAC Peer Reviews, and German authorities themselves, have recognised the utility of reforms in this broader system so as to better adapt to evolving international experience, to avoid organisational redundancy, and to lower transaction costs. This acknowledgement has given rise to a variety of studies in Germany over the last several years. For example, a recent evaluation of Germany’s organisational ability to contribute to the PRS process as well as its effectiveness in the field (BMZ, 2003a) suggested, *inter alia*, the need for a better definition of organisational roles and more co-ordinated structures; a more flexible and decentralised organisational approach to decision making; a review of the division of labour between the embassy and BMZ and other agency staff in country; and the possible utility of a merger of agencies in the field.

Actual reforms to date have been more modest. The most important **structural reforms** undertaken since the last DAC Peer Review include the 2003 internal reshaping of BMZ architecture and the 2002 merger of two training organisations, Carl Duisberg Society (CDG) and the German Foundation for International Development (DSE) to form Capacity Building International (InWent). A growing effort also has been made to **co-ordinate better** the key institutions of the German aid system, particularly through the fostering of a common strategic vision for all agencies and a more integrated organisational context, particularly in the field. An emerging issue is the relationship between BMZ and the Federal Foreign Office in the context of fragile states and humanitarian aid (Chapter 3 and Annex C) where a whole-of-government approach is being increasingly seen as being most effective.

The organisational core: BMZ, GTZ, KfW

BMZ: “policy and system co-ordination”

The core of the German development co-operation system is BMZ,²⁶ which has existed since 1961. BMZ is responsible for leading the national development co-operation system, including planning and policy, programmes in partner countries, financing and supervision of the public implementation agencies; co-operation with other partners (*Länder*, NGOs, other donors, etc.); evaluation and relations with parliament and civil society. BMZ shares oversight responsibilities for the multilateral aid organisations with selected other federal ministries, particularly the Foreign Office and the Ministry of Finance. The majority of “substantive” ODA²⁷ is channelled through BMZ and then reallocated by it to the implementation agencies, civil society and international organisations. This leaves the ministry with a potentially powerful intermediary role to play within the German system. Annex E illustrates the current organisational set up of the ministry since its reform in 2003 (Box 6).

Box 6. BMZ organisational reform

BMZ undertook a major organizational reform in 2003. At that time, the previous four key directorates (administration, regions, bilateral co-operation/instruments, multilateral co-operation/sectors) were reduced to three directorates with blended responsibilities across regions, sectors and types of aid. The logic for this sharing of responsibility related to the need to better integrate functions, including the bilateral and multilateral ones, which were seen as too compartmentalised to reflect the needs of a modern approach to management. Issues are now dealt with by “teams” of BMZ staff which cut across the traditional bureaucratic boundaries of the separate directorates.

Of the total 589 staff in BMZ headquarters, approximately 80% are located in Bonn and 20% in Berlin. Some BMZ professional staff consulted by the DAC Peer Review team find this geographic split of location of the ministry to be a costly inconvenience. However, most seem to find that communications and collaboration are adequately dealt with through frequent movement of staff between the two locations and the use of modern communication technology, such as email and teleconferencing.

At the level of field operations, German embassies in developing countries are expected to have at least one “development co-operation officer” who handles local development co-operation. This person is either a Foreign Office official or a BMZ employee temporarily seconded to the Foreign Office and can be part time or full time, depending on the nature of the workload. Chiefly due to budget constraints, only about half of these posts are currently occupied by BMZ full-time development specialists, with emphasis on embassies in “priority partner” countries. A total of 38 BMZ staff had been assigned to embassies or other permanent missions to international organisations at the end of 2005.

26. Further information on BMZ available at www.bmz.de.

27. The BMZ budget is estimated to represent 54% of total gross ODA, the major other ODA components being debt relief, imputed student costs and Germany’s contribution to the EC (Figure 1).

GTZ: “technical co-operation”

The Agency for Technical Co-operation (**GTZ**) is a government owned corporation,²⁸ set up in 1975 as the German aid system’s principal implementing agency for technical co-operation. Formerly focused on the provision of technical assistance alone, GTZ has gradually come to view **capacity development** as its key task and core competence.²⁹ The total value of contracts received by GTZ in 2004 was EUR 1.1 billion, 81% of which came from BMZ or other federal ministries.³⁰ The remainder came from its international clients (EU, UN agencies, International Financial Institutions, bilateral donors), largely through its “GTZ International Services” wing, which offers GTZ know-how and services on a commercial basis. Because of the growing importance attributed to results management within the German system, GTZ now uses a special contract arrangement for project funding it receives from BMZ which specifies objectives, means and expected results.

GTZ’s **organisation** is built essentially around geographic and sector themes (Annex F). As with BMZ, collaboration among the different parts of the organisation is ensured by regular work in cross-cutting teams. Although GTZ actually implements only 9% of total German ODA, it makes up the vast majority of front line German development expertise. GTZ places continuing emphasis on operational decentralisation to the field, both of delegation of authority and of resources. Some 900 full time staff is located in Eschborn headquarters, a small office in Berlin, or elsewhere in Germany and another 8 000 field staff (7 000 of which is local professional and support personnel) is located in 131 countries and 66 offices overseas. Currently, its worldwide portfolio of active projects is slowly declining consistent with the vision to work toward “fewer projects and larger programmes”. The allocation of GTZ funds in 2004 was geographically focused on Africa (25%), Asia (21%), Central and Eastern Europe (15%) and Latin America (13%).

KfW: “financial co-operation”

KfW has been the German aid system’s principal implementing agency for financial co-operation since 1960. The development branch of KfW now distinguishes itself from its much larger parent organisation, the KfW Banking Group, and is called “**KfW Development Bank**”³¹ (referred to as simply KfW throughout the report). Like GTZ, KfW operations largely service the specific implementation needs of BMZ development policy.³²

28. GTZ is supervised by a board composed of parliament (4 members), other ministries (4 members: BMZ - Chair, Foreign Office, Finance, Economics and Labour) and the GTZ workforce (8 members). For further information on GTZ, see www.gtz.de

29. GTZ is also responsible (with the Federal Employment Agency) for placement of experts through an affiliate organisation, the International Centre for Migration and Development (CIM), located in Frankfurt.

30. Of the 81% of contracts received from the German government, most (93%) were from BMZ, with the remainder from the ministries of Interior (EUR 15.2 million), Defence (EUR 15 million) and others in the context of an EU twinning programme co-ordinated by the Ministry of Finance (EUR 22.2 million).

31. KfW Development Bank is supervised, along with the other parts of the overall KfW Banking Group, by the Board of Supervisory Directors, which includes 43 leading personalities from German public and private sectors. The Minister of Economic Co-operation and Development is a member and the Chair is currently the Minister of Finance. For further information on KfW, see www.kfw-entwicklungsbank.de.

32. The German Investment and Development Corporation (DEG) has been a wholly-owned subsidiary of KfW Banking Group since 2001. The task of DEG is to promote the private sector in partner

Annex G describes the current organisational configuration of the KfW Development Bank. Its operations are largely organised around two “regional” departments, each of which provides considerable space for a blend of geographic and sector divisions. As with sister organisations, KfW makes extensive use of cross-cutting teams to manage its workload. KfW manages the largest share (18%) of German ODA, while doing so with a relatively modest 370 staff, located mainly in Frankfurt headquarters. In keeping with current emphasis on increasingly decentralised decision-making and the large number of countries (113) in which it works, KfW has increased the number of its staff in the field, currently numbering 24, who collaborate with 80 local experts and operate 46 field offices. Half of these offices are staffed exclusively by local professionals. KfW increasingly attempts to collaborate more closely with other German agencies, particularly GTZ, and its offices are located in joint “German Houses” with GTZ and - as far as possible - other German agencies.

KfW has been known by outsiders for its traditional focus on project-based loans for infrastructure. Today’s profile is significantly different. KfW has responsibility for a significant amount of grant funds, including the lead role for a rapidly growing German use of grant-based budget support schemes (EUR 300 million planned for the 2006-07 time frame). In 2004, KfW received EUR 1.3 billion in development funds from the BMZ budget, of which more than half was in the form of grants. In that same year, it also committed EUR 621 million of its own funds in the form of development and promotional loans and is proud of the leveraging effect that these funds can have on ODA. Currently, its total of almost 1500 projects is largely focused on social and economic infrastructure (69%). Commitments in 2004 geographically favoured Asia (40%) followed by Europe (20%), Africa (13%) and Latin America (11%).

Organisational challenges

Organisational decentralisation

For the last decade, DAC members have witnessed a trend toward greater empowerment of their field missions around local strategic leadership. The directives contained in the Rome (2003) and Paris (2005) declarations on **aid effectiveness** give all signatory donors a strong political mandate to reshape their individual efforts around increasingly better harmonised field operations. With Germany’s aid system of centralised official BMZ oversight and increasingly decentralised implementing agencies, a major organisational challenge for the future will be to better match German competence with decision making in the field (Chapter 6). Given that the priority area co-ordinators (normally recruited from GTZ and KfW) can now represent Germany, there should be greater clarity as to who they represent under these circumstances – the recipient, the local country team or their own institution. Also, because the Foreign Office is currently responsible for all embassy initiatives, any moves towards the decentralisation of aid operations will inevitably need to examine administrative approaches that can most effectively strengthen development operations in the field under the authority of BMZ.

German development co-operation is making efforts to improve its presence on the ground. As is noted more fully in the following section, Germany is attempting to better join up the efforts of its many agencies overseas through a “**country team**” concept, with one **country strategy** for all agencies. Some additional staff is being allocated in support of these field-based approaches and, in an increasing number of cases, agencies may be co-located in one “German House” to facilitate internal

countries and to finance projects and enterprises (loans, investments, mezzanine financing and guarantees) that are privately owned and operated, while KfW co-operates essentially with government agencies or publicly guaranteed business partners. DEG functions essentially with its own private funds. DEG maintains a staff of 250, all of whom are located in its Cologne headquarters.

collaboration at all levels. BMZ will soon evaluate its three pilot countries (Ghana, India and Morocco) to determine the speed and content of future policy decisions on operational decentralisation.

These initial steps are testimony to Germany's political desire to work with its partners abroad to decentralise and harmonise German organisation where it might contribute to greater aid efficiency. Nevertheless, as more specifically noted in Chapter 6, considerable additional work has yet to be done. To date, only 6 pilot posts out of Germany's 84 "priority partner" and "partner" countries have some form of country team (another 20 are being formed in 2005). Formal guidelines for country teams are in place and associated training is expected at some point this year. Still, BMZ developmental leadership is represented in only slightly more than half of the co-operation countries while being represented by Foreign Office staff in other countries. The role played is that of field co-ordination, rather than the more active concept of field management (including strategy development, planning, programming and programme management).

Possible suggestions for further system improvement in operational decentralisation based on current practice of other members of the DAC include:

- A strengthened, active management role for the **Development Co-operation Officer** in German embassies (new terms of reference, greater delegation of authority, a new understanding between BMZ and the Foreign Office on their relationships in the field with a direct reporting line also to BMZ, additional staff), accompanied by support mechanisms locally and from headquarters.
- Attention to further improve the integration of KfW and GTZ (and other agency) operations and programmes **in the field**. Promotion of an approach which flexibly crosses the administrative boundaries of financial and technical co-operation, and which seeks a form of German field presence which is focussed on results achievement, with common local strategic leadership and objectives. Relations among the various German agencies could be more active and local professional skills better shared. BMZ is already working along these lines and promotes implementation, co-ordination and reporting at the sector level. In the long term, a more challenging issue would be harmonisation and ultimately merging the different procedures of the various implementing agencies, one framework for which could be the "German House".

Greater organisational efficiency in headquarters

Encouraging more decentralised and locally efficient operations calls for a re-evaluation of potential alternative organisational relationships at the level of headquarters (*e.g.* BMZ-implementing agencies, GTZ-KfW; "narrow" technical co-operation in relation to "broader" technical co-operation; BMZ in relation to the Foreign Office), as well as the whole gamut of procedures from strategic planning to annual budgeting.

As the various parts of the German system are not systematically co-ordinated with each other they tend to do so on a transactions basis. An additional logistic inconvenience comes from the fact that the different agencies are often in different locations throughout Germany. Consolidation of official agencies at the headquarters level is a difficult option for many historical, political and other reasons. However, unlike the situation in the field, the political architecture in Germany gives BMZ the position of authority and resources needed to co-ordinate this range of institutions at this level.

To compensate for the structural fragmentation of German aid agencies, BMZ is now promoting a network approach at all levels to encourage pragmatic team building among relevant actors on topics of operational specificity. As a point of departure, BMZ should persevere in this direction, building upon existing teams within, and particularly among, the different development institutions. Nevertheless, all of these creative arrangements do not fully address the problems inherent in such a fragmented aid delivery system. In the long term, active team building across bureaucratic boundaries will hopefully permit the improved understanding of key relationships within this evolving system that may help to simplify procedures and mechanisms of co-ordination. It would be desirable to shape these organisational relationships against a backdrop of results at the headquarters level, as well.

Relationships between “technical” and “financial” co-operation

A related, but more specific aspect of the overall organisational context is the increasingly artificial distinction that is traditionally made in the German system between “technical” and “financial” co-operation. Also noted in the previous DAC Peer Review, this separation of bilateral country programmes into free-standing, vertically organised compartments of technical or financial co-operation at field level lends to confusion among local partners, leads to separate missions and official agreements with the recipient government and requires multiple meetings to co-ordinate internally. To compensate, BMZ has introduced system innovations, such as the joint strategies and teams noted elsewhere, which attempt to provide a more common and co-ordinated working environment. Similarly, it is now updating its “Guidelines for Financial and Technical Co-operation” to ensure clarity and relevance of federal government operational guidance. At the request of BMZ, agencies have developed agreements to intensify co-operation (Box 7).

Box 7. Intensified co-operation between GTZ and KfW

GTZ and KfW have had a general agreement since 1993 that governs joint collaboration between them, including the implementation of joint projects and programmes. In recent years, they have adopted the use of a regional “Statement on Intensified Co-operation” to provide more operationally focused guidance. Statements for Africa (2002), Latin America (2003), Asia, Pacific and Central Asia (2004) and Southeast Europe, Caucasus and Turkey (2004) now have been signed by both organisations. These statements are very succinct (2-3 pages), but have helped to establish a basis for more collaborative operational behaviour. Themes addressed in these statements include:

- A confirmation of the need (i) to co-operate at the strategic level within the priority sectors and on projects and programmes wherever possible, (ii) to support each other logistically and substantially wherever necessary, and (iii) to develop common goals within each priority sector of co-operation in partner countries, including agreement on a common plan on implementation and financing, for proposal to BMZ.
- Agreement, at the level of the partner country, (i) to hold joint, semi-annual management discussions on implementation of common priorities, (ii) to encourage joint missions to the field to set priorities, and (iii) to promote regular exchange of information.
- Clarification of each organisation’s need to define and work within its own realm of authority and competence – with eventual internal conflicts resolved between them. Also, common perspectives will be encouraged through shared training and knowledge management actions.

The organisational issues here seem to be most evident at two levels (i) within the technical co-operation group of agencies and (ii) between those of technical and financial co-operation. For the **technical co-operation group**, administrative distinctions among them are well developed³³ and

33. German technical co-operation distinguishes between “implementers” of technical co-operation (GTZ and to a lesser extent, the more specialised Institute for Geosciences and Natural Resources – BGR

include implications for budget planning with parliament. As the largest of the many agencies of German technical co-operation, GTZ provides these agencies with important conceptual leadership, as it does for BMZ where it supports policy development. It already would seem possible to use GTZ to provide some form of umbrella with delegated responsibilities to introduce greater coherence and co-ordination within the group. Secondly, the issues between the **technical and financial co-operation** are more complex. These two important categories of aid no longer represent totally different spheres of competence in today's international approach to development co-operation, and the implementing agencies will necessarily continue to evolve in increasingly integrated ways in the future. At least at field level, where KfW often provides investment-related technical assistance and (in LDCs) provides financial co-operation with grants, consideration should be given to better support country-led poverty reduction strategies by merging financial and technical co-operation. This would lead to one approach, one funding allocation and one agreement with the recipient country.

This is not a new topic. Over the years, there have been frequent discussions, both inside and outside of German development co-operation, on how to modernise these traditional distinctions in the German system. This brief DAC Peer Review is not able to undertake the complex political, financial, administrative and cultural analysis necessary to make definitive suggestions on how to address these issues. It is suggested, however, that the German government make every effort to independently review these admittedly difficult institutional issues at the highest level. The 2005 federal elections might provide an opportunity in this regard.

Management

Management of strategy and programming

Given the wide variety of actors within the German system, it is a challenge to bring coherence to the design and implementation to its aid. BMZ has focused on a standard set of cascading processes which first draw inspiration from formal statements of policy, particularly the fundamental statement contained in PA2015 and commitments made through international agreements, work within the DAC and selected sector, cross sector and regional strategies. Beyond these official statements of strategy, the actual programming and detailed design of German field activities take place in close co-operation between BMZ and the implementing agencies, particularly GTZ and KfW.

A first translation of German development vision comes at the level of **country strategy**, a system requirement for “priority partner” and “partner” countries. A country strategy is an overarching statement of BMZ policy, generally valid for three to five years, which is binding for financial and technical co-operation agencies but serves as guidance for other agencies. The document uses a standard outline (contextual analysis, definition of priority areas, description of policy dialogue, brief description of achievements expected) and should not exceed 12 pages in length. Drafting is carried out by BMZ with the relevant agencies, both in headquarters and the field. Although these papers are primarily available in German, they are intended to serve as public documents helping to make BMZ country-specific development policy transparent and comprehensible. They can also serve as a basis for policy dialogue with the partner country and for co-ordination with other bilateral and multilateral partners. Germany participates in drafting joint country assistance strategies in some countries with other donors (Uganda, Zambia) and should review the value of this approach elsewhere. Although at least one recent evaluation (BMZ, 2003a) found weak linkages between country strategies and PRSs,

and the National Metrology Institute – PTB) and the “instruments” of technical co-operation (the International Centre for Migration and Development - CIM, the German Development Service – DED; Capacity Building International – InWEnt), collectively referred to as “technical co-operation in the broader sense”.

new official guidance now requires that such local strategy serve as the starting point in country strategy design. The partner government does not take part in the initial design of the country strategy, but may receive a translated copy for review once the draft is cleared in Germany.

The BMZ country strategy defines a limited number of priority areas for German assistance (up to three priority areas for “priority partner”, one for “partner” countries). Subsequently, a more operational statement of management strategy for each priority area is produced in a separate **priority area strategy paper**. This strategy describes, in more concrete terms, the use and integration of the various official development co-operation instruments available, including multilateral co-operation, with the ultimate objective of obtaining more coherent agency planning. It is jointly developed, discussed and agreed with the recipient country and other pertinent partners, including NGOs. In principle, these documents are expected to be explicitly linked with national or other relevant local planning processes (*e.g.* PRS, local strategies and programmes or donor co-ordination). Importantly, the priority area strategy may contain a matrix of performance indicators. It is the role of the **priority area co-ordinators** in the recipient country to lead German sector-wide co-ordination, including local policy dialogue.

The country strategy and, if available, the priority area strategy are the support documents used to undertake **bilateral negotiations** on Germany’s programme for the recipient country. The negotiation protocols are specifically useful reference documents which define the scope, funding size and the implementation actors of the German programme over the period. The bilateral negotiations are led by a BMZ team from headquarters and can take place in Germany or in the partner country. The periodicity of these negotiations was recently extended from every one or two years to every two or three years. Further consideration should be given to even longer time frames (*e.g.* five years), should this prove more in synch with the poverty reduction planning requirements of the local partners.

The different **agency roles** defined in each priority area are the responsibility of the individual agency to further refine according to their own procedures. Since 2002, current procedures for GTZ and other technical co-operation agencies require the establishment of a standard contract between BMZ and the agency known as AURA (*Auftragsrahmen*, or “Mandate Framework”). AURA establishes the parameters of a framework agreement between GTZ and BMZ, including measurable impacts and project results. This arrangement spares BMZ the need to micro manage the GTZ activity and gives GTZ greater freedom to flexibly make decisions with partners in the field in the course of activity implementation so as to achieve expected results. Alternatively, financial co-operation activities are implemented by the recipient country execution agencies on the basis of the implementation arrangements agreed upon between KfW and the local implementing structures. Based on comments made during the DAC Peer Review field visits, some local observers perceived the potential for conflict of interest in cases where any of the implementing agencies is allowed to take an initial role in designing its own activities with minimal BMZ or host country oversight in the early stages of design. A more effective decentralisation of BMZ leadership and oversight to the field level would be one important way of avoiding the potential for such a situation.

These strategic and programming processes, when linked up to the new organisational arrangements for field implementation, have the potential to significantly “join up” the various parts of the German system into a more coherent and transparent effort. It is unfortunate however that so many steps are needed to co-ordinate the German side alone, while many donors now attempt to engage in joint initiatives. Were it possible to create a more unified structure of action for German assistance in the field and, if Germany were able to fulfil its own objective of using partner country vision rather than its own, at least a portion of this programming complexity could be eliminated.

Personnel management

Adequate staffing is one of BMZ's more difficult issues. Like all other government ministries, BMZ has had to adjust to a mandated annual reduction in overall staff levels of 1.5% since 1993. At the same time, development co-operation is regularly assigned new, more politically visible and higher priority tasks (*e.g.* poverty reduction, policy coherence, HIV/AIDS, human rights, conflict prevention). National political leadership has committed Germany to major increases in ODA in the medium term, even as BMZ experiments with new, sometimes more labour intensive approaches to development co-operation. Additional staff, often with different skills, will be needed to successfully carry out these efforts.

BMZ is working on appropriate solutions for the human resource challenge it will face in the years to come. Some efforts have already been undertaken. Given that key decision making of many bilateral and multilateral donors today takes place in partner countries, BMZ has begun to enhance its capacities abroad by establishing additional expert posts. Moreover, in order to increase efficiency and concentrate personnel capacities on policy dialogue, BMZ has taken steps for increased planning within country teams and job-sharing between the ministry and the implementing agencies. BMZ is also using a variety of competence development measures, such as training staff in the context of the Joint Donors Competence Development Network, to augment capacity. Finally BMZ is testing new funding modalities, such as budget support, which may free staff time for conceptual and strategic work, if integrated into the leadership of another informed and fully represented donor, such as the World Bank. More substantial alternatives need to be identified. Possible options on the horizon could include participation in current testing of "delegated partnerships" among like-minded donors or the less politically attractive option of merging national agencies of aid for greater organisational efficiency.

For these reasons and for purposes of management efficiency, it is important for Germany to see its total development staff resources as one system. Approached in this manner, human resource possibilities should be reviewed in parallel with the current debate over new directions in German development co-operation. BMZ is best placed to undertake this type of overview and can associate its human resource planners with any serious review of broader system reform. BMZ has placed greater importance on its human resource planning in recent years, including a "Four point Human Development Plan" which assists BMZ internal planning on a mid-term basis through 2008. BMZ could usefully build on this existing framework to think both more comprehensively and prospectively over a longer time horizon. Already, BMZ and agencies like GTZ and KfW have had limited exchanges and placement of staff in each others' organisation. Current limitations to better and more flexibly share human skills across all agencies of development should be reviewed and alternatives proposed, particularly in relation to the future expected needs for German development expertise in the field. Recourse to the broader pool of talent within the German system offers the opportunity for collective improvements through a more integrated and flexible personnel system. This also should include relevant Foreign Office employees, such as the development co-operation officers.

Management of evaluation, results and learning

The growing interest in improving the effectiveness of monitoring and evaluation noted in the 2001 DAC Peer Review has gained further momentum in the intervening four years. Each of the core organisations – BMZ, GTZ, KfW – have made a special effort in recent years to upgrade the quality of their part of the German system. All key agencies in the German system use an activity log frame approach and all have regular progress review processes and generally work in a manner consistent with DAC Principles for Evaluation. Further evidence of Germany's commitment to improving its feedback processes is its active participation on the DAC Working Party on Evaluation.

The responsibility for **monitoring** lies with the operational units of the implementing organisations, in accordance with the guidelines agreed upon by BMZ and the organisation leadership. KfW and GTZ report annually to BMZ or as the need arises. Their monitoring and evaluation systems are regularly checked. Overall responsibility for external and independent **evaluation** lies with BMZ and specific responsibilities are sorted out on the following basis:

- BMZ (since 2001) has devolved most project evaluation to GTZ and KfW.
- Executing agencies and NGOs that receive BMZ grants manage their own evaluations with some oversight from BMZ.
- BMZ focuses on cross cutting issues, instruments, topics and sectors, thereby covering activities of all implementing agencies and NGOs on a selective basis.
- BMZ engages in joint evaluations, generally of multilateral aid.

Each of the individual German evaluation systems has a reputation for professional conscience and thoroughness and individually are making a strong effort to assess both accountability and learning within their own agency. However, an issue that was raised in the 2001 DAC Peer Review and continues today (including interest expressed by the German Parliament) is the extent to which this loosely co-ordinated network of performance tracking can come together to promote collective learning and greater aid management effectiveness at a system level. For all agencies within the broader system, information is gathered at the activity level, then is sent vertically to their respective headquarters. Embassies are generally copied on this information, but do not have the local resources to make use of it or offer explicit commentary. At the level of Germany, information which rises upward from the field may be used by the agency at the level of headquarters (Box 8 contains an example of GTZ excellence in knowledge management). Agencies and/or BMZ may meet periodically to discuss certain aspects of their own experience, but this has yet to take on a systematic approach to learning which regularly crosses agency boundaries. The BMZ evaluation unit, which currently contains only five professional employees, would seem well located to make a significant contribution to overall system learning by encouraging and steering such an approach. It should be empowered and given the resources to do so.

Box 8. GTZ excellence in knowledge management

GTZ has developed an active system of **knowledge management**. In 2005, GTZ received an award as "Knowledge Manager of the Year", from a private German association promoting the topic. GTZ received the award for its "holistic, project-oriented knowledge management model". This model harnesses competence in some 100 product areas, each under the responsibility of a product manager who acts as a knowledge broker, pooling expertise throughout the organisation. Technical and project information are accessible world wide.

Also, GTZ has established 20 **regional sector networks** which are primary instruments of knowledge management and quality assurance, with five core functions: (i) exchange of experience between field staff and headquarter structures; (ii) thematically focused documentation and evaluation of project experience; (iii) dissemination of GTZ sector, region and cross sector policies; (iv) dissemination of international and regional experience; and (v) monitoring demand for special services. Sector network meetings periodically are called, complemented by internet-based communication and collaboration. Over time, sector networks have broadened their reach in two dimensions. First, they incited strong ownership from the regional management structures of GTZ and bridged a "missing link" between management and sector structures in the geographic regions. Secondly, they developed a range of situation specific policies with partner experts and German and international implementing agencies. GTZ believes that this has played a major role in raising the effectiveness of GTZ services, enhancing the professionalism of its staff and better positioning the sector dimension of German development co-operation in its regions.

Building from the principles of team building, BMZ has begun to work extensively at the sector level. The existence of priority area co-ordinators and regional sector networks suggest that the groundwork for future sector learning across agencies may now be at an early stage of development. Assuming the continuation of a multi-agency approach to development in the upcoming years, this kind of sharing at the level of teams may become the building blocks of a future German learning system.

Future considerations

- The current **programming and allocation** process is labour intensive (targets, country and sector papers, etc.) and should be simplified and streamlined, ideally around field-based leadership. Linkages with country-led strategies, such as PRSs, should be used more systematically when programming German funds and shaping overall German system reforms. Programming could focus on the sector level for all levels of design, implementation and evaluation.
- The current push for operational **decentralisation** of German assistance should gain speed and, to the extent feasible, go beyond only co-ordinating German aid to actively managing it, including leadership for country strategy definition. A more fully delegated and stronger mechanism for country co-ordination, if not simple integration, of German actors at all levels is needed. The country team concept is a good step in that direction, but will require further clarification and a stronger role for embassy development staff and BMZ support mechanisms. This will require a strengthened role for the development co-operation officer under the substantive leadership of BMZ, the secondment of additional BMZ staff to embassies and a new understanding between BMZ and the Foreign Office on their relationship in the field.
- Historical **organisational distinctions** continue to exist among technical co-operation agencies and between those of technical and financial co-operation. These internal institutional distinctions are a distraction for German development co-operation, which needs to focus its energies on increasingly effective forms of aid, and represent an unnecessary burden for partner countries. The German government is encouraged to persevere in its review of institutional options to most efficiently join up the individual structures of German development co-operation into a more cohesive force for development change.
- BMZ should intensify its efforts to join up the different parts of the German aid system to harmonise evaluation and promote **common learning** and should ensure that adequate resources are committed to this effect. Individual centres of excellence are being created under the current approach, but these need to be better linked. Initial work at the sector level appears promising but more structured integration of the various parts responsible for knowledge management would seem to be a longer-term solution.

Chapter 6

Country Operations

Country context and key DAC Peer Review messages

The findings and conclusions on German development co-operation contained in this chapter were drawn from field visits to Nicaragua (23-27 May 2005) and Ethiopia (12-16 September 2005). The key messages summarise the highlights of the debriefing by the DAC Peer Review team upon departure from each country (Boxes 9 and 10).

Nicaragua

Nicaragua is the second poorest country in Latin America (per capita GDP of USD 754, one-third of the regional average). About half the population is poor with extreme poverty widespread in rural areas. The country is extremely vulnerable to frequent natural disasters (*e.g.* hurricanes, earthquakes and volcanic eruptions) and has been badly affected by the world-wide crash in the price of coffee. The country's PRS equivalent, the 2001-05 *Strengthening Growth and Poverty Reduction Strategy*,³⁴ is built on four pillars: (i) broad-based economic growth; (ii) investment in human capital; (iii) protection of vulnerable groups; and (iv) strengthening governance and institutions. More than a decade after democratic transition, political instability remains high. The country's president elected in 2002 is committed to ambitious reforms focusing on the modernisation of the state – including the fight against corruption. However, the leaders of the two main political parties have a strong influence over the state institutions and are paralysing the overall government decision-making process. The donor community supports the government's reform programme and takes the PRS as a point of departure. The government has established mechanisms for donor co-ordination at the macro- and sector level.

Ethiopia

Ethiopia is the second most populous country in sub-Saharan Africa (est. 70 million), while being among the poorest (per capita GDP of USD 100). A 2000 World Bank survey shows 44% of the population below the basic needs poverty line. Perhaps 20% of its people are periodically affected by severe drought. Ethiopia recently embarked on major programmes of reform, much of which is now embodied in its PRS equivalent, the 2002-05 Sustainable Development and Poverty Reduction Programme (SDPRP). The SDPRP is built on four pillars: (i) agricultural development-led industrialisation and food security; (ii) justice system and civil service reform; (iii) governance, decentralisation and empowerment; and (iv) capacity building. A feudal-Marxist past has left many of Ethiopia's governmental structures dysfunctional, despite its reputation for low levels of corruption. Government is often the object of criticism from local civil society groups and the nation's fragile democratisation process has become increasingly polarised since the 2005 elections. Current donor support is strongly co-ordinated by central authorities. For their part, donors have organised themselves around the SDPRP principles and have formed a Development Assistance Group (DAG) that co-ordinates a variety of active sector and other working groups.

34. The enhancement of the national development plan adopted by the government in 2003 was being finalised at the time of the DAC Peer Review field visit. The resulting *Operative National Development Plan*, which will eventually form the PRS-II, places greater emphasis on economic investments, especially in rural areas.

Box 9. Messages from Nicaragua

- **OWNERSHIP.** Strong local ownership at the executive level but president's authority challenged by political party leaders. Need for a more inclusive policy dialogue to include parliament and link with civil society.
- **STRATEGY.** Sector focus useful for greater complementarity among donors. Scope for moving from German-designed programme to PBAs aligned on partner government policies and programmes. Micro- and macro-level interventions not always sufficiently articulated.
- **TECHNICAL CO-OPERATION VERSUS FINANCIAL CO-OPERATION.** Rationale for keeping strategic and institutional distinction between technical and financial co-operation questionable. Need for flexibility in planning and programming.
- **EFFECTIVENESS.** No sufficient impact of micro-level activities on macro-level policies. Limited long-term predictability of aid disbursements. Scope for simplifying procedures and more transparency. Technical co-operation still German-driven with little ownership by Nicaragua's government. Welcome shift to budget support but related policy dialogue needs to be used more strategically.
- **RESULTS.** Monitoring and evaluation system under construction. Poverty impact of various activities to be demonstrated.
- **ORGANISATION.** Need for stronger country team and empowerment of the Development Co-operation Officer. Despite closer integration among implementing agencies at the field level through the country team, planning and programming still carried out vertically. Complex structure for technical co-operation no longer justified, given closer integration among agencies.

Box 10. Messages from Ethiopia

- **OWNERSHIP:** Local Ethiopian ownership is strong but based on authoritarian government. Greater field presence will help Germany test strength of partnership. Structured local dialogue, to include civil society, is needed to broaden ownership.
- **STRATEGY:** Better link priority areas around a common theme such as capacity building. Try to be more inclusive when designing local German strategy and do not use only past involvement in a sector as the rationale for strategy. Attempt to better link with local national strategy.
- **TECHNICAL ASSISTANCE VERSUS CAPACITY DEVELOPMENT:** Germany provides extensive hands-on technical assistance to Ethiopia. Some classical technical assistance still needed, but cross cutting capacity development could be a major strength of German programme. Sharing practical guidance on capacity development in the local context with other donors would be welcome.
- **EFFECTIVENESS:** Budget support is new feature of German aid and requires continued review to assess its future utility. German procedures still too lengthy and not fully transparent. Need to further review use of programme implementation units.
- **RESULTS:** Monitoring and evaluation system currently weak, although under construction at the programme level. Special attention could be given to helping to build local systems. Joint monitoring and evaluation efforts to be encouraged.
- **ORGANISATION:** Country team and priority area groups merit strengthening. Greater efficiency possible through continued unification of multiple German agencies, possibly under one agency leadership and official agreement. More unification can permit sharing of numerous German-sponsored field staff.
- **HUMANITARIAN AID:** Germany should better link food security and development issues in Ethiopia. Implies closer Foreign Office and BMZ institutional collaboration in this area.

Country planning and programming

The German planning and programming process utilised in Nicaragua and Ethiopia is officially the responsibility of BMZ, although each step of the process (country strategy, sector strategy, programme/project) necessarily requires extensive use of implementing agency technical expertise and experience. The entire process took place over a two- to three-year time frame. It is suggested that the steps could be simplified in these countries, both of which have a strong PRS and sector co-ordination process.

German country strategy

The 2004 country strategy for **Nicaragua**³⁵ identifies three priority areas: (i) governance and decentralisation; (ii) environment and natural resource management; and (iii) water and sanitation. In **Ethiopia**,³⁶ the 2005 country strategy identifies three broadly similar themes: (i) capacity building in the government and administrative system; (ii) sustainable utilisation of natural resources for food security; and (iii) capacity strengthening for economic development.³⁷ In some cases, the choice of these particular areas was essentially based on former German project experience in the sector. These documents do not provide specific funding levels or results indicators and do not identify lead actors for later implementation. **Nicaragua**'s country strategy was prepared by BMZ in Germany on the basis of inputs from implementing agencies without extensive consultation with the Nicaraguan government. In the case of **Ethiopia**, a first draft was primarily designed by an implementation agency. After having been reviewed and discussed by all relevant actors, the draft was finalised by BMZ with relevant agencies, translated into English and used as guidance for the ensuing bilateral negotiations.

The current country strategies for Nicaragua and Ethiopia are mainly useful as an internal German framework document, at least partially brought about by the need for an organisational vision into which the various agencies of the German system could fit. For future editions of this document, Germany should implement its current expectations to more widely vet its strategy with the recipient government and partners at an earlier stage to ensure its broader relevance and to draw their rationale for selection of priority areas directly from the local PRS. It would seem most appropriate to situate leadership for the design of such documents with the embassy's development co-operation officer, who should be well placed to co-ordinate the effort in his/her role of head of the local country team.

In Ethiopia, it was interesting to note that the German strategy had to be revised in 2005 to accommodate a major new strategic priority in the vocational training priority area³⁸ ("Engineering Capacity Building"). This request was made by the Ethiopian Prime Minister to the German Chancellor and approved in spite of technical objections raised by German development staff. The activity is now in the initial phase of implementation. In this case, the political process circumvented normal BMZ processes and forced *ad hoc* adjustments in downstream programme documentation.

35. German bilateral commitments amount to EUR 24.5 million for 2004-06.

36. German bilateral commitments amount to EUR 69 million in 2005.

37. In 2005, the "vocational training" priority area was expanded to "capacity strengthening for economic development" (or as called by the Ethiopian government: "Engineering Capacity Building"). It includes university and vocational training, quality management and private business promotion.

38. See note above.

German sector strategy

The priority area strategy is a much more operational document at the sector level. The priority area strategy tracks country strategy vision and identifies, *inter alia*, actions, key German actors and illustrative indicators of success. In **Nicaragua**, there is only one such strategy available for “governance and decentralisation”. For the other two priority areas, Germany supports the Nicaraguan government in its efforts to develop a comprehensive sector approach. In **Ethiopia**, these documents were designed (in English) by a team comprising the BMZ desk officer, the priority area co-ordinator and sector experts from implementing agencies. They were the object of considerable consultation with local government and other partners, and serve as the basis for the three-year bilateral agreement between the two governments. It seems appropriate and reasonable that these sector strategies are not overly detailed, so as to permit flexible adjustment in size or scope. In countries such as Ethiopia and Nicaragua, where PRS planning takes place over a five-year timeframe, it would seem logical for Germany to adjust its bilateral agreements accordingly. In the countries visited, responsibility for the co-ordination and implementation of the sector strategies is formally delegated by the embassy to the respective Priority Area Co-ordinator (two GTZ and one KfW employees in Nicaragua, three GTZ employees in Ethiopia). In consultation with the embassy, priority area co-ordinators participate in the sectoral policy dialogue and “speak in the name of Germany” in matters related to their sector of responsibility.

The more detailed priority area strategies are more operationally useful documents for German development co-operation, although they may not even be necessary if local government strategy is already sufficiently developed at the sector level, as is the case in Nicaragua. It would seem reasonable to consider consolidating the country and priority area strategies into one document, probably under the local leadership of the embassy’s development co-operation officer. This would mean that a major responsibility of BMZ headquarters and the implementing agencies would be to provide timely support to the embassy for these important strategic tasks. In countries such as Ethiopia and Nicaragua, where extensive national sector level strategy already exists, future German sector documents could be aligned more specifically with the national statements and implemented more fully and transparently in the context of local sector co-ordination.

Field organisation

The core of official German presence in Nicaragua and Ethiopia is the German **embassy**, which currently is lightly staffed to deal with substantive issues of development co-operation. In **Nicaragua**, the embassy is composed of the ambassador, and five other German professional staff, including one development co-operation officer, seconded from BMZ who is aided, part-time, by a German assistant on a local contract. In **Ethiopia**, the staffing arrangement is similar, and the development co-operation officer is aided, part time, by a German assistant from the Foreign Office who also works on trade. In both cases, the work of the embassy officer is assisted by the GTZ mission director, who has the ability to redirect specific actions to local GTZ technical staff. A wide range of German agencies function in both countries, including GTZ-CIM, DED and KfW (all with local offices) as well as InWent, DAAD, SES in Ethiopia (without a local office). In Nicaragua, GTZ and KfW share a common office. In Ethiopia, local official agencies (with the notable exception of the development section within the embassy) will soon all be located in one “German House”, now under construction. A wide range of German NGOs and political foundations also carry out activities in both countries, including some which have a local office.

As Germany increasingly decentralises its development work load to the field, the size and skills of the **staff** of all of its organisations there will become increasingly important. In countries such as Nicaragua and Ethiopia, where Germany’s national interest and official funding are largely related to development co-operation, it would seem important that embassy structures and staff be similarly

adjusted. For example, as is now the case for several DAC members, Germany could assign these countries, as a matter of priority, ambassadors or other embassy staff who have significant knowledge or exposure to the issues of development. Further delegation of authority to the field will have important implications for the profile of the development co-operation officer, as well. In the current German development co-operation system, most local development expertise is contained in the implementing agencies. The large number of professionals located in all of these organisations and the current interest in better harmonising among them, suggest the utility of better sharing skills among the agencies and with the development co-operation officer, to the extent that it is feasible.

Several of Germany's partners in these two countries commented positively on the way it now is using **teams** at the local level to bring together the different parts of the German system and they now better understand how to identify and join forces with their German partners. Both Nicaragua and Ethiopia have set up **country teams**, composed of all local representatives from German agencies and under the leadership of the embassy's development co-operation officer. So far, their limited means and modest meeting schedule (every six weeks in Nicaragua and every four weeks in Ethiopia) has meant that the country team agenda is largely focused on information sharing and low-cost co-ordination among agencies. Also, the Nicaragua country team organises an annual meeting for German NGOs, political foundations and church-based organisations. In Ethiopia, each priority area is now co-ordinated among German organisations by a **priority area team**, each led by a priority area co-ordinator. The Ethiopian embassy was used as a pilot in this area and was actually authorised to establish its teams before the approach became BMZ policy. In another ground breaking gesture, the embassy there drafted a letter to its partners in 2002 announcing the names of its priority area co-ordinators and formally attributed to them the important mandate of speaking on behalf of the embassy in matters related to their sectors. To attract senior staff to these positions, GTZ has established a remuneration rate for the priority area co-ordinators which is equivalent to that of its local mission directors.

Nevertheless, the existence of multiple agency actors is still perceived locally as complicated and time consuming (different administrative procedures, need to maintain multiple contacts, need for multiple official agreements). The role and authority of the embassy's development co-operation officer and the country team should be reinforced. This would seem to be immediately feasible by calling upon greater support from the implementing agencies. Based on the DAC Peer Review field observations, it would seem highly desirable for Germany to progressively shift the role of this field leadership from information sharing and minimal co-ordination to one of pro-active and strategic management of German aid locally. In the longer term, it could be useful for the embassy's development co-operation officer to have responsibilities for shaping and commenting on the annual performance evaluations of the members of their respective teams, many of whom belong to agencies other than their own. For its part, BMZ should review the level of seniority required for these officers to adequately perform their role as "country team manager".

Country implementation

Project versus programme approaches

Both in Nicaragua and in Ethiopia, the portfolios are in transition out of a purely project-based approach to a sector/programme nature. In **Nicaragua**, the selection of three priority areas has led to some artificial grouping of projects, as is the case for the "environment and natural resources management" programme. In **Ethiopia**, the latest bilateral agreement negotiated in March 2005 (and in a manner similar to the 2002-05 agreement) concluded that the next three years of German development co-operation would address three priority areas. Even though the three areas tended to be built upon a several year tradition of involvement in the broader sector, the refocusing required Germany to terminate a number of projects in health, primary education, water and roads, all of which

fell outside the new strategy and were ongoing at the time. This departure from previously agreed areas of co-operation has reminded German field staff of the importance of maintaining viable **exit strategies** for all areas of aid involvement, so as to avoid the potential for unnecessary misunderstanding and even counter-productive downstream development impacts.

In the context of its portfolio redirection, one of the major new modalities decided by Germany in Nicaragua and Ethiopia was general **budget support**, explained more completely in Box 11. This represents a significant shift in approach since the 2001 DAC Peer Review, where little interest in budget support was noted.

Box 11. Germany's approach to budget support

Germany's policy framework guiding its budget support is based on a broad range of instruments. Since 2001, Germany has supported joint financing programmes in 18 countries (mainly in sub-Saharan Africa and Latin America) to the tune of EUR 300 million. The support has been provided through co-financing World Bank's Poverty Reduction Support Credits (PRSC) and multi-donor budget support programmes as well as through sectoral programmes (both sector budget support and basket funding). Germany intends to increase its annual allocation for PBAs in financial co-operation to EUR 300 million, thus stepping up the pace in using this aid modality significantly. Recently a study on experiences with PBAs has been commissioned that will help shape Germany's future approach to budget support and other PBAs.

Nicaragua. Germany was closely involved in the set up of the World Bank-led PRSC-I. Through KfW, Germany co-financed this credit to the tune of EUR 10 million, of which EUR 4 million has been disbursed, and took the lead in the sector dialogue on water and sanitation. In Managua a budget support group, comprising seven bilateral and three multilateral donors, have co-ordinated their budget support to the PRS implementation. They have recently agreed on a Joint Financing Agreement, which sets out common procedures on evaluation and monitoring, joint reporting and progress reviews, as well as joint arrangements for procurement, disbursement and auditing of the funds provided by the budget support donors. A Policy Assessment Matrix provides a joint framework for both policy dialogue with the Nicaraguan government and the review of progress in PRS implementation. German participation in the budget support group was mainly channelled through KfW, and a process of constant and close co-ordination with the embassy and the agencies involved with technical co-operation is in place.

Ethiopia. Arrangements comparable to those in Nicaragua are in place in Addis Ababa. The budget support group in Ethiopia comprises five bilateral and three multilateral donors. The volume of German support in Ethiopia is significantly higher than in Nicaragua (EUR 39 million over 2004-07 of which EUR 4 million has been disbursed) and constitutes Germany's largest bilateral budget support in the world. KfW channels the budget support through co-financing with the World Bank's PRSC. The Ethiopia budget support group provides, in close co-operation with DAG, a platform for joint policy dialogue, progress review and co-ordination with work in the sectors. For these purposes a policy matrix is in use. There is no Joint Financing Arrangement, but a Memorandum of Understanding between the Ethiopian government and the donor budget support group is being discussed.

Issues. The recently commissioned study will help Germany gain full insight in the strengths and weaknesses of its participation in PBAs. Discussions during the various missions gave rise to the following general observations: (i) budget support contributes significantly to increasing the coherence between national and donor strategies; (ii) it ensures full alignment of donor support with recipient country budgeting, disbursement, procurement, accounting and reporting systems; (iii) it brings out more clearly recipient country issues in effectiveness and efficiency in public spending and the associated service delivery; (iv) it poses initially an additional burden on available capacity for co-ordination and dialogue, both at the donor and the recipient side; and (v) it brings out the complexity of multiple (and often contradictory or overlapping) donor conditionalities leading to efforts to streamline and harmonise them based on country-owned frameworks.

More specifically for Germany, the fact that budget support is classified under financial co-operation brings KfW to play a lead role in the macro-economic, technical as well as policy-related aspects of the donor-recipient dialogue. KfW already has put in place specialized training in budget support for personnel in the area. In the context of the complex German institutional set up this raises multiple issues: (i) the role of BMZ and the embassy's development co-operation officer in policy dialogue with the recipient government; (ii) the limitations of PRSC-cofinancing with the World Bank on the German role in the policy dialogue with the recipient government; (iii) the need for co-ordination within the German system to link up sector specific and general policy dialogue on poverty reduction; (iv) the scope to explore more fully the potential of synergies between financial (through budget support) and technical co-operation (capacity development in public financial management) for a mutually reinforcing utilisation of the two German instruments. In the two countries visited by the DAC Peer Review team pragmatic solutions to the first three issues have been found. The country team concept provides the basis for these internal solutions. Yet Germany could use the results of the forthcoming study on experiences with PBAs to consider whether more structural solutions could be envisaged to render Germany's participation in budget support operations more effective and efficient.

Germany's programming of funds around priority areas is a logical accompaniment to its organisational reshaping around country and priority area teams and is broadly consistent with the trend among other donors in Nicaragua and Ethiopia. German development co-operation is now actively experimenting the use of PBAs, including budget support in these countries. It should continue to work with the recipient countries, the larger donor community and other relevant actors to review the appropriateness of this mechanism.

Technical assistance versus capacity development

Since the last DAC Peer Review, the theoretical focus of German technical co-operation has continued to shift from building the technical skills of individuals and strengthening local organisations to improving economic, social, ecological and political setting in developing countries. Germany sees the purpose of its technical co-operation as broadly supporting capacity development, which is the core task of GTZ. One of the key principles derived from lessons learned through the experience of GTZ is that capacity development requires a systemic approach and cannot be reduced to stand-alone training measures. However, the visits to Nicaragua and Ethiopia noted large numbers of German funded technical consultants in the field, carrying out responsibilities that appeared in some cases close to the "stand-alone" training noted above. In Nicaragua, Germany funded 78 experts - of which an increasing number are national (33) or regional (33) experts who participate in its programmes. In Ethiopia – which is a much larger country - the same number was 259, with a projection of 424 by end of 2005, assuming that it is possible to rapidly start up the new Engineering Capacity Building activity.

It is undoubtedly difficult to differentiate clearly between technical assistance which is successfully engaged in capacity development and that which is not. Most local sources readily admit that much remains to be done to understand how to use technical assistance in support of efficient capacity development. This is an issue which is complicated by some local authorities, such as those in Ethiopia, which actually requested more old fashioned forms of technical assistance, despite its high cost. It would seem important for the embassy and GTZ to use its position as a leading proponent of capacity development to play a more active role to promote it among local partners, including the local government.

Monitoring and evaluation

As Germany moves from a project to a programme approach, the monitoring and evaluation of its development activities is similarly in transition. In **Nicaragua**, implementing agencies continue to report individually to their own headquarters. However, a new format for joint reporting by KfW and GTZ is intended for future use. In **Ethiopia**, the individual priority area strategies written in 2002 and 2003 each contain a sector level matrix of possible results indicators for later tracking. The implementation of results monitoring and evaluation that should have been developed subsequently by GTZ, who holds the "co-ordinator" position for all three priority areas, is under construction. Once complete, this tracking system is expected to provide feedback simultaneously to the Ethiopian government (GTZ progress reports), to the embassy and BMZ (annual priority area reports and AURA results reporting). To the extent possible, GTZ prefers to use Ethiopian government tracking systems. This has been built into the Ministry of Education tracking system responsible for the vocational training priority area, but as yet has not been possible for the other priority areas, which lack reliable and systematic government approaches in the governance and natural resource management sectors. In these cases, GTZ attempts to build up its own approach, largely driven by its own resources. For the moment, therefore, activity reporting on results consists essentially of the input-output type feedback that was the basis of project tracking in earlier forms of GTZ assistance.

The principle of consolidating results tracking at the level of priority areas, rather than individual projects, appears to move Germany in the direction of a more strategic monitoring and evaluation approach in the near future. Nevertheless, its ability in the two countries visited to track and report meaningful information is currently weak. With hindsight, this should have been built in by the agency as part of its original programme design. Germany considers it important to reinforce the division of labour with other partners engaged in the same sectors in order to improve the efficiency and reliability of impact analysis, particularly in the context of PBAs.

The special issue of aid effectiveness in the field

Germany supports the *2005 Paris Declaration on Aid Effectiveness* and actively participates in the international community's current debate regarding the monitoring of its implementation. The Minister for Economic Co-operation publicly announced her intent to be a "champion" of harmonisation and alignment and BMZ is now attempting to integrate these themes into its management system. BMZ (2005a) has an updated action plan on this topic: the "Operation Plan" contains precise operational measures for action that relate to the indicators of the Paris Declaration and integrates several aspects of the MDG implementation agenda. This Operation Plan builds upon action plans that were drawn up in 2003 and 2004 in order to implement the principles of the earlier Rome Declaration. In 2004, a self-evaluation of German performance (BMZ, 2004c) noted generally the various reforms made to conform to Rome guidelines and an increased awareness and gradual responsiveness throughout the German system.

At the time of the DAC Peer Review field visits, German operations were found to be actively attempting to cope with these new challenges, in ways which were most consistent with the local working environment. In **Nicaragua**, the government has shown leadership since 2002 in setting the basis for greater aid effectiveness through the organisation of annual forums on co-ordination of international co-operation. The 2003 *Declaration of Managua* expresses the Nicaraguan government and donors' shared principles and expectations for improved donor co-ordination. Harmonisation and alignment initiatives take place in some of the sector round tables established subsequently. Nicaragua was part of the DAC survey on harmonisation and alignment (OECD/DAC, 2006) which was influential in defining progress to date and in fostering a consensus on what remains to be achieved. The government is currently preparing a plan for harmonisation and alignment but has yet to establish a clear articulation among the various levels of performance assessment (*e.g.* budget support, PRS and 13 sector round tables).

In **Ethiopia**, donors and the Ethiopian government have had a harmonisation task force since 2002. Following the Paris High Level Forum on Aid Effectiveness in February 2005, the DAG Secretariat provided preliminary information from the "Quick Survey" on donors in Ethiopia, including Germany (indicators 4-6 and 9-10 only from the Paris Declaration). At the time of the DAC Peer Review visit there, the government and the donor community were in the middle of a push to draw up a mutually acceptable "Addis Ababa Core Statement on Harmonisation, Alignment and Aid Effectiveness" which should permit joint measurement of government-donor progress³⁹ in achieving the Paris Declaration targets.

39. In Ethiopia, a well advanced example of donor **use of joint strategy** was undertaken by the governments of Ireland and the Netherlands. In the context of the design of their respective country strategies, these two like-minded donors undertook joint analysis and planning. This work culminated in 2005, with the signing of a joint Memorandum of Understanding which has led to common strategy and implementation approaches, including delegated co-operation. Both governments believe that this arrangement has already started to decrease their respective transaction costs in country.

German development co-operation locally has taken both the Rome and Paris Declarations seriously and is attempting to improve its field delivery systems in this manner. The individual sub-sections noted below attempt to track the extent to which current German development in Nicaragua and Ethiopia conforms to the spirit of the latest targets of commitment to aid effectiveness agreed in Paris in 2005. It is worth noting that in the course of these visits, several field staff mentioned that they believe the Paris Declaration targets may be too ambitious to be attainable. Based on the DAC Peer Review team's field observations, it can be anticipated that real progress in this area will ultimately require even more profound changes in the structure of German development co-operation in the field, particularly due to the fragmented nature of German agency administration.

Country ownership

As noted previously, country ownership is a major partnership theme both in Nicaragua and Ethiopia. In both countries, the governments have operational development strategies that have strategic priorities linked to a medium-term expenditure framework that is reflected in annual budgets. Government leadership is strongly felt by donors at all levels, but in some cases, the depth and breadth of that ownership can be questioned. In the case of Germany, its field organisation manages its newest programmes around the principles of country ownership, although some projects/programmes are essentially German designed, with active involvement of the implementation agencies. Future design cycles are planned to be more participative, better co-ordinated and better linked to local country strategy. Germany's willingness to experiment meaningfully in country-led budget support is one more indication of its sincerity in working toward acceptable, country-owned leadership.

In **Nicaragua** - a country in which the executive branch has strained relations with parliament, and whose members in turn can be disconnected from their constituencies - Germany like other donors faces the dilemma of government versus broader national ownership. In **Ethiopia**, it would appear that acceptance of a major new activity in capacity building for economic development, requested by the government at the highest political level but contrary to past technical experience, is an example of the extent to which Germany is prepared to take risks in order to respect country ownership. Because of the concerns on the depth of country ownership in these two cases, Germany is encouraged to better network with a wider range of local civil society and with the broader donor community on controversial issues of importance to the country portfolio.

Alignment

In both countries visited, the donors and governments strive to strengthen local institutional capacity with international support and the donors are increasingly using government systems. Germany is testing the limits of the strict alignment of its aid through budget support and capacity development actions. In Nicaragua, the forthcoming adoption of the second generation PRS is expected to provide the basis around which donors will need to better align their assistance. Major capacity weaknesses have been acknowledged by the government and donors but capacity development needs are insufficiently prioritised and the level of donor support not appropriate nor sufficiently co-ordinated. In the Quick Survey preliminary information relating to **alignment**, provided by Ethiopia's DAG in May 2005, Germany ranked in the lower range in terms of the percentage of technical assistance provided through co-ordinated programmes (indicator 4) and the percentage of aid flows using local procurement or public financial management systems (indicator 5), and in the high range in terms of the number of fully integrated project implementation units (indicator 6). Nevertheless, this DAC Peer Review encourages Germany to continue to review its use of such units. Field observations in Nicaragua and Ethiopia suggest that some of Germany's new priority area co-ordinating approaches could be even further integrated into recipient government

systems. The feasibility of this suggestion will require local analysis and will undoubtedly need to be shaped according to local realities.

Harmonisation

In both countries visited, considerable progress has been made in encouraging donors to implement a common agenda and to simplify their procedures. Germany - a donor which, in the past, has had difficulty co-ordinating even its own agencies in the field – has brought the agencies more effectively together through the use of its country and priority area teams. All partners recognised that the embassy - and particularly the implementing agencies have made a **significant effort** in recent years to better harmonise German operations in the field, as well as relations and operations with other donors. It is also extremely helpful that the implementing agencies are now able to carry out an officially delegated operational role within the sector areas of expertise. A major challenge will be to now move this ambitious agenda forward in the years to come. According to the 2005 DAC survey for Nicaragua, the education sector has made the most progress in harmonisation while sector-wide approaches have yet to be established in other sectors. Germany is committed to take the lead in the water sector. In addition, the survey indicates that only 10% of the nearly 300 annual donor missions were conducted jointly. According to Ethiopia's Quick Survey which also provided preliminary information relating to harmonisation, Germany ranked in the lower range in terms of the percentage of aid provided PBAs (indicator 9) and in the middle range in terms of per cent of joint or co-ordinated missions and country analytical work (indicator 10).

The German government recognises the developmental advantages of **untying aid**. Germany has supported initiatives within the OECD and the EU in order to enhance the effectiveness of aid through untying. It has committed fully to the implementation of the 2001 *DAC Recommendation on Untying ODA to LDCs*. BMZ has indicated that the 2001 DAC Recommendation significantly contributed to the remarkable doubling in the level of Germany's untying ratio between 2001 and 2003. DAC statistics show German bilateral LDC ODA to be 76% untied in 2003, above the total DAC average of 69% that year. This was true even though Germany did not report the tying status of substantial amount of ODA dedicated to technical co-operation which has been treated by convention as tied in DAC statistics. A recent decision to report the tying status of GTZ technical co-operation activities therefore will improve the coverage of German reporting considerably. More specifically, Germany has untied its financial co-operation with LDCs and reports the untying ratio of technical co-operation at almost 50%. The trend would appear to be in the right direction and the political commitment to do more is already visible. The simplest way of doing so, from the German point of view, appears to be by expanding country coverage to other low-income countries, then beyond.

Management for results

As mentioned previously, Germany's new programme-based portfolios have yet to develop a comprehensive approach to monitoring, evaluating and managing for results. An inter-institutional working group under the guidance of BMZ has been established to this end and studies have been commissioned. BMZ, GTZ and KfW also support the work of the informal working group on *ex ante* poverty impact assessment within the DAC POVNET. In both Nicaragua and Ethiopia, the DAC Peer Review team noted that the government was only at the early stages of developing its monitoring and evaluation capacities. To the extent that the German country programmes are linked to national sector approaches, its results measurement issues will logically be the same as those of the local partners. It should continue to work to develop local capacity to carry out the management for results agenda.

Mutual accountability

The key indicator that the government and donors are accountable for development results is the use of a mutual assessment of progress. In Ethiopia, Germany supports the use of this approach through its involvement in the DAG (which plans a first independent review of donor performance by the end of 2005). A mechanism for mutual accountability has yet to be established in Nicaragua.

Future considerations

Based on the limited sample offered by the Nicaraguan and Ethiopian field visits, the following field level considerations should be reviewed:

- The most appropriate use of **country strategy** and **priority area strategy** should continue to be reviewed. German strategies should be kept simple and better aligned with partner country-led strategies. BMZ should continue to explore most efficient approaches to its internal documentation, including the possible merger of country and priority area strategy into one document, opportunities for greater country ownership of German strategy and the development of joint local strategy with other donor groups.
- The German government, in collaboration with GTZ and the other technical co-operation agencies, should continue to review its use of **technical assistance** and efforts at **capacity development** in the field. Because of its strong interest in this area, it should consider playing an active leadership role in stimulating similar review and debate among donors at the local level. It would seem logical and important for Germany to continue its shift away from traditional technical assistance toward capacity development.
- In support of its interest in becoming a champion of the Paris Declaration **aid effectiveness** agenda and taking account of the scaling up of its aid, Germany should pursue current efforts to better co-ordinate and eventually integrate the operations of its implementation agencies in the field, under the authority of the development co-operation officer. It should intensify - and locally review - options for co-operation with other donors, including modalities such as budget support and forms of delegated partnerships, to the extent they support local realities.
- Any forward thinking on new approaches to German development co-operation in the field must include parallel **human resources** planning (number, seniority, skill mix, location, support from headquarters or other sources).
- As the German government progressively moves to priority area (sector) implementation design, it should take care to build in its **results** monitoring and evaluation systems at the outset of its implementation planning. This includes any interest in developing capacity into local systems or joint approaches with other donors.

Annex A

The 2001 DAC Peer Review and Germany's achievements

Key issues	Recommendations in 2001	Progress achieved by 2005
ODA	Sustain efforts to increase the size of ODA. Consider a mechanism for projecting overall use of ODA.	Germany has committed to increase ODA to 0.7% of GNI by 2015 with an intermediate step of 0.51% by 2010. It has yet to adopt an implementation plan.
Public opinion	Sustain efforts to generate greater public support for development co-operation. Enhance public information by publishing an ODA annual report.	Public perception of development co-operation has improved significantly. The challenge for BMZ is to ensure that public support is not limited to emergency relief. BMZ's budget for development education and information has increased. There is no ODA annual report but an annual document which addresses the general public.
Implementation of PA2015	Set out priorities, including the realignment of policies, financial flows, organisational structures and operations, 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.	It was not until 2004 that an internal PA2015 implementation plan was produced. Greater strategic clarity is needed so as to guide operational decision making (e.g. selection of countries and sectors, resources allocation, delivery modalities). A more systematic and consistent approach to assess poverty impact is also needed.
Policy coherence	Develop effective ways and instruments to promote greater policy coherence across the German government, and at European and international levels.	An operationally more explicit policy statement is needed. Organisational and resource considerations need to be addressed. Tracking and reporting of progress need to be improved.
Geographical distribution	Further increase budget allocations to the low-income countries, particularly those with large numbers of poor people, to be consistent with both PA2015 and Germany's emphasis on the achievement of the MDGs.	Germany does not have stated priorities for certain groups of countries. A modest trend in favour of low income countries is emerging. Further thinking is needed around the optimal number of co-operation countries and their selection against PA2015.
Capacity development	Collaborate with other donors in developing capacities as a contribution to local ownership and the PRS process, upon the request of the partner country.	The differentiation between technical assistance that is engaged in capacity development and that which is not remains difficult. Germany recognises that a systemic approach is needed and should continue to review its action

Budget support	Examine the changes needed in budget regulations and institutional arrangements for Germany to engage effectively in budget support.	Germany is now actively experimenting programme-based modalities, including budget support.
Organisational decentralisation	Give urgent consideration to the reinforcement of German field capabilities in order to shift the locus of German aid co-ordination and decision making towards the field.	Despite an increase, BMZ's field presence remains weak. Country teams have been established to better join up the efforts of German agencies. A more fully delegated and stronger mechanism for country co-ordination of German actors remains necessary.
Creation of a learning environment	Identify options for improved feedback of results and lesson learning.	Individual centres of excellence have been created but need to be better linked.
Human resources	Make more use of different policy options for human resources and technical co-operation 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.	Adequate staffing remains a challenge for BMZ. Human resources issues need to be reviewed in parallel with the current debate over new directions in German development co-operation and the possible review of broader system reform.
Reporting of tuition costs	Review with the DAC Secretariat the reporting of indirect ("imputed") costs of tuition as ODA.	Reporting procedures for imputed student costs have been revised. Germany will need to maintain close monitoring of such costs which have more than doubled since 2000.

Annex B
OECD/DAC standard suite of tables

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

	<i>Net disbursements</i>						
Germany	1988-89	1993-94	2000	2001	2002	2003	2004
Total official flows	5 999	15 242	5 721	8 272	9 309	3 524	6 842
Official development assistance	4 839	6 886	5 030	4 990	5 324	6 784	7 534
Bilateral	3 173	4 330	2 687	2 853	3 328	4 060	3 823
Multilateral	1 666	2 556	2 343	2 136	1 997	2 724	3 712
Official aid	-	2 477	647	687	780	1 181	1 435
Bilateral	-	2 035	223	245	266	385	476
Multilateral	-	442	424	442	514	796	959
Other official flows	1 160	5 879	43	2 596	3 205	-4 441	-2 127
Bilateral	1 161	5 950	43	2 596	3 205	-4 441	-2 127
Multilateral	-1	-71	-	-	-	-	-
Grants by NGOs	687	1 005	906	898	902	1 108	1 148
Private flows at market terms	5 292	14 915	28 812	14 246	4 304	2 319	11 799
Bilateral: <i>of which</i>	4 823	14 402	30 481	15 113	5 002	2 143	11 883
Direct investment	1 871	3 558	17 585	9 471	1 925	-946	6 438
Export credits	646	4 048	1 258	-72	-947	-131	1 231
Multilateral	469	513	-1 669	-867	-698	177	-85
Total flows	11 979	31 162	35 438	23 416	14 515	6 951	19 788
<i>for reference:</i>							
ODA (at constant 2003 USD million)	6 604	7 219	6 414	6 462	6 454	6 784	6 788
ODA (as a % of GNI)	0.40	0.34	0.27	0.27	0.27	0.28	0.28
Total flows (as a % of GNI) (a)	0.99	0.97	0.66	0.34	0.36	0.22	0.43

a. To countries eligible for ODA.

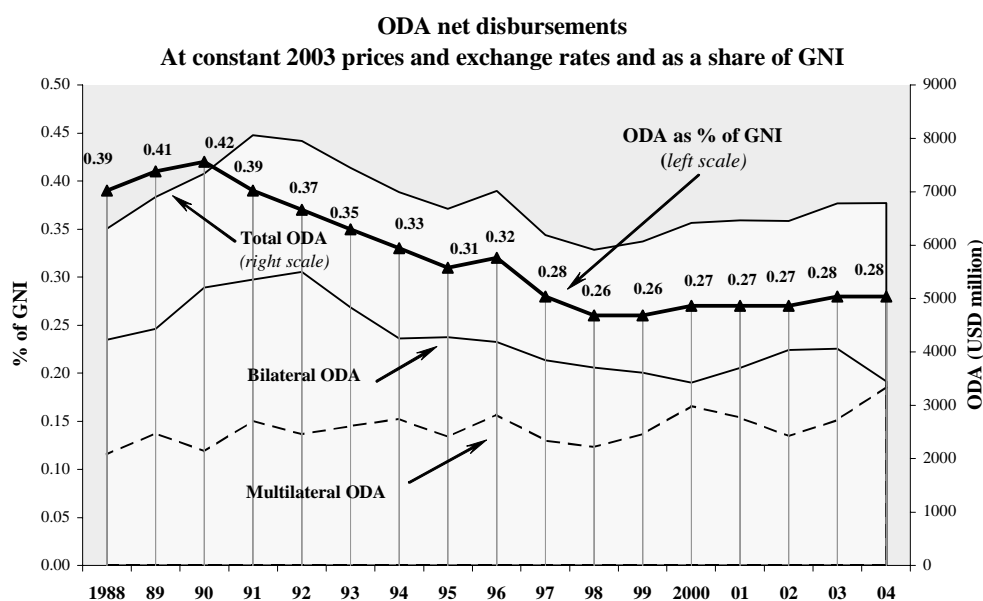


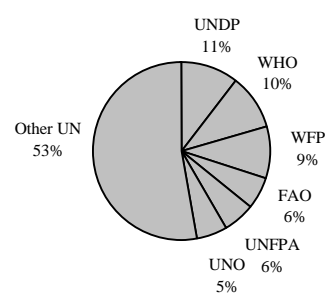
Table B.2. ODA by main categories

Germany	Constant 2003 USD million					Per cent share of gross disbursements					Total DAC 2003%
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	
	<i>Disbursements</i>										
Gross Bilateral ODA	4 404	4 817	5 655	5 294	4 719	59	63	70	66	58	76
<i>Grants</i>	<i>3 438</i>	<i>3 709</i>	<i>4 732</i>	<i>4 737</i>	<i>4 066</i>	<i>46</i>	<i>49</i>	<i>58</i>	<i>59</i>	<i>50</i>	<i>64</i>
Project and programme aid	535	791	679	602	576	7	10	8	7	7	13
Technical co-operation	2 091	2 057	2 159	2 299	2 240	28	27	27	29	28	23
Developmental food aid	27	24	28	26	21	0	0	0	0	0	1
Emergency and distress relief	227	304	271	182	186	3	4	3	2	2	7
Action relating to debt	246	225	1 258	1 337	734	3	3	16	17	9	11
Administrative costs	299	289	296	237	223	4	4	4	3	3	4
Other grants	13	19	42	54	86	0	0	1	1	1	4
<i>Non-grant bilateral ODA</i>	<i>966</i>	<i>1 108</i>	<i>923</i>	<i>557</i>	<i>652</i>	<i>13</i>	<i>15</i>	<i>11</i>	<i>7</i>	<i>8</i>	<i>12</i>
New development lending	905	871	727	474	607	12	11	9	6	8	9
Debt rescheduling	24	158	178	48	14	0	2	2	1	0	2
Acquisition of equity and other	38	79	18	35	32	1	1	0	0	0	1
Gross Multilateral ODA	2 999	2 777	2 449	2 734	3 352	41	37	30	34	42	24
UN agencies	493	597	517	299	260	7	8	6	4	3	6
EC	1 584	1 486	1 526	1 604	1 695	21	20	19	20	21	9
World Bank group	489	487	27	491	1 034	7	6	0	6	13	4
Regional development banks (a)	266	102	241	146	153	4	1	3	2	2	2
Other multilateral	166	106	138	194	209	2	1	2	2	3	3
Total gross ODA	7 403	7 594	8 104	8 029	8 070	100	100	100	100	100	100
Repayments and debt cancellation	- 989	-1 133	-1 649	-1 245	-1 282						
Total net ODA	6 414	6 462	6 454	6 784	6 788						
<i>For reference:</i>											
<i>ODA to and channelled through NGOs</i>	<i>439</i>	<i>461</i>	<i>514</i>	<i>483</i>	<i>471</i>						
<i>Associated financing (b)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>						

a. Excluding EBRD.

b. ODA grants and loans in associated financing packages.

Contributions to UN Agencies
(2003-04 Average)



Contributions to Regional Development
Banks (2003-04 Average)

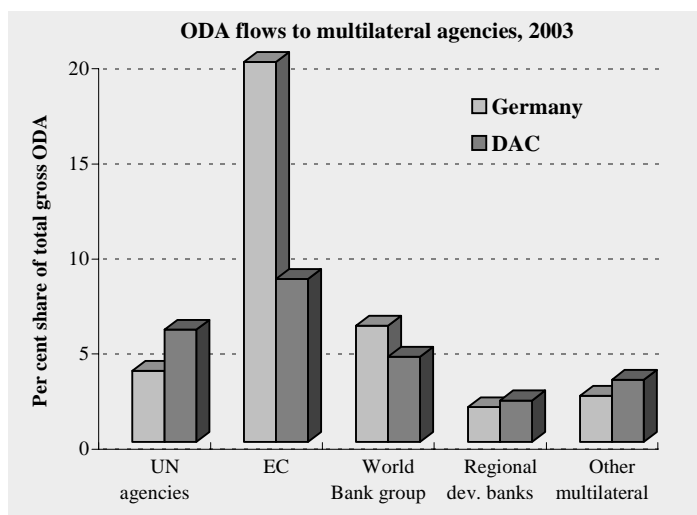
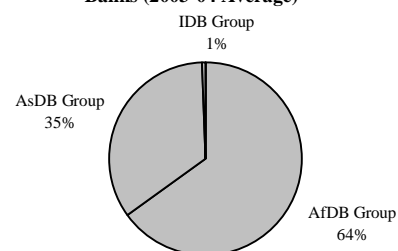


Table B.3. Bilateral ODA allocable by region and income group

Germany	Constant 2003 USD million					Per cent share					Total DAC 2003%
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	
	<i>Gross disbursements</i>										
Africa	1 190	1 130	1 449	2 215	1 360	33	28	30	48	34	41
Sub-Saharan Africa	979	836	1 220	1 963	1 107	27	21	25	43	28	36
North Africa	211	295	229	251	253	6	7	5	5	6	5
Asia	1 230	1 359	1 370	1 200	1 285	34	34	28	26	32	33
South and Central Asia	462	554	683	521	484	13	14	14	11	12	16
Far East	768	805	687	679	801	21	20	14	15	20	17
America	494	620	873	551	851	14	16	18	12	22	11
North and Central America	167	178	162	261	527	5	4	3	6	13	4
South America	328	443	711	290	324	9	11	15	6	8	7
Middle East	239	471	255	273	178	7	12	5	6	5	9
Oceania	7	7	6	4	4	0	0	0	0	0	2
Europe	436	381	871	339	277	12	10	18	7	7	5
Total bilateral allocable by country	3 596	3 968	4 824	4 580	3 956	100	100	100	100	100	100
Least developed	855	795	1 141	1 620	903	24	20	24	35	23	36
Other low-income	785	896	1 004	1 217	1 313	22	23	21	27	33	23
Lower middle-income	1 727	2 060	2 492	1 538	1 554	48	52	52	34	39	36
Upper middle-income	227	215	185	205	186	6	5	4	4	5	4
High-income	0	0	0	0	0	0	0	0	0	0	0
More advanced developing countries	2	2	2	-	-	0	0	0	-	-	-
<i>For reference:</i>											
<i>Total bilateral</i>	4 404	4 810	5 655	5 294	4 719	100	100	100	100	100	100
<i>of which: Unallocated</i>	807	841	831	714	763	18	17	15	13	16	21

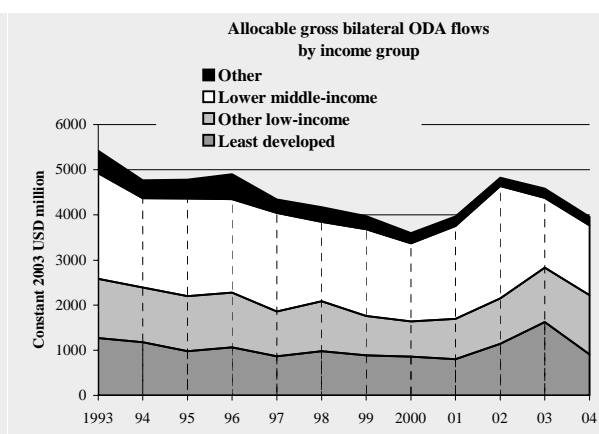
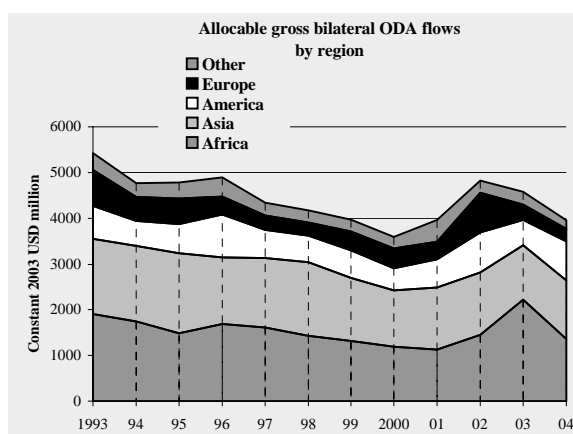


Table B.5. Bilateral ODA by major purposes

at current prices and exchange rates

Commitments - Two-year averages

Germany	1993-94		1998-99		2003-04		2002-03 Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
Social infrastructure & services	1 917	33	1 682	39	2 314	40	33
Education	934	16	792	19	1 042	18	8
of which: basic education	91	2	97	2	96	2	2
Health	138	2	112	3	133	2	4
of which: basic health	79	1	83	2	73	1	3
Population programmes	50	1	51	1	104	2	3
Water supply & sanitation	360	6	341	8	409	7	3
Government & civil society	173	3	144	3	383	7	8
Other social infrastructure & services	262	5	241	6	242	4	6
Economic infrastructure & services	1 306	22	827	19	950	16	11
Transport & storage	686	12	349	8	180	3	4
Communications	118	2	16	0	9	0	0
Energy	448	8	245	6	470	8	4
Banking & financial services	53	1	152	4	185	3	1
Business & other services	1	0	64	1	106	2	1
Production sectors	651	11	372	9	245	4	6
Agriculture, forestry & fishing	427	7	317	7	170	3	4
Industry, mining & construction	138	2	36	1	62	1	2
Trade & tourism	39	1	18	0	13	0	1
Other	48	1	0	0	0	0	-
Multisector	180	3	486	11	688	12	8
Commodity and programme aid	260	4	109	3	57	1	5
Action relating to debt	687	12	295	7	1 096	19	19
Emergency assistance	470	8	220	5	188	3	8
Administrative costs of donors	229	4	269	6	250	4	5
Core support to NGOs	107	2	4	0	6	0	4
Total bilateral allocable	5 807	100	4 262	100	5 793	100	100
<i>For reference:</i>							
Total bilateral	6 120	69	4 384	60	5 881	66	77
of which: Unallocated	313	4	122	2	88	1	2
Total multilateral	2 767	31	2 884	40	3 070	34	23
Total ODA	8 887	100	7 268	100	8 951	100	100

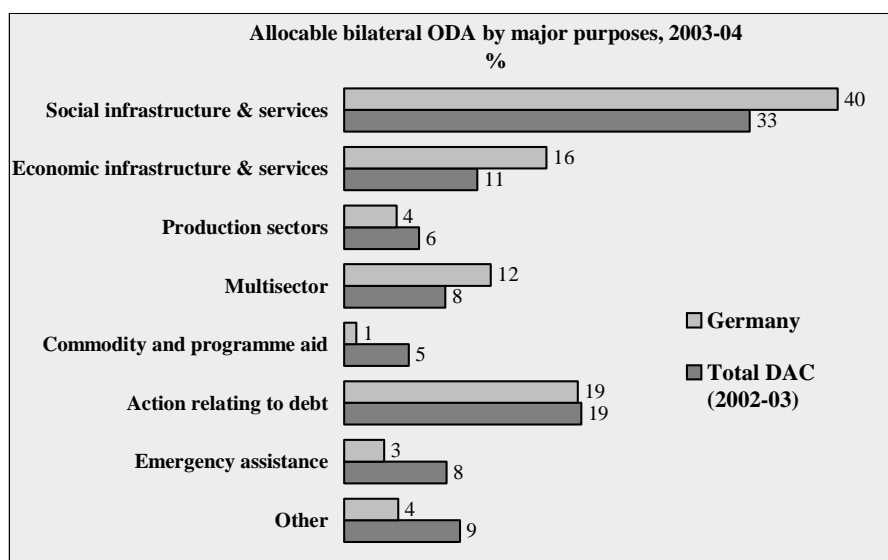


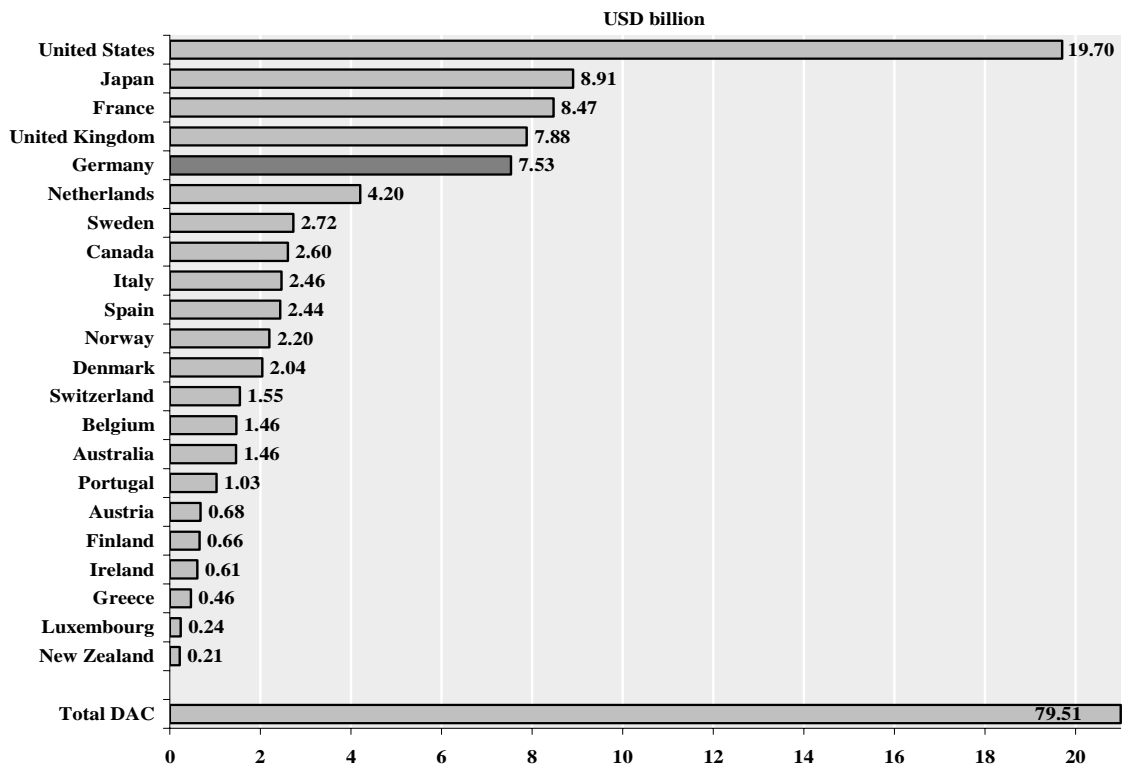
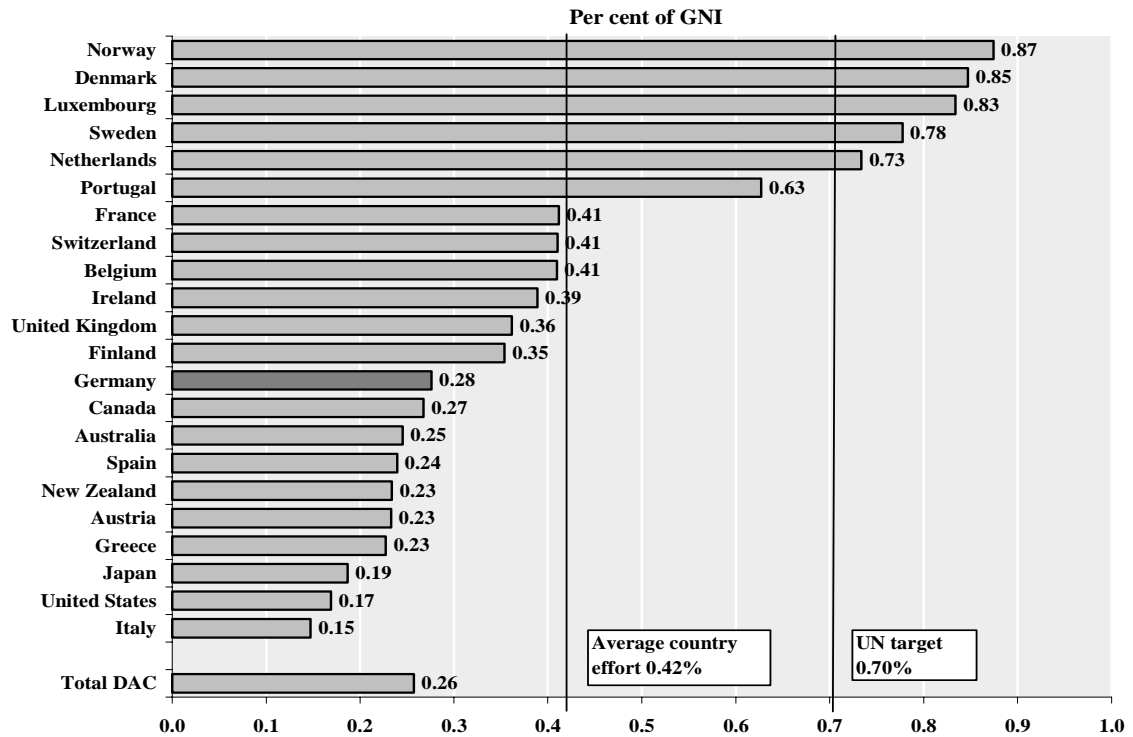
Table B.6. Comparative aid performance

	Official development assistance		Grant element of ODA (commitments) 2003	Share of multilateral aid			ODA to LDCs Bilateral and through multilateral agencies 2003		Official aid	
	2003			2003			2003		2003	
	USD million	% of GNI		% of ODA (b)	(c)	% of GNI (c)	% of ODA	% of GNI	USD million	% of GNI
Australia	1 219	0.25	20.0	0.05	21.3	0.05	21.3	9	0.00	
Austria	505	0.20	54.7	0.11	0.04	0.07	33.4	245	0.10	
Belgium	1 853	0.60	20.8	0.13	0.03	0.35	58.7	163	0.05	
Canada	2 031	0.24	33.6	0.08		0.07	31.2	102	0.01	
Denmark	1 748	0.84	41.0	0.34	0.27	0.32	38.5	202	0.10	
Finland	558	0.35	44.7	0.16	0.09	0.11	32.7	82	0.05	
France	7 253	0.41	28.1	0.10	0.04	0.17	40.9	2 027	0.11	
Germany	6 784	0.28	40.2	0.11	0.05	0.10	37.0	1 181	0.05	
Greece	362	0.21	37.0	0.08	0.01	0.03	15.3	81	0.05	
Ireland	504	0.39	30.1	0.12	0.06	0.21	52.8	1	0.00	
Italy	2 433	0.17	56.4	0.09	0.03	0.08	45.4	497	0.03	
Japan	8 880	0.20	28.7	0.06		0.04	21.6	- 219	-0.01	
Luxembourg	194	0.81	22.8	0.18	0.10	0.27	33.5	6	0.03	
Netherlands	3 981	0.80	25.9	0.21	0.16	0.26	32.3	248	0.05	
New Zealand	165	0.23	21.9	0.05		0.06	27.3	1	0.00	
Norway	2 042	0.92	28.4	0.26		0.36	39.2	50	0.02	
Portugal	320	0.22	42.9	0.09	0.03	0.14	64.2	51	0.04	
Spain	1 961	0.23	41.3	0.10	0.03	0.04	17.4	5	0.00	
Sweden	2 400	0.79	25.9	0.21	0.16	0.27	34.2	127	0.04	
Switzerland	1 299	0.39	27.3	0.11		0.12	31.1	77	0.02	
United Kingdom	6 282	0.34	38.5	0.13	0.07	0.12	36.2	698	0.04	
United States	16 254	0.15	10.2	0.02		0.04	27.5	1 471	0.01	
Total DAC	69 029	0.25	27.8	0.07	0.04	0.08	32.7	7 106	0.03	
Memo: Average country effort		0.41								

Notes:

- a. Excluding debt reorganisation.
- b. Including EC.
- c. Excluding EC.
- .. Data not available.

Graph B.1. Net ODA from DAC countries in 2004



Annex C

Assessment of Germany's Humanitarian Aid

This annex assesses Germany's humanitarian aid in accordance with the *Assessment Framework for Coverage of Humanitarian Action in DAC Peer Reviews* based on the Principles and Good Practice of Humanitarian Donorship (GHD). The annex covers six areas: (1) humanitarian policies and principles; (2) volume and distribution; (3) crosscutting and emerging issues; (4) policy coherence; (5) organisation and management; (6) country operations and (7) future considerations.

In the field of humanitarian action German authorities make a clear distinction between "humanitarian aid" and "emergency and transition aid". This distinction forms the basis for German management structures, budget arrangements and implementation. Among other DAC members, the term "humanitarian aid" encompasses a spectrum of activities including "prevention and preparedness", "emergency response" and support to "reconstruction and recovery". Germany, however, uses the term "humanitarian aid" exclusively for activities with a direct humanitarian objective ("emergency response"), whilst "emergency and transition aid" refers to activities with a development objective executed in an emergency related context. Consistent with practice in other DAC Peer Reviews, this annex uses the broader definition of humanitarian aid as its point of departure. The term "emergency response" will be used to describe what is referred to as "humanitarian aid" by German standards.

Humanitarian policies and principles

German policies clearly distinguish between "emergency response" and "emergency and transitional aid" (also referred to as "developmental humanitarian aid"). A third, smaller category in the field of German humanitarian aid is "humanitarian mine action" which has its own policy and budget. These categories are reflected both in the policy structure and division of responsibilities between the Federal Foreign Office (AA) and the Federal Ministry for Economic Cooperation and Development (BMZ). The AA is responsible for emergency response and humanitarian mine action whilst BMZ is responsible for the broader area of developmental humanitarian aid. The AA also provides some funds for disaster risk reduction. The organisational structure, described separately below, has implications for the location and responsibility of policies and principles.

There is no comprehensive policy document on humanitarian aid to guide actors within the German development system. The single most useful document is the special humanitarian report to parliament prepared by the AA (Deutscher Bundestag, 2003) on a four-year cycle (the last one covered 1998-2001). It outlines the principles of German humanitarian aid and provides information on Germany's humanitarian system and on cross-cutting issues such as gender, detailed budget information and data on disbursements.

Twelve basic rules for humanitarian aid guide the AA's engagement in emergency response. These were developed and adopted by the Federal Government in 1993 in collaboration with NGOs (Box 12).

Box 12. Germany's twelve basic rules governing foreign humanitarian aid

1. Catastrophes, wars and crises cause people suffering which they cannot overcome by their own efforts. To alleviate such suffering is the objective of humanitarian aid.
2. All people are entitled to humanitarian aid and humanitarian protection; moreover they must be granted the right to provide humanitarian aid and humanitarian protection.
3. Aid and protection shall be provided irrespective of race, religion, nationality, political convictions or other distinguishing features. Humanitarian aid must not be made conditional on political or religious attitudes and must not promote these. The only criterion in setting priorities for aid shall be the suffering of the people.
4. The relief organisations and the state agencies participating in the discussion group shall act on their own initiative according to their own guidelines and strategies for implementation.
5. They shall respect the dignity of man in providing aid.
6. They shall respect the laws and customs of the country concerned. If the efforts to provide the best possible aid collide with regulations in force in the recipient country, a solution to this conflict shall be sought bearing in mind the objective of humanitarian aid.
7. They shall assist each other and cooperate in humanitarian aid measures as far as possible.
8. Those providing aid shall be accountable to both the recipients of the aid and those whose donations and supplies they accept.
9. Humanitarian aid is first and foremost aid for survival. It shall include self-help measures and shall help to reduce susceptibility to catastrophe. Where necessary, it shall take development needs into consideration.
10. From the very beginning the organisations and state agencies active in humanitarian aid shall involve local partners in their planning and measures.
11. The recipients shall also be involved in organising and implementing the measures.
12. Aid supplies must be used according to needs and should correspond to local standards; only the current emergency determines the selection and delivery of aid. In procuring aid supplies, priority must be given to purchasing in the region hit by the catastrophe.

The AA's separate policy for humanitarian demining focuses on situations where landmines and unexploded ordnance create a barrier to humanitarian relief and acutely threaten the lives and health of people. Priority is given to those countries which have acceded to the Ottawa Convention.⁴⁰

The BMZ is tasked with responsibility over "development oriented emergency and transitional aid". In 2005 the budget lines "Food and Emergency Aid, Refugee Assistance" and "Food Security Programmes" were merged into a new budget line which was introduced to fill the perceived gap between emergency response and long-term development co-operation. Theoretically such assistance should begin as emergency response activities come to an end and bridge the time until long-term development co-operation can start. It addresses issues such as food security, minimum basic social services and infrastructure, facilitates the return to normal lives and livelihoods and addresses refugee needs. However, specific policies or principles have not yet been developed.

BMZ's development-oriented emergency and transitional aid is implemented by international organisations (WFP, UNHCR, ICRC), the Agency for Technical Co-operation (GTZ) or German

40. The Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction.

NGOs. It is an integrated component of the German development co-operation and BMZ developed a comprehensive policy paper in 2005.

Germany endorsed the “*Principles and Good Practice of Humanitarian Donorship*” (GHD) in 2003 and views their main value as a set of commonly established standards and principles that can strengthen the independence of humanitarian aid. Concerns have been expressed that implementation of GHD may be hampered by national legislation. For Germany this concerns earmarking of funds, limited involvement in pooled funding and harmonising reporting requirements where strict legislation has to be followed. Predictability and flexibility of funds which conflict with other positions of GHD are also a constraint. Germany believes the main focus of GHD should be on timeliness, needs-based approaches and independence from other political initiatives or development efforts. An assessment of the German policy framework from a GHD perspective identifies a need to synchronise, update and broaden policies to better reflect the scope of actions as required by GHD.

Volume and distribution

An important donor with a modest humanitarian ODA volume

Germany is an important contributor to financing humanitarian action. However, considering its national capacity, G7 status and ODA levels in relation to the 0.7% target, Germany’s potential in financing humanitarian action is underutilised. Humanitarian aid remains a small part of Germany’s bilateral expenditure. According to DAC data, “Emergency and distress relief” in 2004 totalled USD 186 million accounting for 2% of total German ODA in 2004, to be compared with the DAC average of 7%. Germany contributes approximately 20 % of the budget of the European Community Humanitarian Aid Department (ECHO).

When reporting on ODA, Germany includes expenditures for assisting refugees in their first 12 months stay in a developed country in accordance with DAC reporting directives. Such expenditure has steadily decreased from 91.7% in 1991 to 37.8% in 2000. In 2004, it amounted to 7.5% of Germany’s emergency and distress relief. Despite this decrease, there has been no increase in net disbursements for humanitarian aid excluding refugees in donor countries. Disbursements on humanitarian aid, excluding refugees in donor countries, decreased from USD 227 million in 2002 to USD 172 million in 2004, making the percentage of emergency and distress relief of total ODA the lowest since 1991. As Germany moves towards scaling up ODA to be in line with its EU commitment, it should also consider increasing its allocations to humanitarian aid.

Data provided by UN-OCHA’s Financial Tracking System shows that Germany contributed 4.1% (USD 189 million) of global humanitarian funding in 2004 (OCHA, 2005a). Germany also increased its support to the UN Consolidated Inter-Agency Appeal (UN-CAP) from USD 9.4 million in 2000 to USD 56 million in 2004, making Germany the 10th largest CAP donor in 2004 (OCHA, 2005b, 2005c).

Humanitarian budget structure

The federal humanitarian budgets (Table C.1) are determined by parliament as a budget law to be executed through government structures. Funding is granted on the basis of the calendar year budget. There is no reprogramming of funds although under exceptional circumstances (*e.g.* Afghanistan, Iraq, Darfur, Indian Ocean tsunami) additional funds can be made available through the Federal Ministry of Finance.

For humanitarian aid granted through the AA there are several budget lines which amounted to approximately EUR 104 million in 2005. The budget for “Emergency and Transitional Aid” totalled EUR 113.5 million in 2005 including EUR 25 million for Tsunami-related activities. Ninety per cent

of the funds are allocated according to a strategic planning process. Part of the budget is earmarked by German commitments regulated by the Food Aid Convention. Another part is used for projects in countries involved in armed conflict. 10 % of the funds are allocated to an unspecified reserve fund, which is used for unforeseeable disasters and complex crises.

Table C.1. Germany's humanitarian aid budget structure in 2005

	Budget line	Amount Million €
AA	Humanitarian aid (worldwide)	71.7
	Humanitarian mine clearance, (worldwide)	11
	Special humanitarian fund Balkan countries	5
	Special fund humanitarian mine clearing in the Balkans	2.5
	Special fund humanitarian mine clearing in Afghanistan	3.2
	Support for humanitarian action by UNRWA (unearmarked)	2.5
	Support humanitarian aid UNRWA	2.7
	Support to UNHCR (unearmarked)	4.8
	Support to UN OCHA (unearmarked)	0.4
BMZ	Development oriented emergency and transitional aid (worldwide)	88.5
	Tsunami response	25.0
TOTAL		217.3

This detailed and rather inflexible budget system contributes to a fragmented approach to Germany's humanitarian funding. From a system point of view, and to improve performance, Germany could consider merging the present structure into one common humanitarian aid budget line. Whilst national legislation and budget restrictions raise concerns, Germany is encouraged to address the issue of flexibility. The Inter-ministerial Steering Group for Civilian Crisis Prevention has established a task team to address possibilities for pooling resources. This might also provide opportunities to explore new modalities for humanitarian aid allocations.

Principles, distribution and channels

Humanitarian aid managed by the AA focuses on emergency response with a strong emphasis on a needs-based approach. Detailed funding principles are not spelled out apart from what is regulated by legislation and in the 12 guiding principles. Humanitarian aid funding is always earmarked and granted on the basis of an application or project proposal. Financing decisions depend on available needs assessments through the Office for the Co-ordination of Humanitarian Affairs (OCHA) in combination with internal assessments and implementing agencies and NGO applications. Decisions should be made without political considerations. Funding may not be subject to any form of conditionality other than for auditing and reporting purposes. Projects are, by definition, limited to short-term funding and should ideally be designed to be completed within a six month period.

Funds managed by BMZ are regulated by different procedures. The budget line "development oriented emergency and transitional aid", introduced in 2005, increased Germany's ability to have a broader and more flexible humanitarian response. Medium term funding of periods from six months of up to three years are possible depending on the emergency situation which enables the transition from emergency situations to long-term development and promotes peace-building and conflict prevention. Allocations shall mainly be guided by human rights criteria and the principles of "do-no-harm".

It is unclear how Germany tackles the dilemma of under-funded emergencies. The tsunami response is one example of uneven attention and distribution of resources (Box 2, Chapter 2). The

German approach rests on a rapid needs-based response, however, the limited availability of funds is a constraint. Germany should develop principles that better guide allocations to reflect the degree of suffering it seeks to alleviate.

According to data provided by Germany, emergency response allocations on behalf of the AA can be divided into two parts. Approximately half of all budgetary means are allocated either to the UN humanitarian agencies (mainly UNHCR, UNRWA, UN-OCHA and WFP) or the International Committee of the Red Cross and the International Federation of the Red Cross and Red Crescent Movement. The remaining budget finances programmes managed by German implementing agencies and NGOs. Humanitarian aid managed by BMZ is allocated through the following channels: GTZ (47.5%), UN agencies, mainly WFP or UNHCR (29.8%) and German NGOs (21.6%).

Germany has increased funding to UN-CAP but because of national legislation this funding is earmarked to specific projects. Pooled funding is not possible for the same reason. The AA also contributes to the UN International Strategy for Disaster Reduction (ISDR) and financed the development of the ISDR Platform for the Promotion of Early Warning (PPEW).

GTZ plays an important implementing role and offers advice and services in disaster risk reduction. An advisory project on "Disaster Risk Management in Development Cooperation" is being developed to promote the application of disaster risk management in German development co-operation. Germany should make stronger efforts to integrate disaster risk reduction and prevention into its development strategies.

NGOs hold a strong position in implementing humanitarian aid. In 2004 BMZ provided funding to seven German NGOs and the AA to about 50 German NGOs (10 of them received two-thirds of the AA Funding). While considering the growing number of NGOs involved in humanitarian aid delivery, especially recognised in the context of the tsunami response, Germany should consider approaches to prevent further proliferation of NGOs implementing humanitarian aid and ensure that its partners adhere to the SPHERE standards.

Cross-cutting and emerging issues

Promoting standards and enhancing implementation: Germany adheres to internationally recognised humanitarian guidelines through its system of application for grants and evaluations of implementing organisations. As mentioned earlier, Germany should consider updating its policy framework thereby modernising application procedures to strengthen the promotion of standards. Germany supports and recognises the role of the UN in leading and co-ordinating humanitarian action and the efforts and the mandate conferred upon the ICRC. Germany participates in donor co-ordination initiatives such as the Montreux Process and the donor support groups of implementing agencies to advance international co-ordination issues. Germany also participates in ECHO's Humanitarian Aid Committee.

Involvement of beneficiaries: How Germany ensures adequate involvement of beneficiaries in the design, implementation, monitoring and evaluation of its humanitarian activities is unclear. Although it is a general principle of German humanitarian aid and explicitly mentioned in the 12 guiding principles for humanitarian aid, involvement of beneficiaries is limited. Methods to ensure participation are vague and Germany relies on its implementing organisations and international organisations in this area.

Humanitarian space - Germany is careful to respect the position of civilian organizations in implementing humanitarian action. In most situations Germany regards funding independent and

impartial civilian organisations the best practice to creating humanitarian space. State agencies like the military or civil defence organisations should only conduct humanitarian tasks on rare occasions. Government policy concerning civil-military co-operation is regularly discussed among humanitarian actors and the Coordinating Committee for Humanitarian Aid of the German government (see below).

Policy coherence

Civil military relations: Germany respects the 1994 Guidelines on the Use of Military and Civil Defence Assets in Disaster Relief and the 2003 Guidelines on the Use of Military and Civil Defence Assets to Support UN Humanitarian Activities in Complex Emergencies. However, there are no explicit policy statements outlining positions on civil and military interaction in humanitarian aid. Following engagement in Kosovo and Afghanistan intense discussions in parliament resulted in a position supportive of the primary position of civilian organisations in implementing humanitarian action. The military should only carry out civilian tasks, such as humanitarian aid, in situations where no civilian organisations are available to perform such activities. Furthermore, a BMZ discussion paper on development and military issues published in 2004 takes a broader view on the different interfaces between the two policy fields. The AA could consider developing a similar approach for emergency response.

Untying humanitarian aid: The last of the 12 guiding principles for German humanitarian aid states that “aid supplies must be used according to needs and should correspond to local standards; only the current emergency determines the selection and delivery of aid. In procuring aid supplies, priority must be given to purchasing in the region hit by the catastrophe”. German food aid is relatively cost effective with goods purchased locally or regionally. Humanitarian aid, apart from emergency food aid, seldom receives attention within the discourse of untying aid. Germany could, however, consider developing this field and exploring ways to address emerging issues of untying humanitarian aid such as the current practice of tying contributions to national NGOs, contracting procedures during reconstruction situations and valuation of gifts in kind.

Organisation and Management

Humanitarian aid architecture – a divided organisational setting

The German humanitarian aid system is compartmentalised. It is characterised by two separate ministries managing two interdependent areas of responsibility. On one hand, the AA is responsible for a strong and independent unit focused on emergency response. On the other hand, BMZ operates a smaller unit with a broad and more loosely defined mandate. This divided management approach creates a disconnected structure where the sum of the parts is less than the total. The effect is to isolate parts of humanitarian operations from each other and from the other parts of the ministries in which they reside. This reduces their ability to address the complexity of contemporary emergencies and thus makes the aid less effective. It complicates synchronisation of actions both within humanitarian action and in how it relates to development co-operation. The challenge applies to all aspects of operations, planning, implementation as well as follow-up and learning.

Management of German humanitarian aid is located within the AA in Berlin. The Humanitarian Aid and Mine Action division within the Global Affairs Department has a staff of 24 responsible for managing, developing policies, co-ordinating, implementing and evaluating emergency response. Management responsibilities related to prevention and disaster preparedness, reconstruction and recovery are within BMZ. A specialised division is responsible for funds for “emergency and transitional aid”. Management responsibilities include transition assistance, recovery and

reconstruction and co-operation with the UN World Food Programme and the Food Aid Convention. The division is currently has 10 staff members.

To manage the organisational divide between AA and BMZ, a well functioning but complicated and time-consuming system of co-ordination and consultation has been developed. The AA's emergency response is co-ordinated with the partner division for emergency and transitional funding in the BMZ and vice versa. There is also an interchange in regard of project planning and monitoring as well as with situation reports. In addition, humanitarian projects funded through BMZ are supposed to be harmonised with other development co-operation commitments and integrated in the development co-operation programming. To assist and ensure co-ordination Germany has established co-ordinating mechanisms such as the Humanitarian Aid Coordinating Committee. Parliament has created a permanent Committee on Human Rights and Humanitarian Aid.

The Humanitarian Aid Coordinating Committee is an interesting and important feature of the German emergency response system. The committee was established in 1994 and its mandate is to ensure co-ordination, involvement and information sharing across ministries, government agencies and German NGOs. The committee is chaired by the AA and meets either bi-monthly or during special *ad-hoc* meetings for specific humanitarian crises. It comprises a total of 32 members, 18 of which represent German NGOs. Other German government agencies represented are the BMZ, and the Federal Ministry of Defence and the Federal Ministry of the Interior responsible for the national response authority and the Federal Agency for Technical Relief (THW). All members of the Coordinating Committee subscribe to the 12 basic rules of humanitarian aid.

In 1998 the German Bundestag established a permanent Committee on Human Rights and Humanitarian Aid, replacing a previous subcommittee on Human Rights and Humanitarian Aid. The new committee advises the Committee on Foreign Affairs on human rights and humanitarian issues and monitors policy coherence in this field. The Committee consists of 17 members representing all parties. The Committee meets behind closed doors but may occasionally arrange public hearings. Although the main work stream of the Committee relates to human rights, humanitarian issues and implementation are included in the mandate. It can make specific recommendations for policy and implementation.

In 1998 the Federal Foreign Minister appointed a Commissioner for Human Rights Policy and Humanitarian Aid within the AA. The Commissioner monitors and assists in bilateral and multilateral dialogue with governments and non-governmental organisations and submits operative proposals on Federal Government policy to the Federal Minister for Foreign Affairs.

Managing transition

Germany rejects linear approaches of humanitarian aid and recognises that various phases unfold simultaneously and overlap, hence the sequence of aid modalities can often be irregular. Consequently, post conflict transition does not form an integral part of a German approach to humanitarian aid. In theory the AA and the BMZ should work closely together to optimize aid delivery in transition situations and avoid funding or delivery gaps. In practice, however, the AA has limited access and influence in development planning and takes a distant position in transitional arrangements. The strong emphasis on emergency response by the Foreign Office limits further involvement. BMZ's development oriented emergency and transitional aid is designed to bridge towards development co-operation and involves methods like food security measures, rebuilding and supply of infrastructure and re-enforcement of self-help structures.

German policies are far reaching in terms of conflict awareness and post-conflict reconstruction. A comprehensive inter-ministerial action plan for conflict prevention and post conflict peace-building was adopted in 2004 (Chapter 3). It would be useful to explore to what extent this action plan affects Germany's humanitarian approach. Transitional aid should be interlinked with Germany's long-term development co-operation in a synchronised and co-ordinated way.

Promoting learning and accountability

The AA evaluates humanitarian aid projects through its reporting requirements and targeted evaluations and missions. Germany is a member of the Active Learning Network for Accountability and Performance in Humanitarian Action (ALNAP). Given the extensive response to the Indian Ocean tsunami, Germany should take full advantage of ALNAP's special Tsunami Evaluation Coalition which serves as a unique accountability initiative promoting sector-wide approaches. Germany should ensure that these evaluations are disseminated at an inter-ministerial level and that evaluation recommendations are better reflected and integrated in policy development and programming. Learning in relation to humanitarian action across departments and other arms of government could, however, prove difficult with the present organisational setting.

Regarding accountability and transparency, Germany reports all humanitarian funding through the 14-point facts system of the European Union and to the OCHA Financial Tracking System. Internal reporting systems for humanitarian assistance are transparent and show a high degree of accuracy. Considering the limited data available at international level, Germany could make a valuable contribution to work to improve accuracy and timeliness in donor reporting on this topic and could consider producing a comprehensive annual report on its expenditure of humanitarian aid. This would provide useful and complementary information between the special humanitarian reports to parliament.

Country operations

According to data provided by AA some 300 humanitarian aid projects were managed by the AA in 2004, totalling EUR 55 million. Actions in 56 countries were financed within the humanitarian budget. Of these allocations 56% were in Africa, where the five biggest recipients were Sudan, Chad, Uganda, Liberia and the Democratic Republic of Congo; 26% went to Asia where Afghanistan and Palestinian Autonomous Territories were the main recipients. Europe received 14% mainly within the context of the Balkans Stability Pact. The remaining 4% was spent in Latin America. In addition, 17 countries received a total of EUR 16.5 million in funding for humanitarian mine clearance.

Funding decisions for humanitarian aid are not delegated to field level but embassies are consulted on projects and routinely report on the humanitarian situation in the host countries. Perspectives on food insecurity retained by the DAC Peer Review team during its mission to Ethiopia in September 2005 are presented in Box 13. The BMZ relies on implementation by GTZ, NGOs and international organisations with their respective field offices. German practices on the whole recognise and support the role of the UN in providing leadership and co-ordination of international humanitarian action. Germany has increased its funding to the UN co-ordination efforts and supports a leading role by UN OCHA. Funding for co-ordination and support services has increased in German contributions to the UN-CAP from USD 0.2 million in 2000 to USD 13 million in 2005 (OCHA, 2005d). To strengthen the needs-based approach and promote harmonisation and alignment in complex emergencies, Germany should consider developing humanitarian country and regional programmes based on the UN Common Humanitarian Action Plans.

Box 13. Tackling food insecurity in Ethiopia

Food insecurity: The first of the eight MDGs focus on food insecurity and include the target “reduce by half the proportion of people who suffer from hunger”. Experience from famine response proves that food insecurity needs to be divided into two categories: chronic/predictable and acute/unpredictable. Root causes of chronic food insecurity relates to governance and economic factors, (*i.e.* inadequate policies, weak government institutions, legislation and market structures) and are accelerated by population growth, environmental degradation, social factors (*i.e.* HIV/AIDS and/or gender inequalities) and limited access to social infrastructure. Chronic food insecurity make populations exposed to natural hazards. Despite locally functioning mechanisms, unstable climate and weather events may easily bring large populations into acute emergencies although agricultural production at national level does not fall drastically.

Ethiopian context: The horn of Africa is one of the most vulnerable areas in the world with more than 40% of 160 million people suffering from food insecurity. Chronic and acute food insecurity remains a permanent feature of Ethiopia’s development and is rooted in its ecological, economic, political and social systems. At least 5 million people have received food aid for the last 7-10 years and during the acute crisis in 2003 over 13 million people, 21% of the population, were affected. Institutional responsibility for food security resides with a disaster commission at federal level who manages its programmes through annual emergency appeal systems. The 2003 humanitarian crisis called for renewed short and long-term policies and the government launched the “New coalition on Food Security in Ethiopia”. Although some of its components remain controversial it provides opportunities to move away from previously established approaches. However, it also remains obvious that national response capacity to manage acute situations will be necessary for an unforeseeable future. With a growth rate of 2.7-3 % per year Ethiopia’s population is estimated to reach 111 million by 2020, causing enormous pressure on already scarce resources.

Donor challenges: Assumptions that famine is an event caused by food supply failures, resulting in malnutrition and mortality which could be managed by external supplies and improved food distribution created a “food-first” approach-making Ethiopia the largest recipient of food aid in the world. While successfully addressing acute situations, donors have neglected measures to strengthen prevention, preparedness and recovery. Instead, food aid has been institutionalised within a complex Ethiopian humanitarian enterprise. While humanitarian aid cannot be expected to achieve all the objectives it is not designed for, and fears of creating dependency should never compromise response to an acute situation, donors must address the disconnect between humanitarian and development policy from an aid effectiveness perspective. Development co-operation should, as the MGDs suggests, make food security a specific objective of poverty eradication and not be managed as a separate sector. Strategies must include explicit measures to strengthen the federal and regional governments’ and the local civil society’s capacity to deal with both chronic and acute situations. Donors must shift from *ad-hoc* annual appeal, improve the quality and flexibility of food aid programming by moving to cash-based programmes. Adequate monitoring and early warning systems with specific food security indicators must be developed, supported and put into practice. National response mechanisms should be supported which are able to manage national and regional shock.

Issues for Germany: Germany should consider ways of increasing its support to the G8 action plan to combat famine in Africa. The introduction of the new BMZ budget line for development relief creates opportunities for more long term and predictable approaches. Germany should place food security as a central objective of its country program, move away from a project-based approach and scale up activities. Present project implementation by GTZ could be transferred to local NGOs for cost effectiveness and sustainability reasons. Germany is also encouraged to participate in efforts towards a common donor co-operation strategy for Ethiopia, including a long-term strategic approach for food security. With the priority area strategy “Sustainable Utilization of Natural Resources for Improved Food Security”, Germany has done an important first step and developed a joint vision with the Ethiopian government on how to improve agricultural productivity through the protection of natural resources. Germany could use its position as chair of the donor group on agriculture and rural development to strive for a better implementation of food security policies and to promote synchronisation of humanitarian and development aid.

7. Future considerations

- **Policy:** Efforts towards more effective and holistic approaches to humanitarian aid should be considered. Germany could update its policy structures by developing a comprehensive humanitarian policy reflecting the principles and good practices of good humanitarian donorship (GHD). This updated policy should reflect implementation strategies providing guidance on civil military relations and inclusion of disaster risk reduction in development co-operation planning. Environmental and social, including gender-related, aspects of humanitarian aid could also be more explicitly addressed. Germany could also further include humanitarian issues in its multilateral policy framework.
- **Funding:** While increasing its ODA Germany should also consider increasing its allocations to humanitarian aid. Whereas the strength of the present system rests in the timeliness of funding, approaches to other funding principles (flexibility, predictability) need to be further addressed. Germany could consider developing directives for pooled funding, coverage and timely disbursements of funds for UN-CAPs. Budgets used for financing humanitarian action could be brought into one budgetary framework.
- **Management:** Germany should consider enhancing the coherence of all components of humanitarian aid (prevention and preparedness, emergency response, recovery and reconstruction) which should be facilitated within a common budget.
- **Learning and accountability:** As Germany's humanitarian aid expands it should consider developing its evaluation system in this field. Given the extensive response to the Indian Ocean tsunami Germany should maintain an active role in ALNAP's special Tsunami Evaluation Coalition. Germany should also consider evaluating the overall performance of its humanitarian aid system involving the Federal Foreign Office and BMZ.

Annex D

German Implementing Agencies

Forms of co-operation	Main implementing/co-operation organisations	Office locations
1. FINANCIAL co-operation	KfW Entwicklungsbank German Investment and Development Company (DEG)	Frankfurt*, Berlin Cologne
2. TECHNICAL co-operation	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) Bundesanstalt für Geowissenschaften und Rohstoffe (BGR) Physikalisch-Technische Bundesanstalt (PTB)	Eschborn*, Bonn, Berlin Hannover*, Berlin, Gräfenberg, Grubenhagen Braunschweig, Berlin
3. HUMAN RESOURCES co-operation	Capacity Building International (InWEnt) Deutsche Welle Radio and Television Training Centre (DW-RTC/TTC)	Bonn*, plus 22 further offices ⁴¹ Bonn, Berlin
(a) Advanced training programmes for skilled employees, executive and senior civil servants from developing countries	German Academic Exchange Service (DAAD) Alexander von Humboldt Foundation (AvH) German Research Foundation (DFG)	Bonn, Berlin Bonn Bonn
(b) Co-operation at university level	Central Placement Office of the Federal Employment Agency (ZAV) German Investment and Development Company (DEG)	Bonn Cologne
(c) Assistance to returnees	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) International Migration and Development (CIM)	Eschborn*, Bonn, Berlin Frankfurt
(d) Secondment, recruitment and placement of experts in developing countries	German Development Service (DED) Civil Peace Service (CPS) Christian Services International (CFI) Personnel Agency of the German Catholics for International Co-operation (AGEH) Services Overseas (DÜ)/part of Church Development Service (EED) Weltfriedensdienst EIRENE – International Christian Service for Peace	Bonn, Berlin Bonn Stuttgart Cologne Bonn Berlin Neuwied
(e) Volunteer services		

41. Apart from its headquarters in Bonn, InWEnt has offices in 14 other German cities (plus 15 regional offices).

<p>4. ECONOMIC co-operation</p>	<p>KfW Entwicklungsbank German Investment and Development Company (DEG) Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) Capacity Building International (InWEnt) German Development Service (DED) International Migration and Development (CIM) Senior Expert Service (SES) Foundation for Economic Development and Vocational Training (SEQUA) Savings Banks Foundation for International Co-operation (SIK)</p>	<p>Frankfurt*, Berlin Cologne Eschborn*, Bonn, Berlin Bonn*, plus 22 further offices⁴² Bonn, Berlin Frankfurt Bonn Bonn Bonn</p>
<p>5. Development co-operation by civil society funded or co-funded by BMZ</p> <p>(a) Political Foundations</p> <p>(b) Church-based organisations</p> <p>(c) NGOs</p>	<p>Friedrich Ebert Foundation (FES - Social Democratic) Friedrich Naumann Foundation (FNS - Free Democratic) Hanns Seidel Foundation (HSS - Christian Social) Heinrich Böll Foundation (HBS - Green) Konrad Adenauer Foundation (KAS - Christian Democratic) Rosa Luxemburg Foundation (RLS - Democratic Socialist)</p> <p>Protestant Association for Co-operation in Development (EZE) c/o Church Development Service (EED) Catholic Central Agency for Development (KZE) c/o Bischöfliches Hilfswerk MISEREOR</p> <p>There are several thousand NGOs working in the field of development co-operation in Germany.⁴² VENRO is the NGO umbrella organisation with about 100 members.</p> <p>Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) Various NGOs</p>	<p>Bonn*, Berlin Potsdam Munich Berlin Sankt Augustin*, Berlin Berlin</p> <p>Bonn</p> <p>Aachen</p> <p>Bonn, Berlin, etc.</p> <p>Eschborn*, Bonn, Berlin Bonn, Berlin, etc.</p>
<p>6. Other forms (e.g. food aid; humanitarian assistance)</p>	<p>Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) Various NGOs</p>	<p>Eschborn*, Bonn, Berlin Bonn, Berlin, etc.</p>

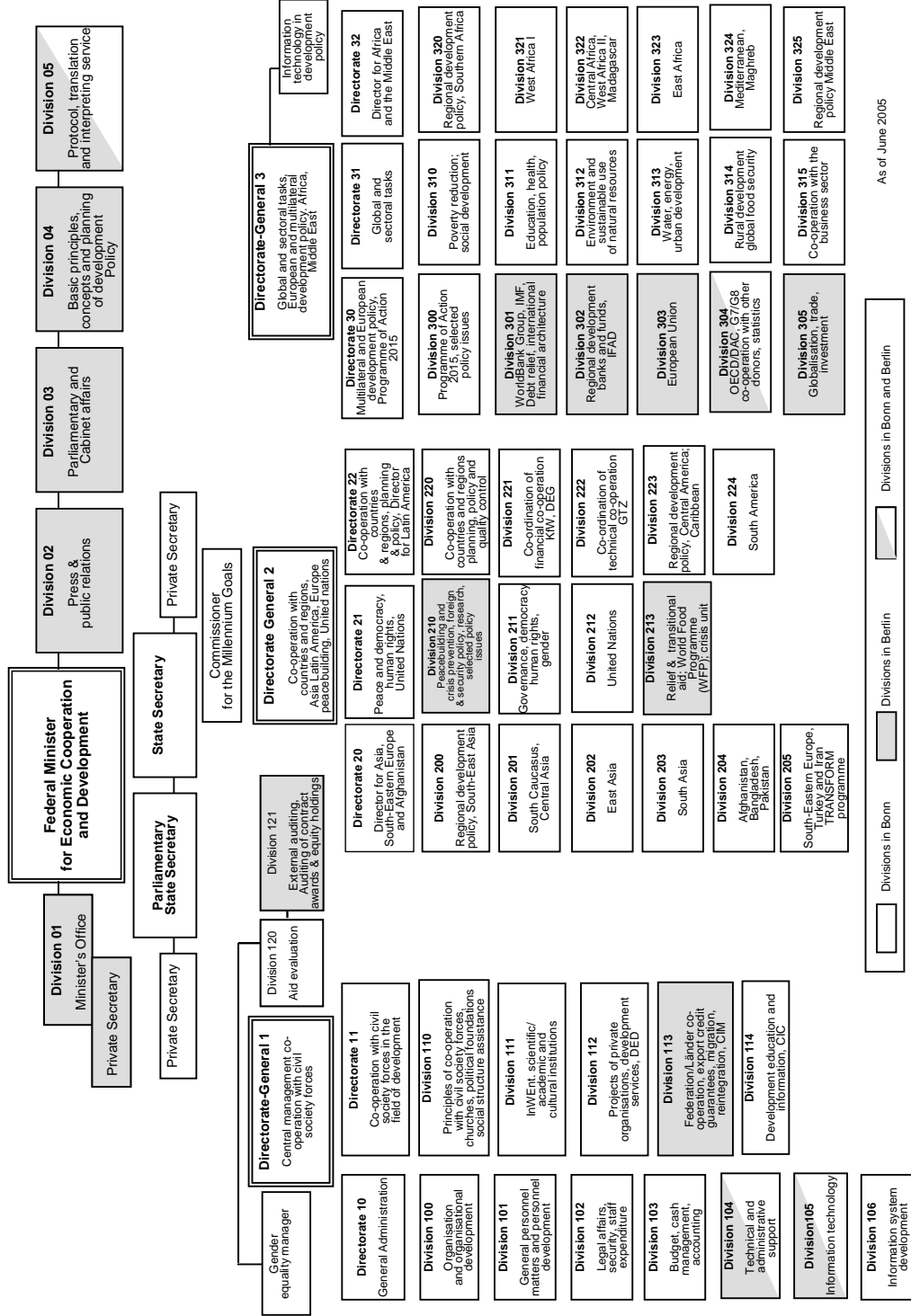
* Headquarters location.

Source: Adapted from the Memorandum for the DAC Peer Review of Germany (BMZ, 2005c).

42. The ten NGOs with the highest government subsidy in 2004 are Jugend Dritte Welt, Ärzte für die Dritte Welt, terre des hommes Deutschland, Karl Kübel Stiftung, Weltfriedensdienst, Deutsche Welthungerhilfe, CARE Deutschland, W.P. Schmitz-Stiftung, EIRENE – Internationaler Christlicher Friedensdienst, DESWOS.

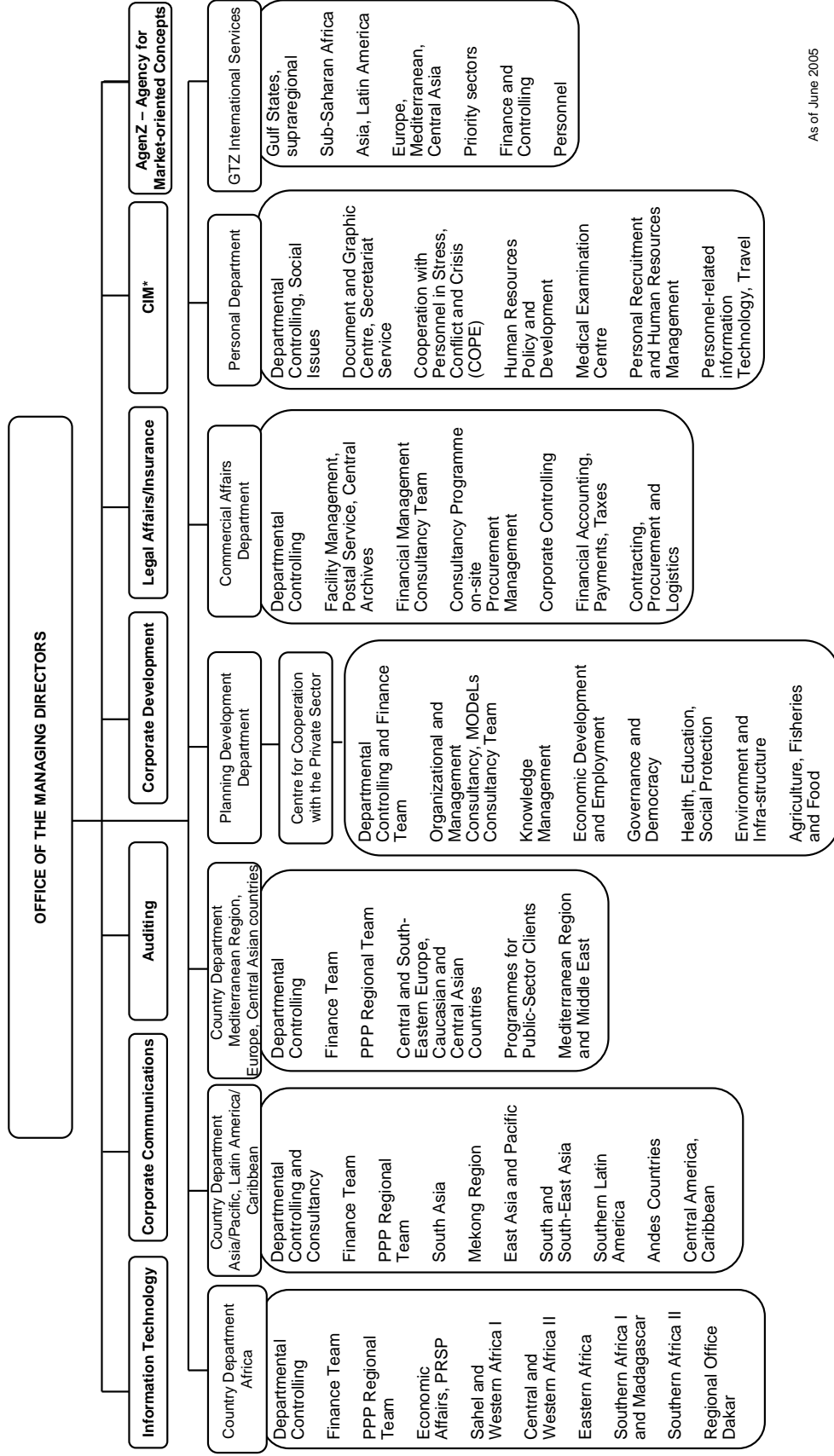
Annex E

Organisational Chart of BMZ



Annex F

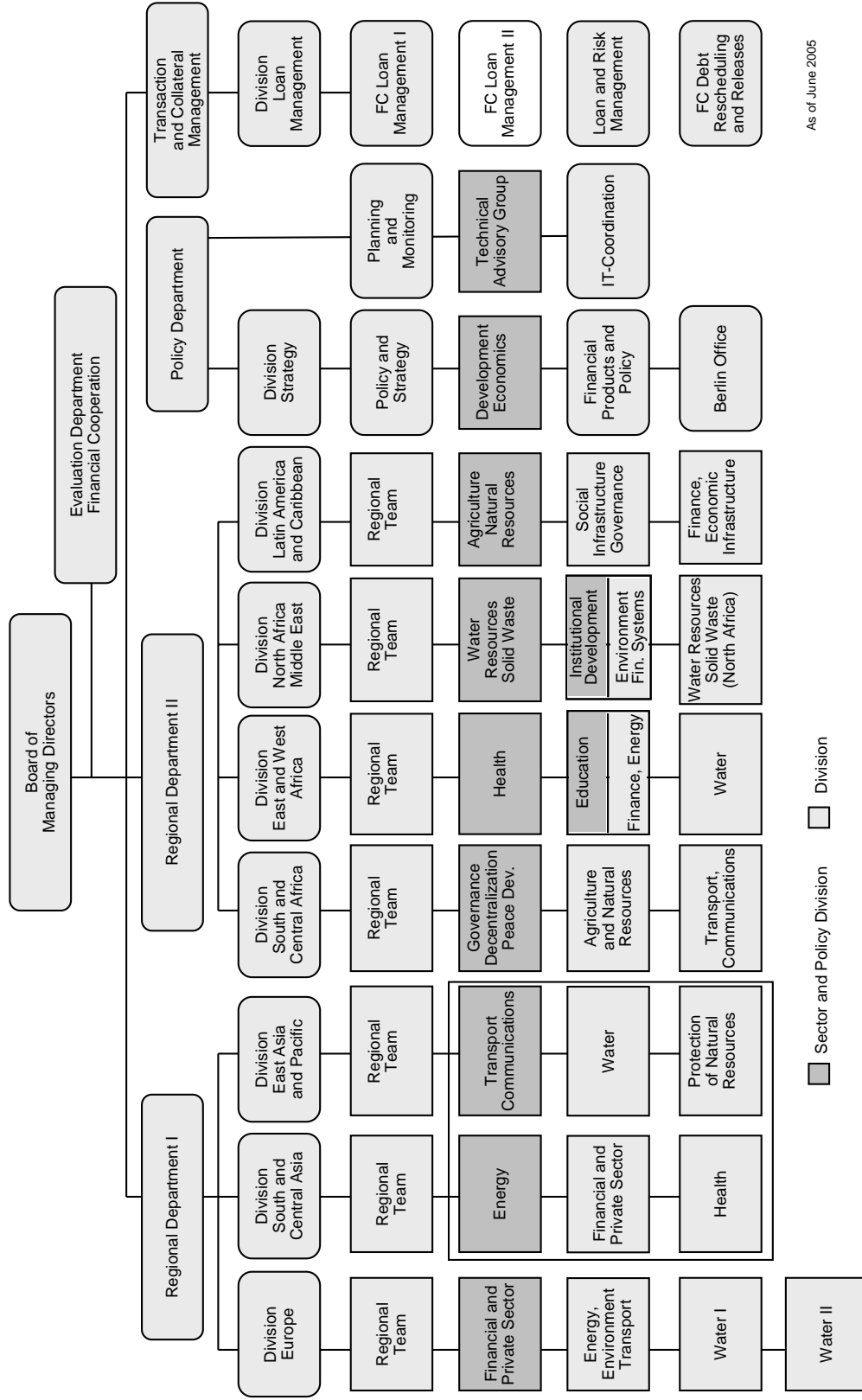
Organisational Chart of GTZ



As of June 2005

Annex G

Organisational Chart of KfW



As of June 2005

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.

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with other official or private funding to form finance packages.

AVERAGE COUNTRY EFFORT: The unweighted average ODA/GNI ratio of DAC members, *i.e.* the average of the ratios themselves, not the ratio of total ODA to total GNI (*cf.* ODA/GNI ratio).

DAC (DEVELOPMENT ASSISTANCE COMMITTEE): The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its members are given at the front of this volume.

DAC LIST OF AID RECIPIENTS: The DAC uses a two-part List of Aid Recipients which it revises from time to time. Part I of the List comprises developing countries (eligible to receive official development assistance). It is presented in the following categories (the word "countries" includes territories):

LDCs: Least Developed Countries. Group established by the United Nations. To be classified as an LDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LDC group.

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

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

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

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

Part II of the List comprises "Countries in Transition"; assistance to these countries is counted separately as "official aid". 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 (OR RESTRUCTURING): Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, rescheduling or refinancing.

DIRECT INVESTMENT: Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of Aid Recipients. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

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

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable financial instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

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

GRANT ELEMENT: Reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to the first repayment of capital). The grant element is calculated against a fixed interest rate of 10%. Thus the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest.

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

OFFICIAL AID (OA): Flows which meet the conditions of eligibility for inclusion in official development assistance, except that the recipients are on Part II of the DAC List of Aid Recipients.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) 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%).

ODA/GNI RATIO: To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, *i.e.* the weighted ODA/GNI ratio of DAC members (*cf.* Average country effort).

OTHER OFFICIAL FLOWS (OOF): Developmentally relevant transactions by the official sector with countries on the DAC List of Aid Recipients which do not meet the conditions for eligibility as official development assistance or official aid.

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

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

VOLUME (real terms): 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. These data show the value of aid in terms of the domestic purchasing power of a US dollar in the year specified.

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