

GERMANY

Development Assistance Committee (DAC)
PEER REVIEW 2010



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 programmes of each member are critically examined approximately once every four or five years. Five members are examined annually. The OECD's Development Co-operation Directorate 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.

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 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 Australia and the United Kingdom for the Peer Review on 13 October 2010.

*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, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

Acronyms

AA*	Federal Foreign Office
AAA	Accra Agenda for Action
BMBF*	Federal Ministry of Education and Research
BMF*	Federal Ministry of Finance
BMU*	Federal Ministry for the Environment, Nature Conservation and Nuclear Safety
BMZ*	Federal Ministry for Economic Co-operation and Development
CCA	Climate change adaptation
CDI	Commitment to Development Index
CDU	Christian Democratic Union
CERF	Central Emergency Response Fund
CIM	International Centre for Migration and Development
CO ₂	Carbon dioxide
CPA	Country Programmable Aid
CSD	Commission on Sustainable Development
CSU	Christian Social Union
DAC	Development Assistance Committee (OECD)
DCED	Donor Committee on Enterprise Development
DED*	German Development Service
DIE	German Development Institute
ECHO	European Community Humanitarian Office
ENVIRONET	OECD/DAC Network on Environment
EIA	Environmental impact assessment
EPOC	OECD Environment Policy Committee
EU	European Union
FDP	Free Democratic Party
GDP	Gross domestic product
GEF	Global Environment Facility
GHD	Good Humanitarian Donorship
GIZ*	new Agency for Technical Co-operation
GNI	Gross national income
GOVNET	OECD/DAC Network on Governance
GTZ*	German Agency for Technical Co-operation
HoC	Head of Co-operation in German embassies

ICI	International Climate Initiative (BMU)
ICRC	International Committee of the Red Cross
IDA	International Development Association
IFC	International Finance Corporation
INSARAG Nations	International Search and Rescue Advisory Group of the United Nations
InWent	German international capacity building agency
IPRCC	International Poverty Centre, China
JAS	Joint assistance strategy
JPOI	Johannesburg Plan of Implementation
KfW*	KfW Development bank
LDC	Least developed country
LenCD	Learning Network on Capacity Development
LIC	Lower income country
LMIC	Lower middle income country
LRRD	Linking Relief, Rehabilitation and Development
MDG	Millennium Development Goal
MIC	Middle income country
MOPAN	Multilateral Organisation Performance Assessment Network
NGO	Non-governmental organisation
OCHA	Office for the Co-ordination of Humanitarian Affairs
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PA2015	Programme of Action 2015 for Poverty Reduction
PBA	Programme-based approach
PCD	Policy coherence for development
PD	Paris Declaration on Aid Effectiveness
PFM	Public financial management
PIA	Poverty impact assessment
POVNET	DAC Network on Poverty Reduction
PRBS	Poverty reduction budget support
PRSP	Poverty reduction strategy paper
REDD	Reducing emissions from deforestation and degradation
SCCF	Special Climate Change Fund
SEA	Strategic environmental assessment
SWAp	Sector wide approach
TC	Technical co-operation

UMIC	Upper middle income country
UN	United Nations
UNDAC	United Nations Disaster Assessment and Coordination team
UNHCR	United Nations High Commissioner for Refugees
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East

VENRO NGO and civil society platform, Germany

WFP World Food Programme

*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 (EUR per USD)

2006	2007	2008
0.7967	0.7305	0.6933

Germany's aid at a glance

GERMANY

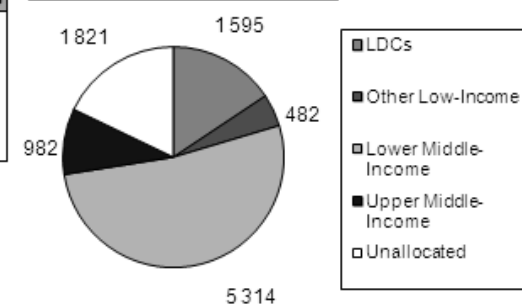
Gross Bilateral ODA, 2007-08 average, unless otherwise shown

Net ODA	2007	2008	Change 2007/08
Current (USD m)	12 291	13 981	13.8%
Constant (2007 USD m)	12 291	13 060	6.3%
In Euro (million)	8 978	9 693	8.0%
ODA/GNI	0.37%	0.38%	
Bilateral share	65%	65%	

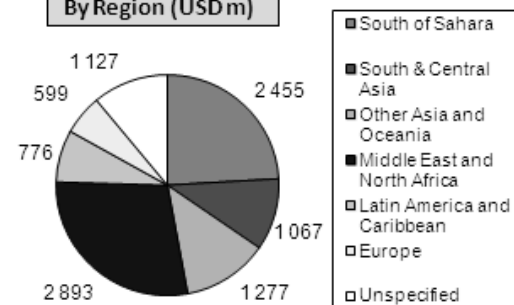
Top Ten Recipients of Gross ODA (USD million)	
1 Iraq	1 975
2 Cameroon	669
3 China	552
4 India	289
5 Afghanistan	256
6 Indonesia	246
7 Liberia	234
8 Botswana	221
9 Egypt	207
10 Morocco	177
Memo: Share of gross bilateral ODA	
Top 5 recipients	37%
Top 10 recipients	47%
Top 20 recipients	57%

By Income Group (USD m)

Clockwise from top



By Region (USD m)



By Sector

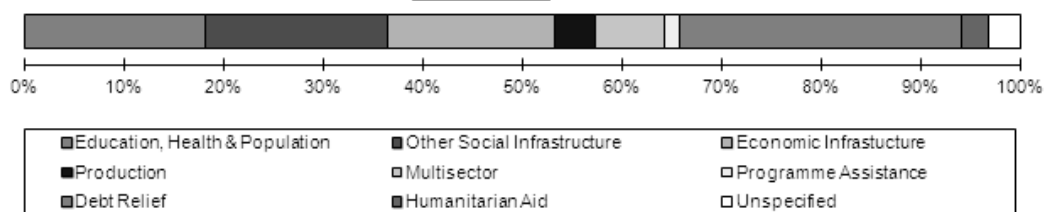


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THE DAC'S MAIN FINDINGS AND RECOMMENDATIONS

Overall framework for development co-operation

Legal and political orientations

Renewing the strategic vision of one of the world's largest donors

Germany has been one of the world's largest bilateral donors for the past two decades and has played a leading role in key global issues such as linking climate change with development. The Millennium Declaration, the Millennium Development Goals (MDGs), poverty reduction and the Paris Declaration on Aid Effectiveness continue to form the strategic framework for Germany's development co-operation policy and objectives. While maintaining its commitments within this strategic framework, the federal government has in the last year promised a clearly recognisable change of course for Germany's development co-operation. This new vision is outlined in the Coalition Agreement of October 2009, but its practical consequences, and those of other statements made since then, remain unclear. The Federal Ministry for Economic Co-operation and Development (BMZ) will need to clarify what the government's planned change of course means strategically and operationally, both for itself and its partners, and particularly how it will affect the many commitments, policies and strategies put in place since the last peer review. It will also be important for BMZ to justify internally, and to German stakeholders and Germany's partners, why this change is felt to be necessary.

Concentrating ODA for better results

Germany has dropped the term "priority partner country" and following a recommendation in the last peer review (in 2005) it has narrowed its focus to 57 partner countries (down from 84 five years ago). This reduction has been achieved by applying tighter selection criteria and by prioritising. These 57 partner countries consequently benefit from more intensive co-operation; each has a country strategy in place which is generally aligned to the national development strategy. Germany's evolving co-operation with "anchor countries" (emerging economies) focuses on regional strategies and global public goods. In this context, trilateral co-operation is being used to mobilise Germany's human and financial resources together with the inputs of anchor countries. This represents an innovative approach combining foreign policy and development co-operation objectives to tackle global threats and challenges. Germany has also narrowed its sectoral focus and now concentrates on 11 priority sectors in total. In each partner country it works in only three of these sectors, at most. This move towards greater concentration of Germany's development co-operation is encouraging, but the geographical and sectoral range of operations is still broad and does not demonstrate a clear strategic purpose. Germany's development co-operation statements since October 2009 reduce the priority sectors to seven: good governance; education; health; protection of climate, environment and natural resources; rural development; private sector

development; and sustainable economic development. However, it will take time for this prioritisation to be reflected in Germany's development programming and aid disbursements. Moreover, to ensure an effective international division of labour, Germany should make its decisions on country and sector focus at country level in consultation with other donors.

In line with its focus on the MDGs and its G7 Gleneagles commitments, sub-Saharan Africa has been given a higher profile in BMZ's policies and strategies since the last peer review, with a particular emphasis on 24 partner countries in that region. Germany's development priorities in the region are mainly education and health, good governance, agriculture, protection of natural resources and water (especially reducing the impacts of climate change on water supplies and agriculture), and sustainable economic development. In the future Germany intends to focus on the private sector and to also strengthen the investment climate and economic infrastructure, including energy, so as to increase the continent's economic potential. If Germany is to meet its financial share of the Gleneagles commitment, however, its overarching policy and resource allocation processes need to give a stronger emphasis to sub-Saharan Africa. Germany will also need to increase its attention to conflict and fragility, which are major obstacles to achieving the MDGs in many parts of sub-Saharan Africa.

A new strategy for multilateral organisations

Germany has long maintained a policy of allocating not more than one-third of its ODA to multilateral channels (including the EU). This limit is not evidence based, nor is it linked to the relative effectiveness of bilateral and multilateral aid. BMZ is currently developing a new strategy for multilateral organisations, which is an opportunity for Germany to confirm its rationale for channelling funds through these entities and to set out its priorities for reform of the multilateral system and its criteria for multilateral funding. The new strategy should also provide a clear analysis of how its development objectives could be advanced through multilateral funding.

Stronger leadership needed on gender equality and women's empowerment

Germany is continuing to promote gender equality and women's economic empowerment in its policy dialogue and programming. However, while the larger German implementing agencies are addressing gender mainstreaming and have targeted actions to empower women through their programmes, there is insufficient leadership of the issue across the development co-operation system as a whole. BMZ's strategy and guidelines on gender equality need to be more firmly embedded in all of the agencies responsible for implementing Germany's ODA, particularly other ministries. Moreover, BMZ's capacity to lead on gender equality is constrained by the small number of staff devoted to this activity in headquarters and in the field. Therefore BMZ should build gender equality capacity in headquarters and in the field to provide more effective leadership on this issue across the entire German development co-operation system.

Promoting policy coherence for development

Embedding policy coherence throughout government

With its representation at Cabinet level, BMZ is well placed to ensure that development is taken into account in all areas of Germany's domestic and international policies. The government is highly committed to ensuring that all policies support, or at

least do not undermine, partner countries' development aspirations. More recently, the Coalition Agreement signed in October 2009 reiterates this commitment to development coherence. However, policy coherence also depends on embedding the concept within the various government departments and setting clear priorities for its implementation. There is considerable scope for the German government to deepen its commitment to the MDGs by making international development a more tangible goal of other government policy areas.

Tackling policy co-ordination constraints

Despite the dedication and skills of its staff at HQ and in the field, BMZ's lack of capacity to cover the range of issues it needs to address leaves it little room to play the full influential and proactive role in decision making and policy coordination that might be expected from such a key player. In particular, BMZ's analytical and strategy development capacity needs attention and this should be complemented by increased efforts to engage with other ministries on development issues. At the same time, awareness of and expertise in development issues should be strengthened in other German ministries.

Strengthening systems for monitoring, analysing and reporting on policy coherence

Germany has made only modest progress in monitoring, analysing and reporting on policy coherence since the last peer review. It should take into account the lessons identified in the OECD's *Building Blocks for Policy Coherence for Development* when strengthening its systems in this domain, including reporting transparently to the German Parliament (the *Bundestag*) and the wider public about progress in this area to produce the accountability needed to drive further progress.

Improving whole-of-government approaches

Germany has made good progress in development areas that are high on the political agenda and which have been supported by the Chancellery, in particular, climate change and whole-of-government engagement in Afghanistan. Germany can learn from these experiences to enhance BMZ capacity to improve and apply coherent whole-of-government approaches to tackle other global challenges. For example, thinking has evolved since Germany produced its 2004 action plan on *Civilian Crisis Prevention, Conflict Resolution and Post-Conflict Peace-Building*. Germany needs a new joined-up approach for fragile and conflict-affected states which takes into account the changes in donor thinking and practice in these areas. It could also build on planned inter-ministerial regional strategies (which will focus on coherent policies in particular regions or countries) by developing joint country strategies for selected countries, particularly fragile states where a whole-of-government approach is critical.

Recommendations

The DAC welcomes Germany's leadership on global development issues such as climate change, and its efforts to fulfil its international commitments for greater policy coherence for development. Building on this, Germany should:

- publish a clearly-defined overarching policy for development co-operation that drives forward progress on the MDGs and poverty reduction, paying particular attention to conflict and fragility and to sub-Saharan Africa, and that further concentrates Germany's aid;
- base its draft strategy for multilateral aid on a clear analysis of how its development objectives could be advanced through multilateral funding, while also taking into account Germany's specific objectives for influencing and reforming multilateral institutions, resource allocation and collaboration with other partners to make multilateral aid more effective;
- establish an overarching policy statement on policy coherence for development and a clearly prioritised coherence agenda which sets strategic cross-governmental goals and provides a clear plan for implementation; and
- determine where responsibility for coordinating whole of government approaches sits within government, ensuring that sufficient capacity for analysis and strategy development resides in the responsible entity, as well as instil a sound development perspective within relevant ministries' policies.

Aid volume, channels and allocation

Germany needs to get back on track to meet its aid volume commitments

In 2009 Germany was the third largest bilateral donor in the world, behind the United States and France and just ahead of the United Kingdom and Japan. Germany provided USD 12 billion of ODA in 2009, or 10% of DAC member countries' total ODA. While Germany has maintained its position as a leading contributor of ODA, progress towards its European Union commitments to increase its aid as a proportion of gross national income (GNI) has stalled. Its targets were for its ODA to be 0.51% of GNI by 2010 and 0.7% by 2015. However, in 2009 ODA was only 0.35% of GNI, putting Germany a long way off target in its first aid volume commitment. Despite this setback, and the daunting global economic outlook, Germany remains committed to achieving 0.7% of GNI by 2015. The development co-operation budget is based on the annual federal budget and a rolling financial plan covering a five-year period (the current, next and following three years). Achieving the aid volume target for 2015 is a massive challenge, one that has to be addressed immediately: the financial plan for the period 2011-2015 and the 2012 budget itself must make the necessary provisions and both of these will be prepared during the first six months of 2011.

Among the expanding areas of its development co-operation, Germany needs to ensure that its increasing emphasis on private sector development does not lead it to divert ODA to finance assistance that is oriented to its own commercial interest. This implies that modalities need to be developed to ensure that projects are not selected on the basis of German commercial interests rather than expected developmental benefits. Where loans are used for development co-operation, Germany needs to ensure that these meet all the ODA criteria – i.e. that they are developmental, concessional, and meet the minimum 25% grant element (calculated against a 10% discount rate) – and to assess the extent to which future repayments on ODA loans may impact on targets for net ODA volume.

BMZ continues to be responsible for a little more than half of Germany's ODA – the remainder is allocated to a range of other government departments, agencies and institutions and this makes it hard for Germany to maintain a coherent development co-operation policy. There is a need to strengthen and improve the co-ordination of Germany's ODA at headquarters and in the field and to ensure that priority focal area strategies, guidelines and country strategies guide the work of all government departments, agencies and institutions involved and that these bodies feel a sense of ownership of these strategies.

Increasing the focus on partner countries, especially those in sub-Saharan Africa

As mentioned above, some attempt has been made to focus Germany's development co-operation on fewer countries. The reduction of partner countries from 84 to 57 since the last peer review is welcome, but these partner countries received less than 40% of Germany's bilateral ODA in 2008, while the remaining 60% was distributed across 83 non-partner countries. Furthermore, in 2008 six of the top 20 recipients of German ODA were not partner countries. There is considerable scope, therefore, to maximise Germany's development impact by increasing the proportion of Germany's bilateral ODA spent on its 57 partner countries, particularly those that are furthest from achieving the MDGs, namely: sub-Saharan African countries, least developed countries and countries affected by conflict and fragility.

Africa remains the highest recipient region, receiving 35% of Germany's bilateral ODA in 2008. During the 2005 G7 summit at Gleneagles, Germany promised to double its aid for sub-Saharan Africa by 2010 (over 2004 levels). Like some other G7 countries, Germany is lagging behind its Gleneagles promises. As an EU member, Germany also committed in 2005 to allocating half of its ODA increases to sub-Saharan Africa through to 2010. While Germany's bilateral ODA to this region did increase significantly (from USD 1.4 billion in 2004 to USD 2.7 billion in 2008), this is much less than 50% of the increase in Germany's bilateral ODA over this period. Moreover, aid to sub-Saharan Africa as a share of Germany's gross bilateral ODA has increased only slightly, from 27% in 2004 to 29% in 2008. Germany has renewed its promise that 50% of all new bilateral ODA allocations will be for sub-Saharan Africa in 2009 and 2010 and informed the Committee that the necessary firm commitments have been made. However, the recent survey of DAC members' aid commitments indicates that Germany's bilateral ODA will continue to go mainly to middle income countries. Meeting the Gleneagles commitments is surely important in tackling poverty in a key region in the world and in underpinning Germany's credibility as a leader among major donors in the international system.

Replacing debt relief with other forms of aid

Debt relief has been a major component of Germany's development co-operation for several years. The stock of debt is now becoming exhausted and must be replaced with other forms of multilateral and bilateral aid if aid volumes are to increase or at least be maintained. The exhaustion of debt relief is the main reason why ODA levels fell in 2009. Germany should therefore plan to replace debt relief with alternative aid allocations and channels.

Developing a more strategic approach to working with non-government organisations

Germany channels 6% of its ODA through non-government organisations (NGOs). In working with NGOs, Germany gives high priority to NGOs' independence. However, Germany needs a clear strategy to guide this work applying both to German and Southern civil society organisations. Most NGOs enjoy considerable freedom in how they use the ODA they receive but there are insufficient accountability linkages between them and the responsible German development co-operation institutions. Germany needs to strike a balance between respecting NGOs' autonomy whilst encouraging them to demonstrate development results and also to align with partner country priorities. Germany's consultation with NGOs on its development co-operation policies and strategies needs to be more meaningful. One approach would be to begin consultations earlier in the policy-development process. Germany should therefore develop a strategic approach to its relationships with NGOs. This should include a range of mechanisms for channelling funds through NGOs, such as framework agreements at headquarters and at partner country levels. This kind of approach is necessary to ensure a sustained focus on results.

Recommendations

To achieve its commitments and maintain its credibility, Germany should:

- as part of the 2012 budget proposal, set new realistic annual ODA volume targets that form a credible pathway for achieving the 0.7% ODA/GNI target by 2015; (ii) work to build cross party support for achieving the new targets and growth path and publicise them widely; (iii) replace debt relief with other types of development co-operation as the stock of debt becomes exhausted;
- further concentrate its bilateral ODA on partner countries, particularly those in sub-Saharan Africa and countries affected by conflict and fragility;
- develop its private sector programme to encourage foreign and domestic investments in areas aligned to partner countries' development strategies, ensuring that this does not lead it to divert ODA to finance assistance that is oriented to its own commercial interests;
- develop a strategic framework for engagement with NGOs which clarifies its rationale for channelling funds through these organisations, defines its relationship with them, strengthens partnerships and ensures a focus on development results.

Organisation and management*Reducing fragmentation*

While the German development co-operation system remains largely as it was in 2005, Germany has embarked on a major institutional reform process to merge three technical co-operation agencies, strengthen BMZ and improve ministerial co-ordination.

BMZ is responsible for development co-operation policy and strategy, while implementation is done by a wide range of agencies, other government departments, federal states, NGOs, political foundations, churches and scientific and training

institutions. Germany's development co-operation system has some institutional strength: it has a dedicated ministry (BMZ) which is represented at cabinet level, it has experienced implementing organisations, it has flexibility in how implementation occurs (once contracts have been signed between BMZ and the implementing agencies) and it has sound technical expertise. But it is the many weaknesses, particularly the institutional fragmentation, that have received the attention of the last two peer reviews (2001 and 2005) and which still persist in 2010. Germany's fragmented institutional system means that (i) it is confusing to its partners; (ii) it is time consuming for BMZ to co-ordinate Germany's various agencies (perhaps more so than co-ordinating other donors and partner governments); (iii) it runs the risk of being supply-driven and of limited contestability; and (iv) it is weighted far too heavily towards the implementing agencies at the expense of BMZ capacity, undermining the latter's ability to oversee the system.

The institutional separation of technical and financial co-operation and the prevailing technical co-operation model which is mainly aid in kind also limits Germany's ability to implement the aid effectiveness principles. For example, the aid-in-kind technical co-operation model used typically by GTZ hampers Germany's harmonisation with other development partners and constrains its use of partner country systems. Germany should therefore focus its planned long-term institutional reforms on resolving these constraints, particularly those arising from its fragmented system. The planned merger of the three technical co-operation agencies (GTZ, DED and InWent) will be a good first step in this wider reform and should be given a high priority. The reforms should also: (i) strengthen significantly BMZ's capacity to oversee the development and implementation of its own policies; (ii) strengthen BMZ's leadership capacity to implement the development policy across the German government; and (iii) lead to innovation and adaptation of the technical co-operation models and strengthen the links between technical and financial co-operation.

Increasing the pace of decentralisation

As recommended in the last peer review, there is still a need to decentralise responsibilities to the field. In the Coalition Agreement of October 2009 the government promised to improve the field structure of Germany's development co-operation system. As part of these improvements, BMZ's in-country representatives must be empowered to make more decisions locally and to have far greater delegated authority for policy and strategy. Further decentralisation of decision-making responsibilities, accompanied by adequate resources, would improve the strategic oversight of Germany's ODA and could help to address some partners' concerns about delays in processing decisions and approvals. This is particularly relevant for countries like Zambia, where Germany is taking a lead role in high-level policy dialogue on poverty reduction budget support and joint assistance strategies. A new understanding on working relationships will also need to be developed between BMZ and the Federal Foreign Office.

BMZ now has Heads of Co-operation posted in 38 of its 57 partner countries; they are vitally important for effective co-ordination and oversight of Germany's development programmes. Other important steps that are improving the coherence of Germany's bilateral development co-operation include the establishment of a Development Co-operation Country Office (joint country office for all German implementing agencies) in each partner country; joint programming (which brings together all Germany's implementing agencies); and appointing focal area co-ordinators in the field (drawn from the implementing agencies) to take the lead in designing joint programme proposals for approval by BMZ. BMZ should strengthen and develop the role of the focal area

co-ordinators in partner countries by (i) amending their job description to include enough time to carry out this work; (ii) making them more accountable to the Head of Co-operation in the German Embassy; and (iii) formalising the role with BMZ and the various other German and partner country actors.

Continuing to improve the evaluation system

BMZ is responsible for development co-operation evaluation rules and standards, quality assurance and strategic evaluations, while the implementing agencies and larger NGOs carry out self and independent evaluations. BMZ is improving Germany's development co-operation evaluation system: the various evaluation systems are being standardised and guided by a policy framework, standards and specific approaches. However, BMZ's latest evaluation system review shows that its evaluation unit is under-resourced. It faces a major challenge in co-ordinating evaluations across 20 governmental and non-governmental implementing and funding organisations, each of which operates its own evaluation system. Together these organisations produce almost 100 evaluations a year, which is a significant number for the BMZ evaluation unit to quality assure and the development co-operation system to absorb effectively. Further improvements to evaluation and results reporting are therefore necessary, particularly in the quality assurance of evaluations and the use of evaluations to support decision making and to link Germany's country programming and resources to results and to partner countries' performance assessment frameworks. An independent evaluation agency or institute is planned by the government. This important development is designed to improve the visible independence and legitimacy of evaluations; it can also play a key role in improving coherence across the system provided that the new institute plays a strong leadership function as it develops, and is appropriately resourced and set up to do so. Given that independent evaluation agencies are developing in other countries, Germany could also help to promote international partnership in this area.

Recommendations

To strengthen its development co-operation system Germany should:

- ensure the merger of the three technical co-operation agencies is implemented on schedule and is seen as a first step in a holistic reform of Germany's development co-operation system;
- implement the planned wider reforms of Germany's development co-operation system - the main aim should be to strengthen significantly BMZ's capacity to oversee the development and implementation of its own policies and to lead development co-operation policy effectively across the German government;
- decentralise operations, as recommended in the last peer review, including developing a new understanding between BMZ and the Federal Foreign Office on their relationships in the field and strengthening and developing the role of focal area co-ordinators in partner countries; and
- ensure that (i) adequate resources are allocated for improving evaluation and results reporting, including for the planned independent evaluation agency or institute; and (ii) BMZ's country programming and resources are better linked to development results and aligned with effective partner country performance assessment frameworks.

Practices for better impact

Implementing aid effectively

Making more effort to meet 2010 aid effectiveness targets

Germany is addressing aid effectiveness at three levels: (i) internationally and within the European Union; (ii) nationally; and (iii) within partner countries. It is having varying degrees of success. At the international level, Germany plays a leading role within the EU and the Working Party on Aid Effectiveness in promoting an effective division of labour. Following the Fourth High Level Forum on Aid Effectiveness in Korea in 2011, Germany should sustain its engagement in long-term and inclusive international dialogue on aid effectiveness and consider how it might more effectively support the broader implementation of aid effectiveness commitments. At the national and partner country levels, in 2005 BMZ put in place a Plan of Operations for implementing the Paris Declaration on Aid Effectiveness (it was the first donor to do so). It followed this up with an aid effectiveness manual for the German aid system in 2006, staff training for BMZ and the implementing agencies and an updated plan in 2009.

Germany participated in both the 2006 and 2008 *Monitoring Surveys of the Paris Declaration*, which revealed that it is improving its performance against all of the key Paris Declaration indicators. However, it is still weak in its use of country public financial management systems, common arrangements or procedures and joint missions. Germany is unlikely to achieve the 2010 targets it has set for these areas. While the 2009 Plan of Operations is designed to strengthen the country's performance, particularly by making more systematic use of partner country systems and procedures, there is clearly a need for Germany to move faster with implementing this agenda. Meeting the 2010 targets will require considerable managerial effort, particularly by the aid effectiveness focal points in BMZ and the staff of the implementing agencies responsible for monitoring progress.

Untying more of Germany's bilateral ODA

In 2008 the DAC average untying ratio for bilateral aid was 81%, and 61% for technical co-operation. In 2008 Germany reported that 77% of its bilateral ODA was untied; the remainder was reported as tied. In that same year, 41% of German technical co-operation was reported as untied. Germany is thus below the DAC average for untied aid, especially in respect of technical co-operation. To meet its commitments under the Accra Agenda for Action, Germany has set out a credible plan and timetable to untie more aid. Almost all Germany's financial and food aid is entirely untied and BMZ's focus is now on further untying technical co-operation and humanitarian aid (the latter is currently 77% tied). Germany's plan for further untying of its aid should therefore focus on delivering increased levels of untied technical co-operation in particular.

Learning from priority topics

Capacity development

Capacity development has been an overall goal of Germany's development co-operation for many years. Technical co-operation has traditionally been Germany's principal means of developing capacity in its partner countries, but over time the focus has shifted from building the technical skills of individuals and strengthening local

organisations to improving legislative, economic, social, ecological and political contexts. Surprisingly, given the importance of the issue, Germany does not yet have a common definition of capacity development or a clear strategy for this aspect of its development co-operation. BMZ should define its conceptual understanding of capacity development, building on its sectoral experience, and develop a strategy for how all of Germany's aid instruments and agencies can combine to develop the capacity of partner countries. This should clarify how technical co-operation can be linked and combined more effectively with other aid modalities and instruments (*e.g.* programme-based approaches, budget support and sector-wide approaches). Germany will also need to develop practical guidance on how capacity development principles and technical co-operation can contribute better to state building in situations of conflict and fragility.

Germany should take advantage of its planned merger of the three technical co-operation agencies to rethink the role of this instrument in partner country-led capacity development. Reforms should allow the partner country greater involvement in selecting and evaluating technical assistance personnel. These reforms should also ensure that technical co-operation implementing agencies prioritise capacity development objectives over other contractual delivery obligations, and that they have appropriate monitoring and evaluation mechanisms in place. Germany should also ensure that its technical co-operation does no harm to the local labour market and local capacity.

Germany is improving its co-ordination of technical co-operation activities with other donors. In 2007 a total of 73% of German technical co-operation funding was aligned with partner strategies and co-ordinated with other donors. There are also a number of instances where German technical co-operation forms part of harmonised arrangements, including technical assistance pools. BMZ and GTZ are currently preparing guidance on technical assistance pools, which is an encouraging development. The emphasis here should be on building the capacity of partner countries to: (i) identify for themselves capacity development needs and the areas where technical assistance is needed; and (ii) manage the selection, contracting, deployment and use of technical services.

Environment and climate change

Germany is commended for its strong inter-ministerial and international leadership on environment and climate change issues. Germany has been strongly committed to the environment and climate change agenda for the past two decades. In recent years climate protection has become of greater significance in Germany's development co-operation, with its climate-related expenditure increasing by 40% between 2008 and 2009. This agenda is being driven by the highest levels of government. Germany's comprehensive national environment and climate change legal and strategic framework also covers the importance of addressing climate change in developing countries. Germany should continue to provide international leadership on climate change and development approaches. It should also fulfil its international commitments, particularly to "fast start" financing for climate change mitigation and adaptation and for reducing emissions from deforestation and degradation (REDD).

The partnership between BMZ and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) is a good example of policy coherence for development and a major feature of Germany's development co-operation in the field of climate change. The centre-piece of this partnership is a new funding instrument that uses the proceeds from the sale of CO₂ emissions trading allowances to fund BMU's

International Climate Initiative (ICI). This unique financing mechanism is a potential model for innovative financing proposals in the global climate negotiation process. BMZ and BMU should consider how their environment and climate change programmes could be made more comprehensive and innovative; for example, by improving criteria for national sustainable development benefits and indigenous rights in REDD activities. Germany should also broaden its environment and climate change programmes to include environmental capacity development, the mainstreaming of environment into national planning and budgeting and promoting green growth.

Germany has a strong track record, stretching back more than two decades, of mainstreaming environment within its programmes. Since mid-2009, climate change issues have been mainstreamed into German development co-operation by applying a “Climate Check” to all new projects and programmes. Germany’s work in this area is being guided by a *Programme of Action on Climate and Development*. Currently, BMZ is in the process of merging its Climate Check instrument with the requirement for environmental impact assessment (EIA, required since 1988) and also including elements of strategic environmental assessment (SEA). The resulting new “Joint Environment and Climate Assessment” will address both the strategic level (all focal area strategy papers and sectoral strategies/joint donor strategies) as well as the programme and project level (for all interventions). Germany is generally following DAC advice in this process. A systematic and strategic approach is required to integrating climate change considerations, especially adaptation, into programme and monitoring efforts. Lessons from Germany’s experience with environment mainstreaming may be helpful in taking this forward, along with the development of new tools and approaches based on existing good practice.

Recommendations

To increase further the effectiveness and impact of its aid programme, Germany should:

- build on the progress made in implementing the aid effectiveness Plan of Operations by making greater use of partner country systems and adapting aid instruments to partner country-led programme-based approaches;
- untie more technical co-operation, tailor it better to recipient countries’ needs and align it more to country systems;
- develop a strategy for how all of Germany’s aid instruments (beyond technical co-operation) and agencies can develop capacity in partner countries, and how Germany will contribute to state building processes in fragile contexts; and
- continue to provide international leadership on climate change approaches and fulfil international commitments, particularly to “fast start” financing for climate change mitigation and adaptation and for REDD+.

Humanitarian action

Creating an overarching German humanitarian policy

Germany does not yet have an overarching policy to guide its humanitarian programming across ministries. Instead it relies on a comprehensive set of policies and guidelines, each focused on a different thematic area. Developing a macro policy, built on the comparative advantage of its funding instruments, would divide labour more effectively and promote linkages between immediate relief and longer-term recovery programming. It could also help to develop a more comprehensive monitoring and accountability system for partner programmes.

Expanding humanitarian funding

Germany's performance against the DAC's Assessment Framework for Humanitarian Action continues to be largely positive and it has increased the proportion of its humanitarian funding from 2% of ODA (2004) to 3.3% (2008). However, this share is significantly lower than the DAC donor average of 9.2% in 2008 and Germany gives much less humanitarian funding as a share of its ODA than most other DAC members. Given Germany's status as one of the largest donors, and also given the world's humanitarian needs, Germany should further increase its humanitarian funding.

Clarifying the division of labour, strengthening thematic linkages and enhancing impact

Humanitarian assistance is delivered through two ministries: the Federal Foreign Office provides emergency assistance while BMZ funds protracted crises and ongoing disaster recovery. The Humanitarian Aid Coordinating Committee is the co-ordinating body for BMZ, the Federal Foreign Office and other national humanitarian actors. It meets regularly and can also be assembled rapidly following a sudden crisis or disaster. However, more needs to be done to clarify the division of labour between the ministries, and to strengthen thematic linkages among Federal Foreign Office officials working on humanitarian assistance and relevant development specialists within BMZ. A pertinent example is disaster risk reduction (DRR) programming, which is funded by both ministries and lacks a coherent overview structure or formal linkages between the Federal Foreign Office and BMZ's DRR specialists, thus undermining learning and programme strengthening despite DRR being one of Germany's major focus areas. The split of instruments between the ministries increases transaction costs for partners substantially, especially during protracted crises. It forces partners to submit separate proposals and reports using different formats and guidelines for various parts of the same project.

While the rapid funding provided by the Federal Foreign Office is beyond reproach, its short term projects do hinder the application of other Good Humanitarian Donorship (GHD) principles, especially operational flexibility and support to longer-term recovery.

Closer co-ordination on both strategic and operational issues is required and Germany should work to establish formal co-ordination mechanisms. Stronger co-ordination will also strengthen linkages between immediate relief operations and longer-term recovery programming. The DAC welcomes the three-phase inter-ministerial evaluation of Germany's humanitarian assistance, which intends to enhance Germany's humanitarian impact in the field. A stronger emphasis on independent monitoring and reporting on humanitarian programmes and projects would also enhance learning and accountability.

Recommendations

Germany could further enhance the impact of its humanitarian programming by:

- designing an overarching humanitarian policy built on the comparative advantage of Germany's different instruments; strengthening linkages between relief and development programming; and continuing to increase humanitarian funding; and
- strengthening co-ordination of policy setting and strategic orientation issues and clarifying the division of labour between BMZ and the Federal Foreign Office; allowing partners to seek funding under a uniform proposal and reporting system; and strengthening thematic linkages between German humanitarian actors in government and civil society.

SECRETARIAT REPORT

Chapter 1

Strategic Orientations

Germany's development co-operation during a period of global crisis

Germany has been one of the world's largest bilateral donors for the past two decades; its long history of development co-operation stretches back more than 50 years. Its bilateral development co-operation is well respected for its sound technical expertise. The main aim of Germany's development co-operation policy is to contribute to the achievement of the Millennium Development Goals (MDGs) and the implementation of the Millennium Declaration and poverty reduction lies at its core (BMZ, 2010). Despite the daunting global economic situation and its failure to meet its 2010 aid volume target of 0.51% of gross national income (GNI), Germany remains committed to its European Union promise of increasing its official development assistance (ODA) to attain the United Nations target of 0.7% of GNI by 2015.

Germany's global importance as a donor was illustrated by its use of its 2007 presidencies of the G8 and the European Union (EU) to focus on key global challenges: the world economy and Africa's economic, political and social development (BMZ, 2007d). An important goal in this respect was to take account of the major shifts in the world economy caused by the rise of the emerging economies and also to consider the system of global governance. Climate protection was a particular focus of Germany's EU Presidency and it has been influential in linking climate change with development in international fora. Since the Paris Declaration on Aid Effectiveness was agreed in 2005, Germany has taken a lead in some critical areas of the aid effectiveness agenda, particularly the division of labour. It has also promoted a development-sensitive response to the global economic crisis. This includes the joint launch in early 2009, along with the International Finance Corporation (IFC), of a USD 500 million facility to support microfinance institutions facing difficulties refinancing as a result of the crisis. Germany's contribution to these global issues, and its leadership of key areas such as climate change and development, has been welcomed by the international community.

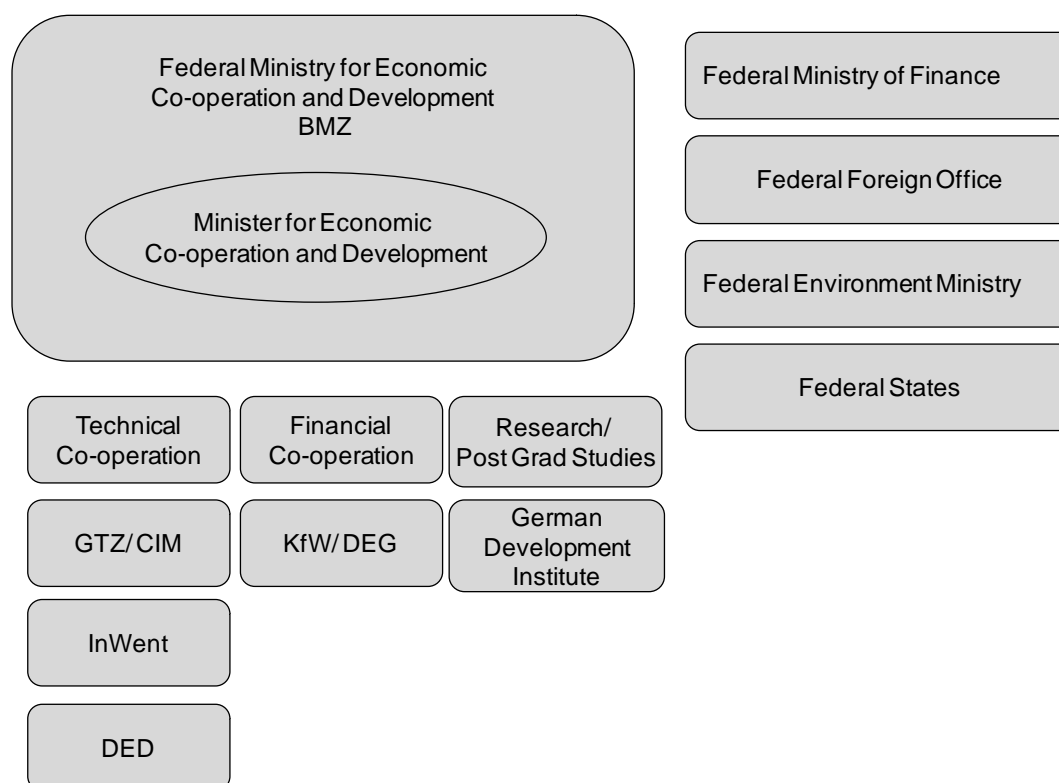
Germany has made progress with implementing some of the recommendations of the previous peer review (OECD, 2005a and summarised in Annex A). For example, it has started planning for reform of its development co-operation; reduced the number of its partner countries and the scope of its sector focus; developed integrated planning instruments, such as the joint programmes at country level, and established Development

Co-operation Country Offices in some partner countries to improve co-ordination of its implementing agencies; implemented decentralisation pilots in four countries; increased its humanitarian aid; and begun to develop a new communication strategy and scale up its budget for public education. However, some of the previous peer review recommendations have not been implemented or have only been partially implemented; those which remain relevant are highlighted in this peer review. A number of important challenges remain, particularly the overall reform of Germany's development co-operation system and meeting the country's substantial ODA volume increase commitments.

Germany's development co-operation system

Germany's development co-operation system is well established, large and complex, involving more than 40 different ministries, federal states (*Länder*), agencies and organisations (Figure 1, and Figure 10 in Chapter 4).

Figure 1. Overview of Germany's development co-operation system



At the centre of the system is BMZ (the Federal Ministry for Economic Co-operation and Development). Established in 1961, BMZ is based in both Bonn and Berlin and is responsible for formulating and overseeing Germany's development co-operation policy. The Minister for Economic Co-operation and Development has a seat in the cabinet of the federal government. Germany's development co-operation policy is carried out by several implementing organisations (notably GTZ and KfW) and the country's various ministries and *Länder*, under the oversight and guidance of BMZ. Since the 2005 peer review, a stronger emphasis has been put on whole-of-government approaches and cross-

departmental mechanisms to deliver a coherent development co-operation programme. BMZ co-operates closely with the Federal Foreign Office on policy in the context of overall German foreign relations. BMZ is advised by the Scientific Advisory Council and the German Development Institute (DIE). BMZ reports to the federal Parliament, the *Bundestag*, through the federal government's development policy report which is submitted once every legislative period. The *Bundestag*'s Committee for Economic Co-operation and Development is responsible for overseeing Germany's ODA policy and strategy, including aid channels and modalities. The Budget Committee is involved through the annual budgetary procedure.

Germany recognises that the impact of its development policy could be increased at all levels (internationally, within the EU and at partner country level) by reforming its organisational and institutional structures responsible for aid, particularly the implementing agencies. It is planning to carry this out (see Chapter 4) commencing with a merger of three of the larger implementing agencies.

Germany's strategic framework for development co-operation

Rejuvenated drive and vision for one of the world's largest donors

The federal government is planning major reforms of Germany's development co-operation in the coming years – it promises a clearly recognisable change of course. The government's development co-operation statements since September 2009 emphasise good governance, education, health, protection of climate, environment and natural resources, rural development, private sector development and sustainable economic development (Government of Germany, 2009). The vision prioritises poverty reduction and links this to the government's foreign policy efforts to achieve a secure world; it promotes human rights and democracy and promises concerted action on climate change. There is also an emphasis on economic development, growth and an expanded role for the private sector in development co-operation. However, the operational consequences of the new vision remain unclear. BMZ will need to define what the government's planned change of course means strategically and operationally, and particularly how it will affect the many commitments, policies and strategies put in place since the last peer review. It will also be important for BMZ to clarify for itself, German stakeholders and Germany's partners the rationale for the change of course. This might best be addressed through a clearly-defined policy for development co-operation.

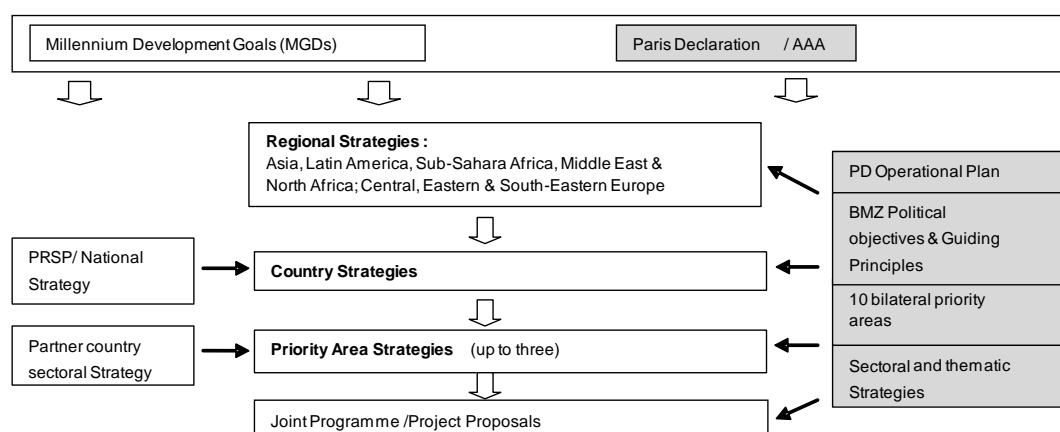
The legal and strategic framework

The framework for Germany's development co-operation policy comprises (i) the budgetary procedure; in particular the budget act passed by the *Bundestag* each year; and (ii) the Coalition Agreement that covers each legislative period. The Millennium Declaration, the Millennium Development Goals (MDGs) and poverty reduction have been the strategic frame of reference for Germany's development co-operation policy and objectives since 2001, when the government put in place a Programme of Action 2015 for Poverty Reduction (PA2015). By 2005, the PA2015 had been mainstreamed across the aid system and was eventually subsumed by the government's 2008 development white paper *Towards One World* – the German government's 13th Development Policy Report (the 12th was published in 2005). This latest white paper reflects on the changing context for development and re-confirms the country's focus on its international commitments,

particularly the Millennium Declaration and the MDGs and the Paris Declaration on Aid Effectiveness. The white paper highlights the challenge of eliminating poverty while also tackling climate change, building peace, realising democracy and promoting equitable forms of globalisation.

Germany is commended for putting in place since the last peer review a set of new regional, country and priority area strategies within the framework of the MDGs. These strategies are complemented by operational plans, guidelines, principles and sectoral and thematic strategies framed by the Paris Declaration principles (Figure 2). A key feature of Germany's strategic approach is its focus on tackling structural impediments to poverty reduction in developing countries. These include poor governance, weak financial and administrative systems, inadequate capacity and constraints to the development of human capabilities. Several of Germany's new strategies aim to ensure that development co-operation reduces poverty: these include its strategy on social protection and its orientations with regard to pro-poor growth (BMZ, 2009a; BMZ, 2006a). Germany's basic strategy for poverty reduction was being reviewed during 2010 and a new concept was being developed during the peer review process. A key issue in this review should be to look at the extent to which BMZ's basic strategy has focused on least developed countries (LDCs) and guided the work of the implementing agencies.

Figure 2. Germany's strategic framework for development co-operation



At the international level, Germany has been a strong supporter of the DAC Network on Poverty Reduction (POVNET) and has helped to develop policy guidance for donors on promoting pro-poor growth. In addition, reflecting its strong commitment to promoting evidence-based decision making, Germany led the work within POVNET to develop the *ex ante* Poverty Impact Assessment (PIA) approach, which helps identify how interventions might benefit the poor, as well as other likely intended and unintended impacts and their distributional pattern. The approach can thus be used to improve the impact of poverty reduction activities. To date, Germany has applied these impact assessments successfully to 15 projects and programmes, and is currently disseminating the main lessons learned. Germany's experience with this approach should encourage others to take it up. Germany has also provided a total of EUR 6.5 million to the World Bank unit responsible for poverty and social impact analysis since the last peer review.

Regional and country strategies – fewer partner countries

Germany's strategic framework is both top down and bottom up. The *top-down* aspects of the strategic framework are the regional and priority area strategies. The *bottom-up* features are the joint programme and joint project proposals that have been facilitated by Germany's implementing agencies since 2007 in co-ordination with the Heads of Co-operation (HoC) based in each of its 57 partner countries (38 of these Heads of Co-operation are BMZ officials) and, to some extent, the country strategies. There are strategies and concepts in place for all of the regions indicated in Table 1. In the case of Africa and Latin America, the German government intends to draw up long-term inter-ministerial regional strategies which will be used for the first time as guidelines for German policies in the fields of foreign affairs, development, foreign trade and the environment. This is a welcome development, particularly for Africa. Following a recommendation in the last peer review, Germany has dropped the term "priority partner country" and reduced its number of partner countries by 27 to 57 – partner countries benefit from more intensive co-operation. This reduction has been achieved by applying tighter selection criteria and by prioritising. This move towards greater concentration of Germany's development co-operation is encouraging. However, to ensure an effective international division of labour, Germany should make its decisions on country focus in consultation with other donors. A further 83 non-partner countries receive German assistance as part of regional or sector programmes (including NGO support, scholarships, refugee aid), or as debt relief. Germany categorises these countries as non-partner country recipients. Country strategies exist for each of the 57 partner countries.

Table 1. Germany's partner countries

Region	Partner country
Asia	Afghanistan, Bangladesh, India, Indonesia, Cambodia, Kyrgyzstan, Laos, Mongolia, Nepal, Pakistan, Tajikistan, Uzbekistan, Viet Nam
South Eastern Europe/Caucasus	Albania, Bosnia and Herzegovina, Kosovo, Montenegro, Serbia, Ukraine
Latin America and the Caribbean	Bolivia, Brazil, Ecuador, Guatemala, Honduras, Columbia, Mexico, Nicaragua, Peru
North Africa/Middle East	Egypt, Yemen, Morocco, Palestinian Territories, Syria
Sub-Saharan Africa	Ethiopia, Angola, Benin, Burkina Faso, Burundi, Ghana, Cameroon, Kenya, DR Congo, Madagascar, Mali, Malawi, Mauritania, Mozambique, Namibia, Niger, Nigeria, Rwanda, Zambia, Senegal, Sudan (southern Sudan), South Africa, Tanzania, Uganda

Germany's country and priority area strategies are generally aligned with each partner country's national development and sector strategies (see Chapter 5). In April 2009 Germany introduced a new model contract (the development co-operation framework contract) for strengthening its partnership with partner countries and for improving co-ordination of the various German implementing agencies. In partner countries where there has been some decentralisation of responsibilities, the Head of Co-operation in the German Embassy takes a leading role in preparing country strategies. At all levels of this strategic framework there should be more attention given to consultation, not just communication. During their visits to Germany, Morocco and Zambia (Annex D), the peer review team heard from a range of stakeholders – including German NGOs, partner countries and development partners – about shortcomings in BMZ's consultation on strategies and policies. All these stakeholders felt that consultation on policy and strategy should occur earlier in the process, which would make it more meaningful.

Sub-Saharan Africa

Sub-Saharan Africa has been given a higher profile in BMZ's policies and strategies since the last peer review, with a particular focus on 24 countries. This is in light of the commitments made by the G7 countries at Gleneagles in 2005 to raise their combined aid to sub-Saharan Africa. Germany's development co-operation priorities in sub-Saharan Africa are mainly good governance, sustainable economic development with a particular focus on microfinance, water supply and sanitation, agriculture, protection of natural resources and water (especially reducing the impacts of climate change on water supplies and agriculture), education and health. In the future Germany intends to focus on the private sector and to also strengthen the investment climate. A new strategic development is Germany's intention to play a stronger role in promoting Africa's economic and political integration through support for the African Union, regional economic communities and certain regional initiatives. Germany's overarching policy needs to give a stronger emphasis to sub-Saharan Africa as this region is furthest from achieving the MDGs.

Fragile states

Germany was one of the first donors to translate the OECD (2007a) *Principles for Good International Engagement in Fragile States and Situations* into national policy. This occurred when BMZ adopted a strategy paper on *Development-Oriented Transformation in Conditions of Fragile Statehood and Poor Government Performance* in May 2007. The strategy distinguishes fragile states based on their level of governance and degree of development orientation and describes broad areas for engagement. It builds on the 2004 *Action Plan for Civilian Crisis Prevention, Conflict Resolution and Post-Conflict Peacebuilding* and is complemented by sector strategies on peacebuilding and development-oriented emergency aid (BMZ, 2005b and 2007c). Germany has also reflected on the role of development actors in supporting statebuilding in fragile states (BMZ, 2008k and 2009b) and has played an active role in advancing this discussion in the DAC International Network on Conflict and Fragility (INCAF). Building on this, Germany needs to link more clearly its strategies and approaches on conflict prevention and peacebuilding to the work on statebuilding and governance reform in fragile states. Working effectively in conflict-affected and fragile states requires integrated approaches centring on both peacebuilding and statebuilding; BMZ is therefore reviewing its organisational set up to ensure work on governance and on peacebuilding in fragile states is integrated within one division and sufficiently integrated with immediate effect. There is also a need to clarify how Germany's various instruments can be adapted to the particular challenges of these contexts. This should take into account new OECD guidance on international support to statebuilding (OECD, 2010c). Germany should develop a cross-government strategy for engaging in fragile and conflict-affected states, recognising the importance of whole-of-government approaches.

Anchor countries

Germany's co-operation with "anchor countries" or emerging economies continues to evolve and focuses on regional strategies and global public goods. Anchor countries are states that are economically and politically influential in their regions, and which play a growing role in meeting global challenges and shaping international relations (BMZ,

2003).¹ Germany's approach to anchor countries is innovative and combines foreign policy concepts and objectives with development co-operation goals to tackle global threats and challenges. However, to demonstrate that a focus on these more advanced economies is a good use of ODA, BMZ should explain its rationale and show some of the poverty focused results that have been achieved to date.

Sector priorities

Since the last peer review Germany has concentrated its sector engagement on 11 focal areas (see Table 2 below); in each partner country it focuses on a maximum of three of these (BMZ, 2008b). Germany is commended for its narrowing of focus but the 11 focal areas still cover a wide array of sectors and further prioritisation may be necessary. Indeed, the Coalition Agreement of October 2009 emphasises a smaller set of priorities: education, health, rural development, protection of climate, environment and natural resources, good governance, private sector development and sustainable economic development. Of these, new sector strategies are being developed for sustainable economic development and private sector development. The former will focus on improving framework conditions for growth, while the latter will outline approaches for promoting the private sector in poor countries to achieve green and inclusive growth and poverty reduction.

Sector strategies, concepts and, in some cases, guidelines for each of the 11 focal areas are in place. These documents generally refer to gender equality and women's empowerment, human rights and assisting vulnerable groups as cross-cutting issues. As part of the well established bilateral government-to-government negotiations that take place every 2-3 years, Germany should ensure that the priority focal areas in partner countries are selected following full consultation with the partner country and other development partners. The rationale for focal area selections in each country should be made explicit in discussions with partners and in country and priority area strategies.

Table 2. Germany's 11 priority focal areas

1. Democracy, civil society and public administration (including human rights, and its special significance for the rights of women and children; justice reform; decentralisation; and community development)	6. Food security and agriculture (including fisheries)
2. Peace-building and crisis prevention (including strengthening opportunities for peace, reconciliation and demobilisation)	7. Environment policy, protection and sustainable use of natural resources (including combating desertification, maintaining soil fertility, sustainable forest management and biodiversity)
3. Education	8. Sustainable economic development (economic policy advice, private sector development, financial system development, vocational training and labour market)
4. Health, family planning, HIV/Aids	9. Energy (energy efficiency, renewable energies)
5. Drinking water, water management, waste water and waste management	10. Transport and communication
	11. Regional concentration in the framework of integrated rural or urban development

1. In its anchor-country concept, Germany counts 15 states as anchor countries, of which 8 (in bold) are partner countries: Argentina, Egypt, Iran, Brazil, China, India, Indonesia, Mexico, Nigeria, Pakistan, Russia, Saudi Arabia, South Africa, Thailand and Turkey.

A new strategy for multilateral aid

Germany has long maintained a policy of allocating not more than one-third of its ODA to multilateral channels.² This limit on using multilaterals is not evidence based, nor is it linked to the relative effectiveness of bilateral and multilateral aid. German NGOs have questioned the rationale for the policy and there is also disagreement on this point within the *Bundestag*. Many commentators see this policy as an obstacle to Germany's funding of effective multilateral instruments, such as The Global Fund to Fight AIDS, Tuberculosis and Malaria. It may also prove a constraint to rapidly scaling up Germany's ODA, which, if Germany is to meet its international commitments, is increasingly necessary in the light of the relatively slow pace of growth in the last few years. Germany's multilateral ODA is mostly channelled to the EU as part of Germany's assessed contributions. Germany's main aim for EU development assistance is to ensure that it remains focused on poverty reduction while becoming more effective and efficient (BMZ, 2006b). Germany is actively engaged in EU development policy and focuses on complementarities and coherence between development policy and the EU's overall policy (particularly policies on development, trade, foreign affairs and security, the environment and migration); and integrating the European Development Fund (EDF) into the EU budget.

Responsibility for multilateral aid is shared between BMZ (generally in the lead), the Foreign Office, the Ministry of Finance (BMF) as well as other line ministries (such as the Ministry for Environment or Ministry of Health). The last peer review recommended that Germany's funding allocation policy should move away from arbitrary allocation and instead reflect the performance of multilateral agencies based on an assessment of effectiveness. This recommendation remains valid. However, BMZ is currently developing a strategy for multilateral organisations that should address some of these concerns. This strategy draws on BMZ's framework for assessing the relevance, effectiveness and need for reform of organisations, as well as on the work of the Multilateral Organisation Performance Assessment Network (MOPAN), of which Germany is an active member. The new multilateral strategy is welcome but it will be important that Germany works with other donors to harmonise approaches to multilateral effectiveness; the DAC could provide an effective forum for this. The development of this strategy provides an opportunity for Germany to: (i) strengthen its case for investing in multilateral institutions; (ii) clarify its approach to core and non-core funding and resource allocation; (iii) achieve greater concentration of multilateral funding; (iv) elaborate its rationale for the one third multilateral ODA policy; (v) identify specific objectives for influencing and reforming multilateral institutions; and (vi) advance collaboration with other partners to make multilateral aid more effective. Whatever the trajectory of Germany's funding to the multilateral system, a clear analysis of how its development objectives could be advanced through multilateral funding, its priorities for reform of the multilateral system and its criteria for multilateral funding would help policy makers take the difficult decisions that lie ahead.

2. This cap on multilateral ODA does not include humanitarian aid or ODA to the EU budget from the Ministry of Finance (but does include European Development Fund contributions).

Cross-cutting issues: gender equality, environment and climate change

The need for stronger leadership in gender equality and women's economic empowerment

Germany plays a prominent role in the DAC Network on Gender Equality and has led in applying and reflecting on the Gender Policy Marker as an accountability and monitoring tool. BMZ has recently put in place a *Development Policy Action Plan on Gender, 2009-2012* (BMZ, 2009c) for all BMZ staff and the implementing organisations that is aimed at aligning Germany's development co-operation with international commitments on gender equality.³ It involves a dual-track strategy: (i) gender mainstreaming; and (ii) targeted actions to empower women. Gender equality is also being addressed by GTZ and KfW within the framework of the BMZ Action Plan. GTZ has recently put in place a gender strategy for 2010-2014 to ensure gender equality in its actions in headquarters and the field. KfW is also engaged in gender equality and women's empowerment work, with a portfolio of projects and activities aimed at closing gender gaps. However, BMZ's capacity to lead on gender equality is constrained by the small number of staff that it has chosen to devote to this activity. It is also not clear how the direct support envisaged in the *Development Policy Action Plan on Gender* is determined in the context of country strategies. It is essential for BMZ to provide strong leadership on gender equality and women's empowerment, in harmony with other donor efforts and building on good practice in gender mainstreaming.

Environment and climate change: a strong performance

Germany is commended for its strong inter-ministerial and international leadership on environment and climate change issues. Germany has a strong track record going back more than two decades in mainstreaming environment across its programmes. Since mid-2009, climate change issues have been mainstreamed into German development co-operation by applying a "Climate Check" to all new projects and programmes. Germany's work in this area is being guided by a *Programme of Action on Climate and Development* (BMZ, 2007e). Currently, Germany is in the process of merging this Climate Check instrument with the existing environmental impact assessment (EIA, required since 1988) and integrating elements of a strategic environmental assessment (SEA). The new "Joint Environment and Climate Assessment" addresses both the strategic level (focal area strategy papers and sectoral strategies/joint donor strategies) as well as the programme and project level. It is generally following the advice of the DAC in this regard. The effective partnership between BMZ and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) is a strong feature of Germany's development co-operation and is contributing to exciting innovations. These include the International Climate Initiative (ICI), which is a new funding instrument that uses the proceeds from the sales of carbon dioxide (CO₂) emissions trading allowances for reducing emissions, adapting to climate change and protecting carbon sinks in developing countries and emerging economies (see Box 2, Chapter 2).

3. These include the Convention on the Elimination of All Forms of Discrimination Against Women (1979), the Beijing Platform for Action, MDG 3, the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action, the Doha Round of international trade negotiations, as well as regional frameworks such as the African Union's Solemn Declaration on Gender Equality in Africa.

Communicating and building public awareness and accountability

Public awareness of and support for aid and development are rising in Germany. The Eurobarometer (EC, 2009a) report shows that 46% of the German public consider development aid to be “very important” (similar to the UK and above the EU average of 39%) and an additional 43% rate it as “important”. These results are partly owing to a development education and awareness raising strategy that BMZ put in place in 2008, including a larger budget for and intensified activities in development education and communication. Germany’s civil society is engaged in this process and activities include *Weltwärts* – an innovative youth voluntary programme. While progress has been made, the institutional fragmentation discussed earlier causes inefficiencies, inconsistencies and duplicated effort, with each of the 30 or so implementing agencies managing their own development communication strategies and activities. BMZ’s communication strategy is not yet guiding the agencies’ activities and it does not have sufficient capacity or leverage to ensure a coherent, consistent and comprehensive communication strategy for the development co-operation system as a whole. BMZ and other key actors also need to improve communication when designing and reporting on evaluations of Germany’s development co-operation. There needs to be a clearer demonstration by BMZ of the effectiveness of aid and its development results. Guidance on better results reporting is available from within the DAC and its subsidiary bodies, particularly the Working Party on Aid Effectiveness.

While development issues generally do not play any role in national elections, there is broad support for the aid programme in the *Bundestag*, and the commitment to reaching the ODA/GNI target of 0.7% is generally shared by all the major political parties. Parliamentarians are acutely aware of the challenge of achieving the 0.7% target by 2015, with several considering the goal unrealistic. There are differences of opinion in the *Bundestag* regarding the poverty reduction objective of aid, assistance to large emerging economies such as China and India, the use of budget support, the planned institutional reforms and the ways in which private sector development should be supported. The economic downturn is increasing pressure on the aid programme and there is already a significant body of aid sceptics in Germany. This view was reflected in the 2008 *Bonner Aufruf* (Public Appeal from Bonn) which argues that official aid has failed and should be replaced by a new development policy focused on rewarding and supporting better governance in poor countries.

Germany, unlike most DAC members, does not have an overarching strategy for working with NGOs and its rationale for channeling funds through these organisations is not always clear, but it appears to be the NGOs’ proximity to beneficiaries and, in the case of the Federal Foreign Office, the NGOs’ ability to quickly provide humanitarian assistance. In their statement to the peer review, German NGOs were concerned about lack of transparency and an absence of clear rules about accountability. NGOs find it difficult to obtain information on Germany’s support for multilateral institutions and initiatives and also on resource flows and commitments for specific purposes, regions and countries.

Future considerations

- The government's vision contained in the Coalition Agreement and other statements since September 2009 should be distilled into a clearly-defined overarching policy for development co-operation. This policy should provide strategic direction for Germany in driving progress on poverty reduction, further concentrating its aid and meeting its commitment to increase the focus on LDCs, lower income countries and sub-Saharan Africa, particularly in the country selection and resource allocation process.
- To improve its development co-operation policies and strategy, Germany should find a way to make consultation on these more meaningful, perhaps by ensuring that it occurs earlier in the process.
- In order to lead effectively on gender equality internationally and across German development co-operation, capacity for this issue at BMZ Headquarters and in the field should be enhanced.
- Germany should base its draft strategy for multilateral aid on a clear analysis of how its development objectives could be advanced through multilateral funding. The strategy should also set out Germany's priorities for reform of the multilateral system and its criteria for multilateral funding, taking into account Germany's specific objectives for influencing and reforming multilateral institutions, resource allocation and collaboration with other partners to make multilateral aid more effective.
- Germany should carefully manage the risks posed by combining the emphasis on private sector development in the Coalition Agreement and other policy documents (which is a positive response to the growth agenda) with the promotion of Germany's own commercial interest. This risks using the development programme for purposes which would not qualify as ODA.

Chapter 2

Policy Coherence for Development

The OECD emphasises that progress towards policy coherence for development (PCD) involves three building blocks (Table 3): (A) a political commitment that clearly specifies policy objectives; (B) policy co-ordination mechanisms; and (C) monitoring, analysis and reporting systems to provide the evidence base for accountability and for well-informed policy making and politics (OECD, 2008a). Germany's progress in establishing these building blocks is summarised in Table 3.

Table 3. Germany's building blocks for PCD

Building block	Progress made by 2010	Recommended next steps
Building Block A: Political commitment with clear policy statements	The German Federal Government continues to give high priority to policy coherence for development (PCD). The Coalition Agreement (of October 2009) reaffirms the political commitment to enhance PCD laid out in the previous government's development policy white paper of June 2008.	Establish an overarching policy statement for PCD and a prioritised, time-bound coherence agenda which sets strategic cross-governmental goals and provides a clear plan for implementation.
	The German government is actively engaged in PCD-promotion within the EU (European Consensus on Development), the OECD and other international bodies.	
	BMZ has tentatively identified four priority areas for PCD but has not defined specific goals and an intended approach for achieving results in each of these areas.	
Building Block B: Policy co-ordination mechanisms that can resolve conflicts or inconsistencies between policies and maximise synergies	Germany has highly formalised policy co-ordination mechanisms in place that are regulated by the Constitution and Joint Rules of Procedure. The existence of BMZ as an independent ministry with cabinet status is an important asset to promote PCD.	Strengthen BMZ capacity to co-ordinate PCD work internally and to be more proactive in promoting PCD through existing mechanisms.
	PCD has remained an overall priority for the ministry but BMZ's general lack of human resources limits its ability to play a more pro-active role in policy co-ordination processes.	Optimise existing institutional mechanisms to promote PCD among Germany's public institutions.
	Inter-ministerial co-operation has been strengthened through the signing of Ministerial Agreements (e.g. with Federal Ministry of Education and Research and Federal Ministry for the Environment, Nature Conservation and Nuclear Safety), joint co-ordination mechanisms on crisis prevention policy and German engagement in Afghanistan, and staff exchanges between BMZ and other government departments. With the approval of the reform strategy for the merger of the three technical cooperation agencies, the Cabinet also approved the establishment of an interministerial committee on coherence which will be led by BMZ (Ressortkreis Kohärenz). This is an important instrument for strengthening interministerial coordination on development issues.	Develop whole-of-government mechanisms to deliver coherent work in areas of high priority. Apply lessons from Afghanistan to develop a joined-up approach for fragile and conflict-affected states. Follow through with the intention to draw up long-term, inter-ministerial strategies for Africa, Latin America and fragile states and consider joint country strategies for selected partner countries.

Building block	Progress made by 2010	Recommended next steps
Building Block C: Monitoring, analysis and reporting systems	A new format for country strategies has been implemented, which includes a mandatory analysis of the impact of trade policy on the country and of the coherence between development and other German priorities. Analysis of PCD issues in sector strategies has increased.	Strengthen systems for monitoring, analysis and reporting for PCD, including reporting to parliament and the public.

The 2005 peer review recommended that Germany should put in place a clearer and more operational policy statement on coherence for development, strengthen resources and organisation within BMZ and improve tracking and reporting of progress. There has been some progress over the past five years in certain policy areas, but these recommendations remain valid. There is scope for the German government to deepen its commitment to development by embedding development goals in other areas of government policy, increasing strategic competence and the capacity for active coherence work in BMZ and improving monitoring and reporting on Germany's policies from a development perspective.

The need for strategic cross-governmental goals

There is a high level of political commitment to ensuring that all relevant German policies support development objectives. This has not only been expressed by BMZ (*e.g.* in its 2008 development white paper), but also by the German government as a whole. There is clear understanding of development policy as part of a global structural policy and in the federal government's Programme of Action 2015 for Poverty Reduction (PA2015), which committed the government to promote coherence in all national policies that relate to developing countries. More recently, the coalition agreement signed in October 2009 reiterates a commitment to coherence for development. While a high level of commitment is necessary, progress towards policy coherence also depends on embedding the concept within the various government departments and setting clear priorities for its implementation. This requires an overarching policy statement on policy coherence for development, as recommended by the last peer review, together with a clearly-prioritised and time-bound coherence agenda which sets strategic cross-governmental goals and provides a clear plan for implementation. It is regrettable that the PA2015's potential for defining a national policy coherence agenda in the political and public fora has not been fulfilled by subsequent iterations of policy.

The German government has been actively engaged in promoting greater policy coherence within the EU. It has encouraged the inclusion of such commitments in the European Consensus on Development and was involved in formulating related EU Council Conclusions.⁴ In November 2009 this included the agreement between the European Commission and EU Member States on a work programme on policy coherence for development which identifies five priority areas. In the OECD, Germany

4. See Policy Coherence for Development: Work Programme 2006-2007 (Doc. 8387/06 of 11 April 2006) and "Orientation Debate on Policy Coherence for Development and the Effectiveness of EU External Action" (Doc. 14072/06 of 17 Oct. 2006). An important component of these resolutions is the decision to publish a bi-annual progress report on the implementation of the EU's coherence agenda. Reports have been published in 2007 and 2009.

has supported the launch and expansion of the OECD Horizontal Programme on Policy Coherence for Development and the dovetailing of this programme with the *Coherent Framework for the OECD's Work on Development*.

During the peer review team's visit to Germany, BMZ presented four priority areas for policy coherence work based on the EU Council Conclusions:

- (i) Fragile states and conflict (*i.e.* integrating foreign, security and development policies).
- (ii) Global trade regimes and international financial markets (*i.e.* improving trading conditions for developing countries and reducing agricultural export subsidies).
- (iii) Food security (*i.e.* strengthening local food security while promoting development-oriented integration of developing countries into the global economy).
- (iv) Climate change and sustainable management of resources (*i.e.* linking poverty reduction to strategies for climate change adaptation and the protection of biodiversity, reducing greenhouse gas emissions in emerging economies and developing countries).

Germany has not publicly stated that these four, out of the EU agenda of five, will receive most attention. BMZ also has yet to define specific goals and an intended approach for achieving results in each of these four areas

The need to strengthen whole-of-government approaches

A government-wide framework for policy coherence

Germany has highly formalised policy co-ordination mechanisms in place that are regulated by the Constitution and Joint Rules of Procedure (Box 1). These are generally regarded as good practice arrangements. A number of different actors intervene in this process, and their interests and positions, as well as the rules and reality of their interaction, determine the prospects for success. Since 2000, the Joint Rules of Procedure have given BMZ the right to examine the development content of legislation planned by other government departments and the EU and how it would affect developing countries. All proposals for cabinet decisions undergo consultation with each of the ministries involved. This consultation process is designed to reconcile controversial positions and is co-ordinated by a lead ministry. Whenever the department level of the relevant ministries is unable to reach agreement on an issue, higher levels of the hierarchy, up to the ministers, get involved. If this fails to produce consensus, the issue is taken to the coalition committee, where the political basis for a solution is negotiated, which is then corroborated by a cabinet decision.

The fact that BMZ is an independent ministry with cabinet status is an important asset for promoting policy coherence for development as it provides a permanent platform for advocating for development co-operation both in the political sphere and the population. Since 1998, BMZ has also been active in several cabinet or inter-ministerial committees, such as the Federal Security Council, the Inter-ministerial Committee for Export Credit Guarantees and the Inter-ministerial Committee for Direct Investment Guarantees. These committees provide an additional arena for policy co-ordination and an opportunity for

introducing development policy considerations into the discussion. It should, however, not be forgotten that commitment and support at the highest political level, *i.e.* from the Chancellery, is necessary to ensure that a coherence agenda for development is internalised and implemented by all German government actors.

Box 1. The legal framework for policy co-ordination in the Federal Government

The German Constitution (*Grundgesetz*), the Federal Government's Rules of Procedure (*Geschäftsordnung der Bundesregierung*) and the Joint Rules of Procedure of the Federal Ministries (*Gemeinsame Geschäftsordnung der Bundesministerien*) provide a comprehensive legal framework for channelling the diverse actors' interests into the policy-making process. In the Federal Government, the Chancellor is responsible for the general policy guidelines, which are binding for the ministers, but restricted in their competence by two constitutional provisions. These are the right of ministers to conduct their ministry independently and under their own responsibility (principle of ministerial autonomy) and the obligation of the cabinet as a whole to take binding decisions for the government (cabinet principle). Party positions and coalition requirements also constrain the Federal Chancellor's degrees of freedom, leading to an often important role for coalition committees and working groups.

Increasing BMZ's capacity and strategic competence for PCD

Since the last peer review, ensuring development objectives are taken into account in other policy areas has remained an overall priority for BMZ as is reflected in its 2005 management guidelines. During BMZ's annual objective-setting process, overall goals are translated into specific objectives in sectoral departments. Within BMZ, the sector departments have the primary responsibility for implementing PCD. Their task is to monitor relevant national, EU and international activities and policies in their specific fields referred to them by the Federal ministries and to actively maintain contact with their ministry counterparts.

BMZ is small relative to other federal ministries and it appears that this together with its general lack of specialised technical staff, limits its ability to play a more influential and proactive role in decision-making and policy co-ordination processes across a very wide-ranging set of issues and actors. Beyond the sectoral departments, sufficient BMZ capacity for efficient and effective management of coherence work is needed to (i) define a prioritised coherence agenda with clear objectives and a plan for implementation; (ii) support the coherence work carried out by sectoral departments; (iii) organise proactive approaches to other departments, parliamentarians, NGOs and the media and strengthen relations with research institutes working on coherence issues; and (iv) provide regular reports to inform the federal government, *Bundestag* and the public on how Germany's policies contribute to development objectives. This will require a different strategy for influencing and co-ordinating other policies and building awareness of their impact on development objectives. The strengthening of BMZ capacity for efficient and effective management of coherence work should be given a high priority in the institutional reforms currently being undertaken by Germany.

In addition to strengthened coordination capacity for BMZ, two other areas of policy coherence for development should be addressed. First, it is critical for BMZ to focus its effort around a prioritised coherence agenda with clear goals and activities.⁵ Second,

5. In 2004, BMZ produced a "coherence agenda" containing 14 time-bound measures to improve instruments and processes for policy coherence. These measures were largely procedural and did not include substantive

other government departments will need to take the goal of policy coherence for development seriously, *i.e.* ensure their policies take greater account of and contribute to development policy objectives. The federal government as a whole will also need to commit to this agenda. While BMZ has established this as an explicit objective in its 2004 “coherence agenda”, progress since the last peer review appears to be limited. On the positive side, BMZ has begun to make use of staff exchanges with other government departments to promote a culture of mutual understanding and co-operation. If these approaches are proven to work effectively they should be expanded. BMZ should also consider establishing cross-departmental units or task forces in areas of high priority.

Progress on inter-ministerial co-operation and whole-of-government approaches

In principle, informal agreements establish the structure for inter-ministerial co-ordination for coherence. Since the last peer review, there has been some progress in formalising inter-ministerial co-operation through the signing of ministerial agreements. A good example is the August 2009 “procedural agreement” between BMZ and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU). The agreement contains regulations governing the use of funding from BMU’s International Climate Initiative (Box 2). Another procedural agreement was signed by BMZ with the Federal Ministry of Education and Research (BMBF). These agreements have helped to develop a shared understanding of common challenges and have enhanced the basis for successful cross-sectoral co-operation.

Box 2. Collaboration between BMZ and BMU on climate change protection

BMU and BMZ are co-operating closely to combat climate change. In 2008 BMU launched an innovative mechanism to finance climate protection projects – the International Climate Initiative (ICI). For 2010 BMU and BMZ agreed informally on priority activities in the framework of the ICI, including activities covering mitigation, adaptation and reducing emissions from deforestation and degradation (REDD) and encouraging sustainable forest management activities – REDD+). The ICI is funded by government revenues from the sale of CO₂ emission certificates. In both 2008 and 2009, EUR 120 million were earmarked for the ICI in the federal budget. Germany is the first country to earmark revenues from the auctioning of emission trading certificates for investments in climate change mitigation and adaptation in developing countries. The ICI thereby complements the BMZ activities in the area of climate change protection and biodiversity. Both ministries mutually agreed how to develop country-specific priorities in German climate policy. In 2009, 79 projects with a total volume of EUR 180 million were funded in 27 partner countries, of which all but those in Russia were ODA eligible. The selection of projects, including their ODA eligibility, is co-ordinated with the Federal Foreign Office and the BMZ. The main targeted countries have been the emerging powers Brazil, China, India, Russia and South Africa. Projects are mostly implemented by GTZ and the KfW, as well as different NGOs and international bodies. A joint office in Berlin comprising staff of GTZ and KfW oversees implementation. BMZ and BMU also co-operate in implementing the Clean Development Mechanism (CDM). Projects are implemented through GTZ and the KfW, especially its Carbon Fund. The BMU is also represented in bilateral negotiations between Germany and relevant partner countries.

objectives or priorities for PCD. Progress achieved as part of the coherence agenda included (i) a requirement to consider coherence in BMZ’s sector policy papers which provide the conceptual basis for the sector activities of BMZ and its implementing agencies (the new format was adopted in January 2009 but no new sector strategies have been developed since then); and (ii) a revised structure for country strategies to consider the coherence of proposed priority areas for development co-operation and other German government and EU priorities and policies.

Positive developments for strengthening inter-ministerial co-operation have also been made in the field of conflict and fragility, both at the policy level, and in terms of country-level engagement in Afghanistan (Box 3). The 2004 action plan on *Civilian Crisis Prevention, Conflict Resolution and Post-Conflict Peace-Building* (BMZ, 2004c) was an important step for bringing federal ministries and civil society players together by formulating the cornerstones and principles for a conflict prevention and peace-building policy.⁶ As the 2008 progress report on the implementation of the action plan notes: “This is the first time that the concept of an inter ministerial, coherent approach to policy that embraces civil society has been so clearly worked out and operationalised” (Government of Germany, 2008).

Nevertheless challenges remain: external observers and civil society representatives have criticised the implementation of the action plan, claiming it has lost political traction in recent years. At the same time, the thinking and practice in the international (donor) community has evolved considerably since 2004 and has moved towards integrating frameworks and responses to conflict-affected and fragile states. The intent of the government to develop an inter-ministerial strategy on fragile states is encouraging and provides an opportunity to reinvigorate and update the action plan. The action plan should incorporate recent thinking on peacebuilding and statebuilding, BMZ’s policy on women and conflict and additional mechanisms to advance the implementation of a whole-of-government approach towards fragile states. German experience from Afghanistan will be an important area for future learning in this area (Box 3).

Box 3. Whole-of-government engagement in Afghanistan

The wide-ranging engagement by the German federal government in Afghanistan has led to the establishment of consultation and co-ordination mechanisms at various levels. Regular meetings involving the state secretaries of the ministries involved – the Federal Foreign Office, BMZ, the Federal Ministry of Defence (BMVg), the Federal Ministry of the Interior (BMI) and the Federal Chancellery – serve the political management of Germany’s involvement in Afghanistan. In addition, the respective ministers meet regularly to discuss Germany’s Afghanistan policy, which was revised in January 2010. At the working level, weekly video conferences involving the ministries concerned and an intensive process of consultation at working level are helping to establish a dense network that allows continuous and close co-ordination within the policy framework. The German-led Provincial Reconstruction Teams (PRT) in Kunduz and Feyzabad, in which all the ministries are involved; the Provincial Advisory Team (PAT) in Taloqan; as well as the ministries’ representatives at the ISAF Regional Command North in Mazar-e-Sharif are the in-country co-ordination mechanisms, and they mirror the co-ordination mechanisms within their headquarters.

Source: Crisis Prevention as a Joint Task, Second Report of the German Government on the Implementation of the Action Plan on “Civilian Crisis Prevention, Conflict Resolution and Post-Conflict Peace-Building”, 16 July 2008. Government of Germany, Berlin.

6. The responsibility for implementing and monitoring the action plan lies with an Inter-ministerial Steering Group for Civilian Crisis Prevention which is led by the Federal Foreign Office and comprises the BMZ and other federal ministries. An Advisory Board for Civilian Crisis Prevention, comprising representatives from academia and civil society, was set up to provide technical advice and support to the inter-ministerial steering group.

A potentially promising avenue for enhancing whole-of-government co-operation is to complement thematic policy co-ordination at headquarters level (e.g. on trade, climate change, conflict prevention) with a focus on policy coherence towards particular regions or countries (OECD, 2009e). To complement the planned inter-ministerial regional strategies, Germany could develop joint country strategies, in particular for fragile states, where a coherent approach between development, diplomacy, interior and defence is critical. It is important to keep in mind, however, that a whole-of-government approach with a geographical focus does not in itself ensure that poverty reduction objectives are prioritised. It will be important to ensure that development interests are clearly represented in joint geographical strategies.

Persistent problems in monitoring, analysing and reporting on PCD

Germany has made only modest progress on monitoring, analysing and reporting on policy coherence since the last peer review.⁷ It should take into account the lessons identified by the OECD for building systems in this domain (OECD, 2009e).

- *Monitoring:* Like most other DAC donors, Germany does not have a formal monitoring system to assess the impact of its policies on development. Within BMZ, progress on policy coherence from a development perspective is monitored internally alongside other operational goals of the ministry: heads of department report progress to their director generals who use results to inform BMZ's internal planning process for the next planning period. At country level, there is only limited use of field-level resources to monitor the impact of relevant German policies on the country's development, but it has been agreed to include analysis of policy coherence issues in BMZ's future country and sector strategies. This is important progress.
- *Analysis:* Responsibility for analysis in relevant areas of policy coherence lies with the desk officers in BMZ's sector departments. They can receive technical support from the implementing agencies as well as external experts and research organisations, including the German Development Institute. Given the complexity of many coherence issues and BMZ's generally stretched capacity, it is unclear whether there is currently sufficient staff capacity and specialised knowledge within the ministry to identify and manage targeted research and analysis. Further thinking on the locus of leadership for analysis and the appropriate level of skills remains central to the agenda. A more focused and prioritised coherence agenda would also allow research and analysis to be focused on a select number of strategic issues of importance. Better use of BMZ resources could also be made by drawing on the expertise of civil society and research institutes.
- *Reporting:* Reporting to the public on how German policies contribute to development is not undertaken separately, but as part of general development policy reporting. Reporting to the *Bundestag* takes place through the federal government's development policy report which is submitted once every legislative period.

7. The 2005 peer review of Germany noted that reporting on policy coherence “has yet to become systematic” and recommended that a special effort be made to track and report the implementation of Germany's coherence agenda, including through the use of relevant indicators (OECD, 2005a).

Looking forward: the “beyond aid” agenda for the whole German government

Germany has made good progress in areas that are high on the political agenda and where there has been support by the Chancellery, in particular on climate change and whole-of-government engagement in Afghanistan. According to the Commitment to Development Index (CDI) maintained by the Centre for Global Development, Germany was ranked 12th out of 22 countries in 2009 (down from 9th of 21 countries in 2005).⁸ Germany is ranked first on the investment component of CDI thanks to policies that promote healthy investment in developing countries. The German government also has a strong environmental record from the developing country perspective and earns a high score on the migration component for taking in relatively large numbers of refugees during humanitarian crises. But Germany would score higher if it lowered barriers to agricultural imports from developing countries (an EU issue predominantly), increased participation in international peacekeeping efforts and provided more support for the creation and dissemination of technological advances. Combating corruption is a prominent element in German Development Policy’s strategy for the promotion of good governance (BMZ, 2009e) and the country is engaged in a range of activities in this regard (BMZ, 2009f). Germany is developing a strategy for fighting corruption domestically and internationally and this will need to be embedded in other federal ministries – Germany’s credibility on this issue would be enhanced if the country ratified the UN Convention against Corruption that it signed on 9 December 2003.

BMZ needs to be more proactive and assertive in promoting a development perspective through existing inter-ministerial mechanisms. Commitment across the federal government and the Chancellery is crucial for advancing a joint agenda. This requires the German government as a whole to understand the concept of policy coherence for development and to incorporate the “beyond aid” approach⁹. Building greater awareness of and skills on development in other federal ministries is thus necessary. Once a cross-government coherence agenda has been defined, relevant government departments beyond BMZ will need to take responsibility for their contributions towards achieving common objectives. Germany should learn from its experience in Afghanistan and develop a joined-up approach for fragile and conflict-affected states taking into account experiences from other countries (e.g. Canada, the Netherlands, and the UK) and recent OECD guidance (see Box 4).

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8. The CDI ranks 22 rich countries on how much they help poor countries build prosperity, good government and security. Each rich country is scored in seven policy areas: aid (both quantity as a share of income and quality), trade, investment, migration, environment, security, and technology. Within each component, a country receives points for policies and actions that support poor nations in their efforts to build prosperity, good government, and security, which are then averaged for an overall score.
 9. The beyond aid approach is DAC members’ efforts to promote, within and beyond their aid programme, policy coherence and operational co-ordination in order to ensure that their domestic and international policies support – or at least do not undermine – partner countries’ development efforts.

**Box 4. Six elements for making whole-of-government approaches
in fragile states work in practice**

- (i) Identify the role of other policy communities covering politics/diplomacy, military/security as well as humanitarian response and development.
- (ii) Ensure clear political guidance and a lead co-coordinating role at HQ and in the field.
- (iii) Implement joint analysis and planning to confront different institutional cultures and languages across different policy communities.
- (iv) Implement joint objectives and joint country-specific operational priorities to help build coherence. There is no simple way to balance strategic or geo-political objectives with statebuilding and development objectives.
- (v) Implement joint financing instruments and joint staffing mechanisms, which can reduce the problems of fragmentation and duplication. Pooled arrangements can support integrated planning, as can joint staffing arrangements and inter-ministerial working groups.
- (vi) Ensure adequate numbers of properly informed and adequately trained staff, not only in the departments that lead on the work, but also across government. Support to state building is a knowledge-intensive enterprise.

Source: OECD (2010c), Conflict and Fragility: Do no Harm. International support for statebuilding. OECD, Paris

Future considerations

- Germany should establish an overarching policy statement on policy coherence for development and a clearly prioritised coherence agenda which sets strategic cross-governmental goals and provides a clear plan for implementation. This could serve as a framework to increase understanding on policy coherence for development across the government, focus inter-departmental attention and strengthen synergies among policies.
- BMZ capacity and strategic competence should be significantly enhanced so that it can take proactive approaches and contribute more effectively a development perspective to the policies of other ministries. At the same time, awareness of and expertise in development issues will need to be strengthened in other German ministries.
- Germany should strengthen its systems for monitoring, analysis and reporting on policy coherence from a development perspective, including reporting to the *Bundestag* and the wider public about progress in this area.
- Germany should improve and apply coherent whole-of-government approaches to respond to global challenges. Germany can learn lessons from its experience in Afghanistan and with climate change and, in particular, should develop a joined-up approach for fragile and conflict-affected states. It could build on this to develop joint country strategies for selected countries.

Chapter 3

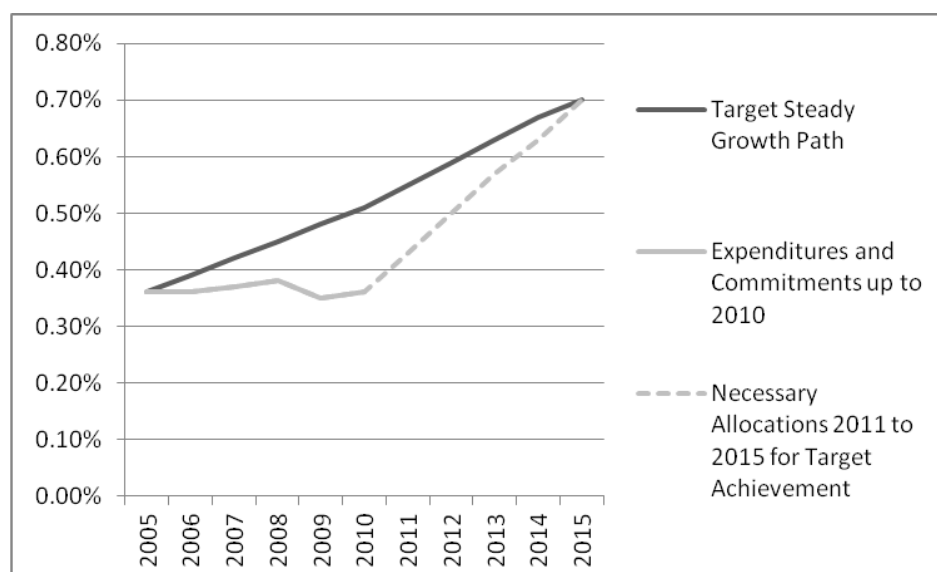
Aid Volumes, Channels and Allocations

Aid volumes: Germany is off-track for meeting its commitments

Continued commitment to scaling up despite missing the 2010 ODA target

In 2009 Germany was the third largest bilateral donor in the world, behind the United States and France and just ahead of the United Kingdom and Japan. Germany provided USD 12 billion in official development assistance (ODA) in 2009, 10% of DAC member countries' total ODA. While Germany has maintained its position as a leading contributor of ODA, progress towards its commitments to increase its aid as a proportion of gross national income (GNI) to 0.51% by 2010 and 0.7% by 2015 has stalled; in 2009 ODA was 0.35% of GNI, putting Germany far off-track for meeting its commitments. This was acknowledged by the German government in March 2010 as it announced the budget for 2010-11; it also acknowledged that it is set to miss the target for 2010 by EUR 3.5 billion. ODA fell in 2009 as reduced debt relief outweighed significantly increased bilateral aid. Despite this most recent setback and the challenges ahead, the government remains committed to the 2015 goal of 0.7%. However, as Figure 3 indicates, if Germany is to achieve its target it will need to double its aid over the next five years. This would be an historically unprecedented rate of growth for Germany and only Spain among DAC members has achieved such a feat in recent years (this country doubled its aid between 2005 and 2008).

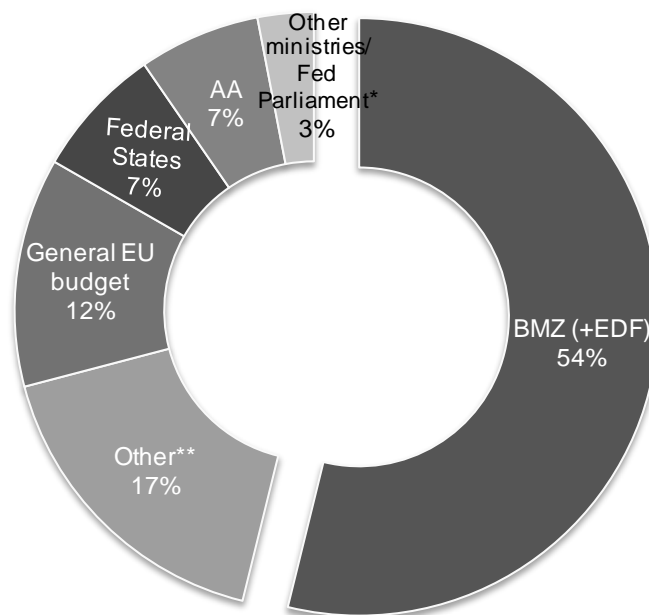
Figure 3. Germany's ODA as a percentage of GNI, 2005 to 2015



The 2005 peer review recommended that Germany adopt an “ODA growth implementation plan,” focusing both on the resourcing and spending dimensions of the equation to help meet its commitments – the trajectory of such a plan is shown in Figure 3 (labelled: target steady growth path). Germany did not adopt an ODA growth implementation plan and, with the exception of the 2010 target, has not presented any specific or binding milestones towards meeting the EU-agreed aid target for 2015. The government is considering a range of innovative financing mechanisms to achieve the 0.7% target and is keen to emphasise the outcomes of its ODA as much as the inputs. The Ministry of Finance (BMF) is concerned to ensure that the ODA growth path through to 2015 is well managed and that the increasing aid volume is delivered effectively. Massive peaks of ODA increases in 2014 and 2015 would clearly be difficult for BMZ to programme and for recipients to absorb effectively. The development co-operation budget is established on the basis of the annual federal budget and a rolling financial plan covering a five year period (current, next and following three years). If the aid volume target for 2015 is to be achieved, the financial plan for the period 2011 - 2015 and the 2012 budget itself, both of which will be prepared during the first six months of 2011 with the budget 2012 finally decided by Parliament at the end of the year, must make the necessary provisions.

Germany’s ODA by government department

BMZ is directly responsible for just over half of Germany’s ODA – 54% in 2008. This share has been relatively stable since the last peer review. The remainder of Germany’s ODA is allocated to other government ministries and agencies, principally finance, environment, foreign affairs, defence, education, research, economics and to federal states. Germany’s contribution to the general EU budget is managed by BMF and this ministry also manages debt relief and debt re-scheduling, making a total of more than 20% of total ODA for that ministry alone. The Federal Foreign Office funds are for humanitarian aid, conflict prevention, human rights, strengthening regional integration and the promotion of policy of peace within education and cultural initiatives. Research by DIE (DIE, 2009b - further discussed in Chapter 4) shows that the wide range of engagement by other federal ministries and states makes it hard for Germany to maintain a coherent development co-operation policy. As discussed in Chapter 4, co-ordination of Germany’s ODA is an issue that needs attention.

Figure 4. German ODA by government department, 2008

Source: Data presented to the peer review by BMZ

Notes: AA (Ministry of Foreign Affairs; *Ministries of: Environment (BMU); Education/Research (BMBF); Culture/Media (BKM); Agriculture (BMELV); Health (BMG); Economics/Technology (BMWi); Defence (BMVg); Labour/Social Affairs (BMAS); Finance (BMF); the Interior (BMI); Family, Seniors, Women, Youth (BMFSFJ); Justice (BMJ); Transport/Building/Urban Development (BMVBS) (all less than 1%)

**Other ODA sources are: debt relief and debt rescheduling; capital market funds; German Investment and Development Company; amounts received; other.

Bilateral assistance: 140 countries benefit from Germany's ODA

The structure of Germany's development co-operation system is reflected in the budget, which includes allocations to BMZ, other federal ministries, multilateral and bilateral aid, financial and technical co-operation and individual implementing agencies. Germany's share of ODA allocated to bilateral programmes has remained relatively stable in recent years, with 65% of net ODA being provided as bilateral assistance in both 2007 and 2008. This is in line with the government's policy, regulated by the *Bundestag*, to apportion its ODA in a ratio of two-thirds bilateral and one-third multilateral, and is generally also in line with the DAC average. As already noted in Chapter 1, Germany is commended for reducing the number of partner countries from 84 to 57 since the last peer review and increasing the proportion of these that are LDCs and LICs. However, the 57 partner countries received less than 40% of Germany's total bilateral ODA in 2008. The majority (more than 60%) of Germany's bilateral ODA in 2008 was distributed across 83 non-partner country recipients. Moreover, only 14 of Germany's top 20 recipients in 2008 are partner countries¹⁰: Iraq (the biggest recipient), Liberia, Botswana, Jordan and Turkey are major recipients of Germany's ODA without being partner countries. These five countries received extraordinary debt forgiveness and debt conversion (Iraq, Liberia, Botswana and Jordan) and student costs (Turkey). The top five

10. China was dropped from the list of partner countries in late 2009.

countries (Iraq, Cameroon, China, India and Afghanistan) received 37% of the total bilateral ODA in 2007/08, a slightly higher proportion than the DAC average (see Table B.4 in Annex B). The share of bilateral aid allocated to the top 10 recipients increased from 41% in 2002-2006 to 47% over 2007/08. This is also higher than the DAC average (44% in 2006/07). In 2007/08, 57% of Germany's bilateral aid was allocated to the top 20 recipients, compared with the DAC average for those years of 61%. The pattern of bilateral expenditures in 2008 suggests there is considerable scope for greater concentration of Germany's ODA, primarily by increasing support for the existing 57 partner countries. There has been strong continuity of Germany's top recipients since 1997, indicating significant support for the same countries over a long period based on long-term partnerships and predictable flows of aid.

Germany's aid continues to be spent mainly on middle income countries

The 2005 peer review noted the historical focus of Germany's aid on middle income countries (MICs) and recommended that it allocate more resources to lower income countries (LICs) and LDCs to better reflect its overarching poverty reduction objective. This recommendation remains valid as the bulk of Germany's ODA continues to be spent in lower (LMICs) and upper middle income countries (UMICs), see Table 4 below – Germany's distribution of ODA in 2007/08 (average of the two years) is similar to that of 1997/98. The continuing high expenditure on MICs is caused largely by the significant debt relief operations in Iraq and Cameroon during 2007/08 (Figure 5). Debt relief in 2007/08 to LMICs represented 85% of all debt relief in these years. The non-debt relief bilateral support to MICs tends to focus on environment and climate change and the water sector with tertiary student costs and some poverty focused expenditures also. While the volume of ODA allocated to LDCs increased from USD 1.1 billion in 2004 to USD 1.7 billion in 2008, the per cent share of Germany's allocable bilateral ODA for these countries decreased from 23% to 21% over the same period and was much lower than the DAC average of 34% in 2008 (see Annex B, Table B.3); this is a matter of concern. It is expected, however, that the concentration exercise of 2007 which resulted in the reduction of partner countries to 57 by 2009 will be reflected in future years by higher levels of ODA for partner LDCs and partner LICs.

Table 4. Distribution of ODA (% of total) by income group, 1997/98 and 2007/08¹¹

	ODA to LDCs		ODA to other LICs		ODA to LMICs		ODA to UMICs	
	1997/98	2007/08	1997/98	2007/08	1997/98	2007/08	1997/98	2007/08
Germany	31.1%	31.3%	9.1%	9.0%	52.2%	48.4%	7.6%	11.4%
Total DAC	33.9%	41.7%	13.0%	12.5%	46.2%	36.7 %	7.0%	9.1%

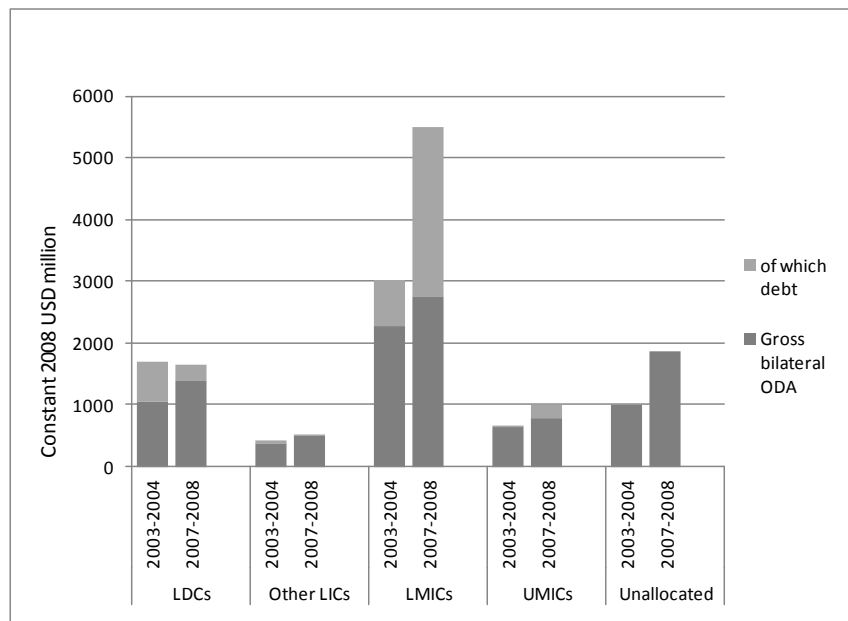
Source: OECD (2010a), Development Co-operation Report 2010, OECD, Paris

Germany is prioritising its co-operation with anchor countries and emerging economies. Some non partner countries, such as Turkey continue to receive large amounts of ODA with a continuing emphasis on imputed student costs in some cases. In

11. Including imputed multilateral ODA. Excluding more advanced developing countries and territories (MADCTs) and amounts unspecified by country. The table shows averages for the two years in each case: 1997/98 and 2007/08.

this context, tripartite co-operation is also increasingly used as an instrument for co-operation between Germany, non-DAC donors and partner countries. This type of co-operation aims to promote dialogue between actors and to more closely complement South-South co-operation and North-South co-operation (BMZ, 2010). Trilateral co-operation is being used to mobilise Germany's human and financial resources together with the inputs of anchor countries for the benefit of third countries. Also emerging donors use German expertise to strengthen capacity to manage their own cooperation programmes.

Figure 5. Germany's gross bilateral ODA by income, 2003/04 and 2007/08



Source: OECD statistics

The focus on sub-Saharan Africa needs to be intensified

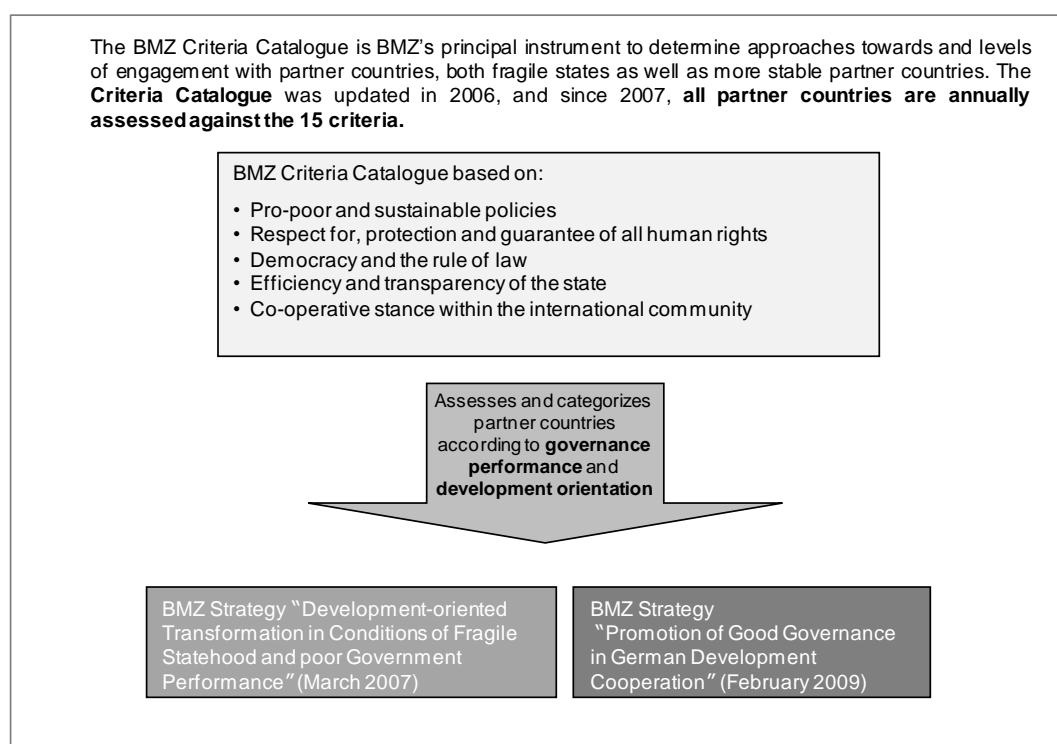
Africa remains the highest recipient region (with 35% of bilateral ODA in 2008) followed by Asia (26%), Middle East (23%), America (9%) and Europe (7%). This regional distribution has been quite stable over the past five years with the exception of 2006 (see Table B.3, Annex B). Germany entered into a commitment as part of the G7 at Gleneagles in 2005 to double aid for sub-Saharan Africa by 2010 (compared to 2004 levels). Collectively, the G7 countries are lagging behind their Gleneagles commitments and this risks undermining their credibility with African governments. As an EU member, Germany also committed in 2005 to allocating half of its ODA increases to sub-Saharan Africa (EU External Relations Council, 2005). Germany's bilateral ODA to this region increased significantly from USD 1.4 billion in 2004 to USD 2.7 billion in 2008 (Table B.3 in Annex B), but this is much less than 50% of the increase in Germany's bilateral ODA over this period. Moreover, development co-operation for sub-Saharan Africa as a share of Germany's gross bilateral ODA has increased only slightly, from 27% in 2004 to 29% in 2008. Germany has made a renewed commitment that 50% of all new bilateral ODA allocations will be for sub-Saharan Africa in 2009 and 2010 (BMZ, 2010). However, the recent survey of DAC members' aid commitments indicates that Germany's bilateral ODA will continue to go mainly to LMICs and UMICs and Germany shows little sign that it will further substantially increase ODA for sub-Saharan Africa.

Germany's commitment to allocating half of its ODA increases to sub-Saharan Africa is therefore at some risk and the country needs to make significant efforts to address this issue.

Germany's resource allocation approach should be adjusted

BMZ's Criteria Catalogue is Germany's well-established process for assessing the governance level and development-orientation of partner countries in order to determine approaches, instruments, resource allocations and levels of engagement (Figure 6). It appears, however, that the allocation process also involves a degree of flexibility and political discretion and that it is insufficiently weighted towards LDCs and LICs. Research carried out by the German Development Institute (DIE) shows that for the period 2004-2008 the level of democratic governance in partner countries exerted a positive and highly statistically-significant influence on German ODA allocation (DIE, 2009a). The DIE report also shows that a country's needs (as measured by GDP per capita) and size also influences German ODA allocations (larger countries are favoured). BMZ's selection and allocation processes are resulting in a German bilateral ODA programme that is predominantly focused (in volume terms) on large, democratic and relatively well-governed middle income countries that have lots of poor people. Most of Germany's development co-operation for these middle income countries is targeted on environment, climate change and water sector issues.

Figure 6. BMZ's Criteria Catalogue

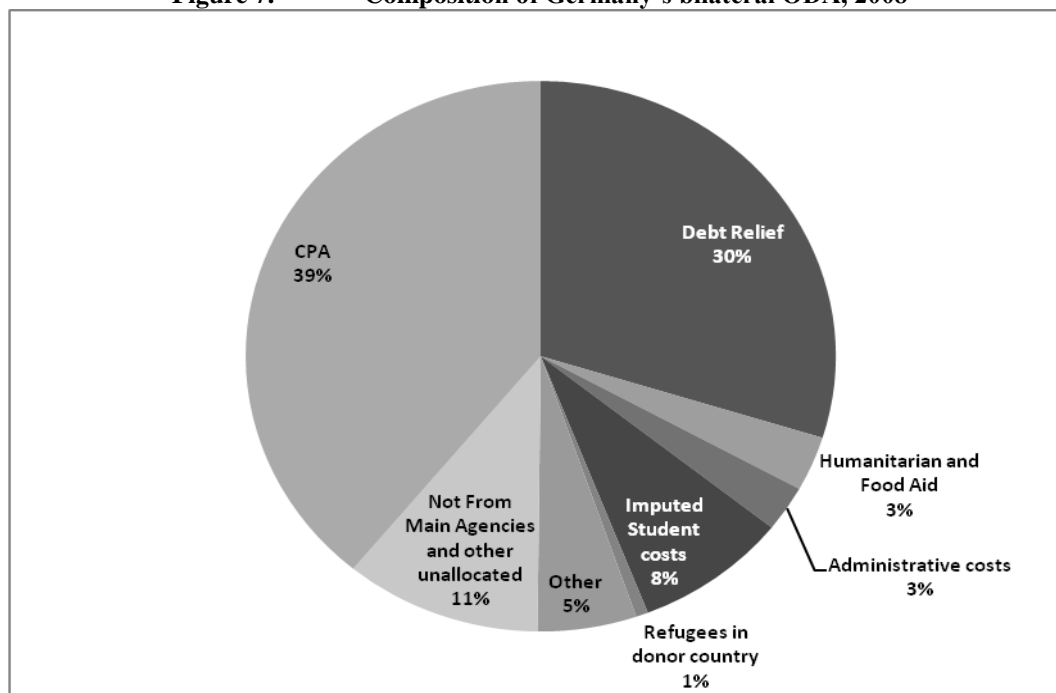


Germany spent more than one-third of its bilateral ODA (39%) on fragile states¹² in 2008 and this was highly concentrated in a handful of countries. While 41 fragile states benefitted from Germany's ODA between 2005 and 2008, 79% of the amount spent benefitted just five countries (Iraq, Nigeria, Cameroon, Afghanistan and Liberia) with most of this in the form of debt relief. As the stock of debt becomes exhausted there is scope for Germany to replace debt relief with other forms of ODA for fragile states and sub-Saharan African countries. With the exception of Cameroon, Liberia, Ethiopia, Nigeria and Kenya, poor sub-Saharan African countries are not receiving large amounts of ODA from Germany. However, given that the 2007/08 concentration exercise and selection process was strongly influenced by poverty criteria, poorer countries were more likely to be selected as partner countries compared to previous periods (DIE, 2009a). This suggests that greater weight should now be given to poverty, LDCs, sub-Saharan Africa and fragility in BMZ's allocation processes.

Composition of Germany's ODA

Within its bilateral programme a proportion of Germany's ODA is considered to be country programmable. Country programmable aid (CPA) is a measure of a donor's contribution to "core" development programmes.¹³ Country programmable aid measures the actual transfers of resources to a developing country – the higher the percentage of bilateral ODA that is country programmable aid, the more resources are actually transferred and there is greater potential for alignment with country priorities. Germany's country programmable aid in 2008 was USD 4.3 billion, or 39% of its bilateral ODA, which is lower than the DAC average of 54% (Figure 7). This can be explained mainly by the high amount of debt relief Germany provides, together with student costs and funds from other agencies. Debt relief declined steeply in 2009 and the stock of debt is now almost exhausted (see below). This should be replaced by other forms of aid (multilateral and bilateral) in future years and aid programmed at country level is expected to grow as a proportion of bilateral aid as a result.

-
12. Fragile states are those identified in the DAC's 2010 Annual Report on Resource Flows to Fragile States (OECD, 2010g).
 13. CPA is calculated by subtracting from total bilateral aid assistance which: (i) is unpredictable by nature – e.g. humanitarian aid and debt relief; (ii) entails no cross-border flows, such as administrative costs, imputed student costs etc.; (iii) does not form part of co-operation agreements between governments (food aid and aid from local governments); or (iv) is not country programmable by the donor (e.g. core funding of NGOs).

Figure 7. Composition of Germany's bilateral ODA, 2008

Source: OECD statistics

Aid instruments and modalities

Germany's bilateral development co-operation is mainly delivered through projects and programmes that are implemented by its implementing agencies, allowing it to closely monitor its financial investment and gain visibility. These projects and programmes also allow a maximum of German actors to be involved in technical assistance. Germany is making only limited use of other aid modalities, such as programme-based approaches. Germany's plans to increase the percentage of its aid disbursed through programme-based approaches and this is discussed in Chapter 5. Three aid instruments in particular feature strongly in Germany's bilateral ODA: debt relief, loans and technical co-operation. There are issues with each of these that need to be addressed if Germany is to achieve its development co-operation aims. In the case of debt relief, the stock of debt will be exhausted shortly and will need to be replaced in Germany's ODA by new allocations of multilateral and bilateral assistance if aid volumes are to increase or at least be maintained – the exhaustion of debt relief is the main reason why ODA levels fell in 2009. The loans that Germany provides to MICs may be appropriate in many cases, particularly with regard to funding for global public goods, but the poverty-reducing impact of many of these loans must be determined. Within the bilateral allocation, the Bundestag determines the amount for technical co-operation in the annual development co-operation budget (EUR 800 million in 2009). These technical co-operation allocations are mostly ear-marked for GTZ. There is a risk that these annual allocations to technical co-operation and GTZ in particular, the main modality that is used to implement the technical co-operation and the heavy reliance on this instrument may be leading to supply-led solutions to development problems and may actually undermine some of the principles of aid effectiveness.

Sector allocations and thematic spending

As shown in Table B.5 in Annex B, the majority of Germany's bilateral ODA is spent in three main areas: social infrastructure and services (37% of bilateral aid, 2007/08 average); action relating to debt (28%); and economic infrastructure and services (17%). Other significant sectors are humanitarian aid (3%, discussed in Annex C); multi sector (7%); and production sectors (4%). Most of these spending patterns are generally in line with DAC averages for 2007/08 and reflect the policies and strategies that BMZ has put in place in recent years, particularly the 11 priority areas for German development co-operation (see Chapter 1). In keeping with its priorities, Germany spent a higher proportion of ODA on gender equality activities in 2007/08 than most other DAC members (OECD, 2010b). However, the proportion of Germany's expenditures on humanitarian aid in 2007-08 is well below the DAC average of 8%. Given that only 52% of total global humanitarian needs are being met as at August 2010 (Office for the Co-ordination of Humanitarian Affairs Financial Tracking System, August 2010), Germany should continue to increase the level of its humanitarian aid. It is commendable that Germany has been able to accommodate within its aid framework swift responses to the global economic crisis in 2008 and the food crisis of 2007 and 2008. The latter crisis prompted the country to scale up its commitment in the field of rural development and food security, along with some other development partners.

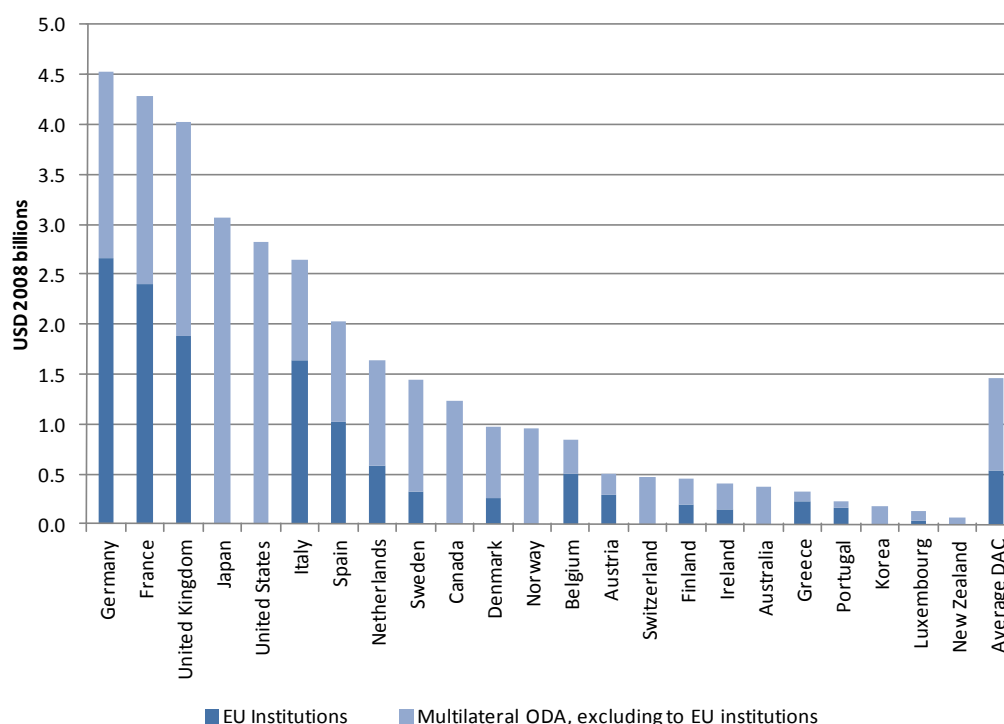
Non-governmental channels for development co-operation

Since the last peer review Germany has channeled 5-6% of its ODA through NGOs each year. The churches (Catholic and Protestant) and political foundations (representing all major parties) continue to receive the bulk (80%) of these resources. The churches and political foundations enjoy considerable freedom in the use of the ODA they receive, but there are clear agreements with each agency, including monitoring and evaluation of activities and audit arrangements. The German government cannot provide core funding to NGOs and the funds channeled to the churches are determined by BMZ on the basis of specific programme proposals. The allocations to the political foundations are set by the *Bundestag* on a three year basis and involve the budgets of five ministries (including BMZ's share for development co-operation). Other NGOs receive funding for specific projects either directly from BMZ or through an implementing agency, such as GTZ. These projects may be identified by the NGOs themselves and presented to BMZ or an implementing agency as a proposal, or they may have been identified and developed by an implementing agency as part of a broader programme. These NGOs are subject to project-specific rules and requirements which include monitoring, evaluation and audit arrangements.

Multilateral assistance

Germany is currently the largest contributor of multilateral ODA in the world, with the bulk of these resources channelled through the EU as part of its assessed contribution (see Figure 8 below). Germany's ratio of bilateral to multilateral ODA (65:35) is in line with its policy and close to the DAC average. It is commendable that the majority of Germany's multilateral ODA (EU and non-EU) is provided in the form of core funding; *i.e.*, contributions to the regular budgets of the multilateral institutions. Germany's non-core ODA as a share of reported total use of the multilateral system is 6.6%, compared to a DAC average of 28.7%, but this may reflect a certain amount of under-reporting, particularly of Germany's contributions to World Bank trust funds. Nonetheless, the vast majority of Germany's multilateral ODA is provided in a form that is welcomed by the multilateral institutions.

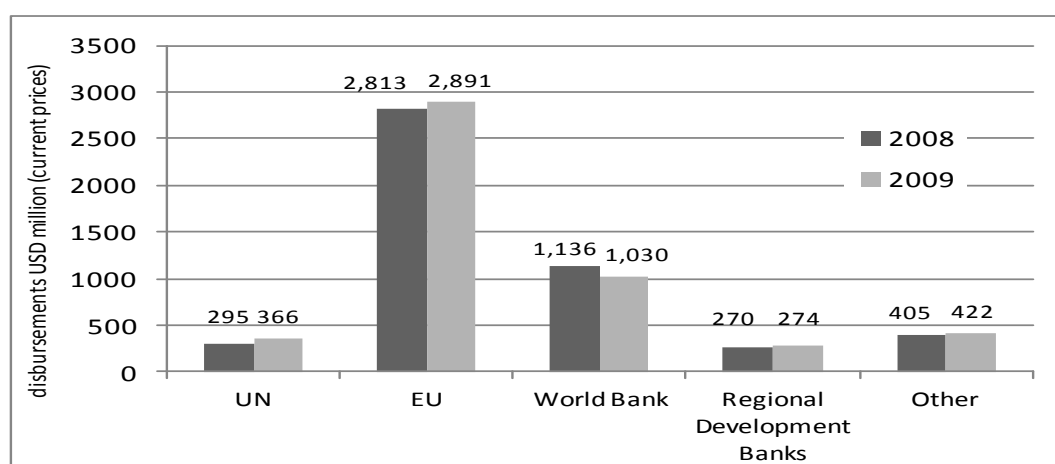
Figure 8. Multilateral ODA
(excluding debt relief) 2006-2008 average in constant 2008 USD billions



Source: OECD statistics

Germany's non-EU multilateral ODA is concentrated on the World Bank (International Development Association (IDA)) funding was 54% of the country's non-EU multilateral total between 2004 and 2008), the UN agencies and the regional development banks (Figure 9 and Table B.2, Annex B).

Figure 9. Germany's multilateral ODA, 2008 and 2009 (preliminary figures)



Source: OECD statistics (2008) and BMZ data presented to the peer review (2009)

There is little room for manoeuvre for increasing Germany's contributions to other non-EU multilateral allocations, such as the UN system, unless, as anticipated, Germany's overall aid is greatly increased. Germany's financial support for the UN system has declined significantly in recent years and the country has slipped to 10th place among voluntary contributors to the UN World Food Programme, and to 12th place among countries contributing to the UN Development Programme. Germany's contributions to most other parts of the UN development system are of similar status. Germany supports the "Delivering as One" approach being piloted by the United Nations system at the country level and engages in processes aimed at achieving this. UN agencies reported to the peer review team concerns about predictability of funding in-year. These agencies also commented on the fragmented nature of Germany's contributions, with funds coming from different German actors, each with different accounting and reporting procedures. It is expected that the unification of Germany's federal accounting and reporting procedures in 2009 and the issuing of new guidelines in 2010 for granting allocations in the international context will streamline procedures in the future. Germany currently has few mechanisms for providing funding to multilateral institutions at country level (multi-bilateral). On the basis of the successful experiences of other DAC members, particularly the United Kingdom, the effectiveness of Germany's bilateral country programmes could be enhanced through the introduction of more such mechanisms.

Future considerations

- Germany is far off-track for meeting its aid volume commitments. In order to maintain its credibility Germany should: (i) set new realistic annual targets and put in place a credible pathway for achieving the 0.7% ODA/GNI target by 2015 within the EU deliberations, and as part of the 2012 budget proposal; and (ii) ensure that the new targets and growth path have the commitment of political leaders (across all parties) and are publicised widely.
- Germany should further concentrate its bilateral aid, increasing the proportion spent on its 57 partner countries and give greater weight in its processes for setting allocations to poverty, sub-Saharan Africa, LDCs and fragility.
- As the stock of debt to be forgiven is becoming exhausted, it must be replaced with other forms of multilateral and bilateral aid if aid volumes are to increase or at least be maintained. Germany should therefore plan for replacing debt relief with alternative aid allocations and channels.
- Germany channels 6% of its ODA through NGOs but, alone among DAC members, does not have a strategy for working with these. Germany should develop a strategic approach to define its relationships with national and Southern civil society organisations. This should include developing and using framework agreements. Such an approach will be important to ensure sustained focus on results.

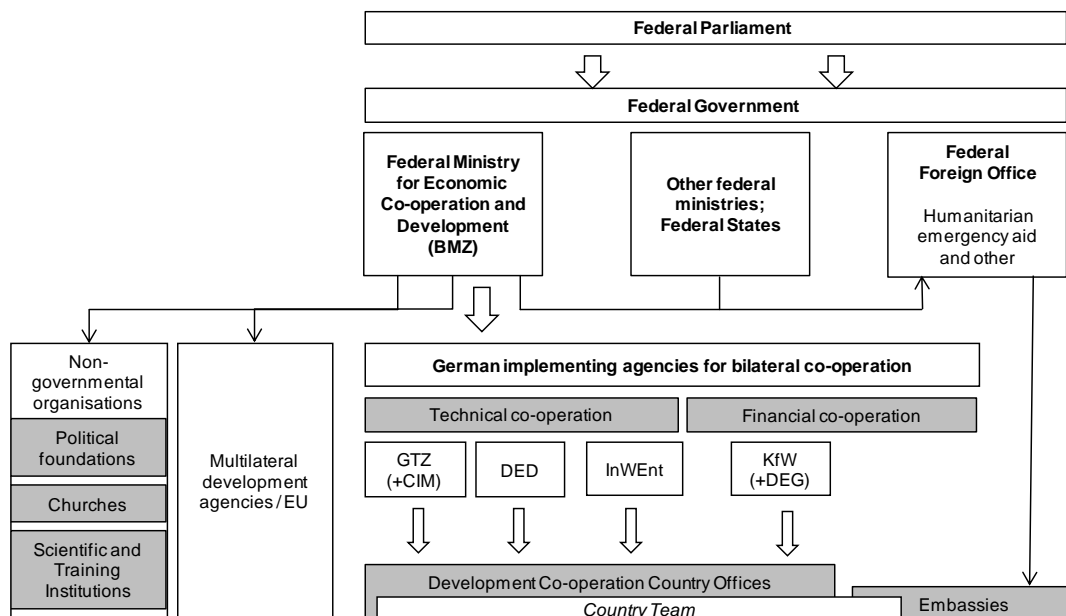
Chapter 4

Organisation and Management

The German development co-operation system

The 2005 DAC peer review identified several critical weaknesses with the organisational set-up of the German development co-operation system. The government signalled that it would improve the links between financial and technical co-operation to make Germany's aid more efficient and effective. It commissioned studies in 2006 with a view to merging KfW and GTZ, but there has been little change in the situation since. With little political pressure or public demand for change, the German development co-operation system remains largely as it was in 2005. BMZ is responsible for development co-operation policy and strategy, while the implementation of Germany's development co-operation is the responsibility of a wide range of implementing agencies, other government departments, federal states, NGOs, political foundations, churches and scientific and training institutions (Figure 10).

Figure 10. Detailed chart of the German development co-operation system



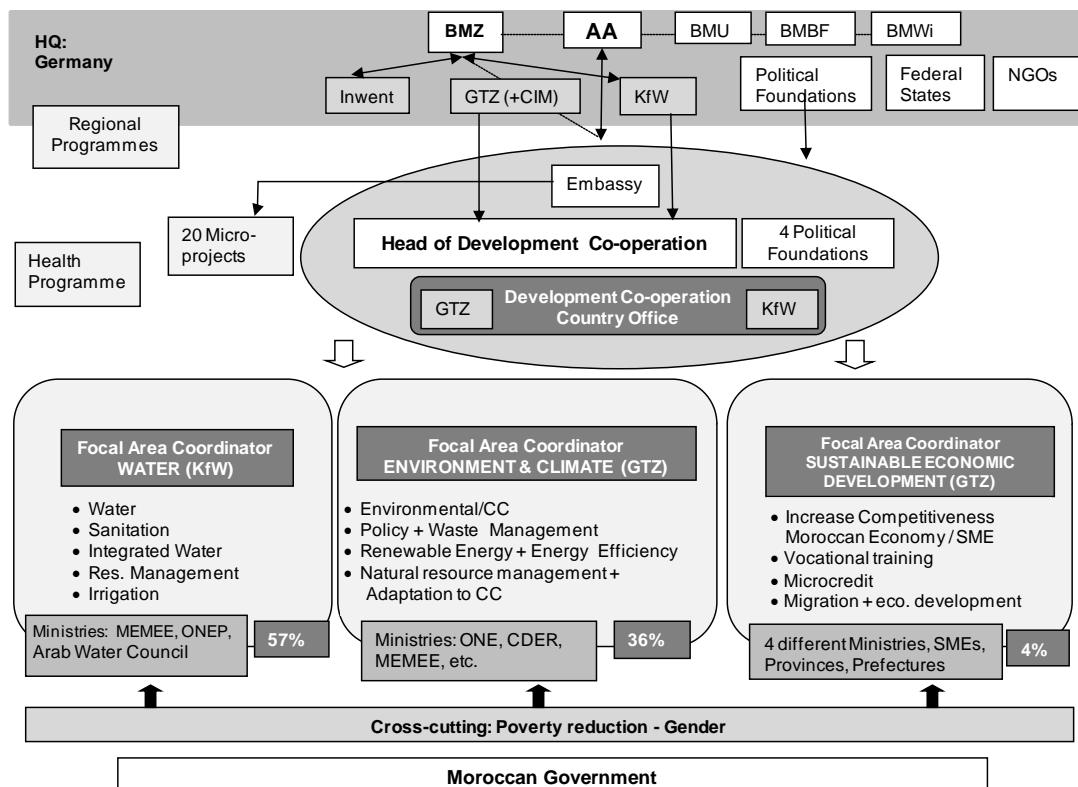
Germany's fragmented institutional arrangements: some strengths, but many weaknesses

Germany's development co-operation system has some institutional strengths: its representation at cabinet level, its own ministry (BMZ), experienced implementing organisations, flexible implementation (once contracts have been signed between BMZ and the implementing agencies) and sound technical expertise. But it is the many weaknesses, particularly the institutional fragmentation, that have received the attention of the last two peer reviews (2001 and 2005). Germany's fragmented institutional system means that (i) it is confusing to its partners; (ii) it is time consuming for BMZ to co-ordinate Germany's various agencies (perhaps as much as co-ordination with other donors and partner governments); (iii) it runs the risk of being supply-driven and with limited contestability; and (iv) is weighted far too heavily towards the implementing agencies at the expense of BMZ capacity, risking ineffective oversight.

Confusion amongst Germany's partners

One of Germany's partners made the following statement about the implementing agencies: "They all want to support our work....But I often do not understand how one differs from another, and what their various core competencies are" (quoted in Patz, 2010). The transaction costs for Germany's development partners of having to deal with so many different government departments and agencies are very high. For example, Figure 11 depicts the complex institutional arrangements for Germany's relatively straightforward programme in Morocco.

Figure 11. Germany's aid structure in Morocco

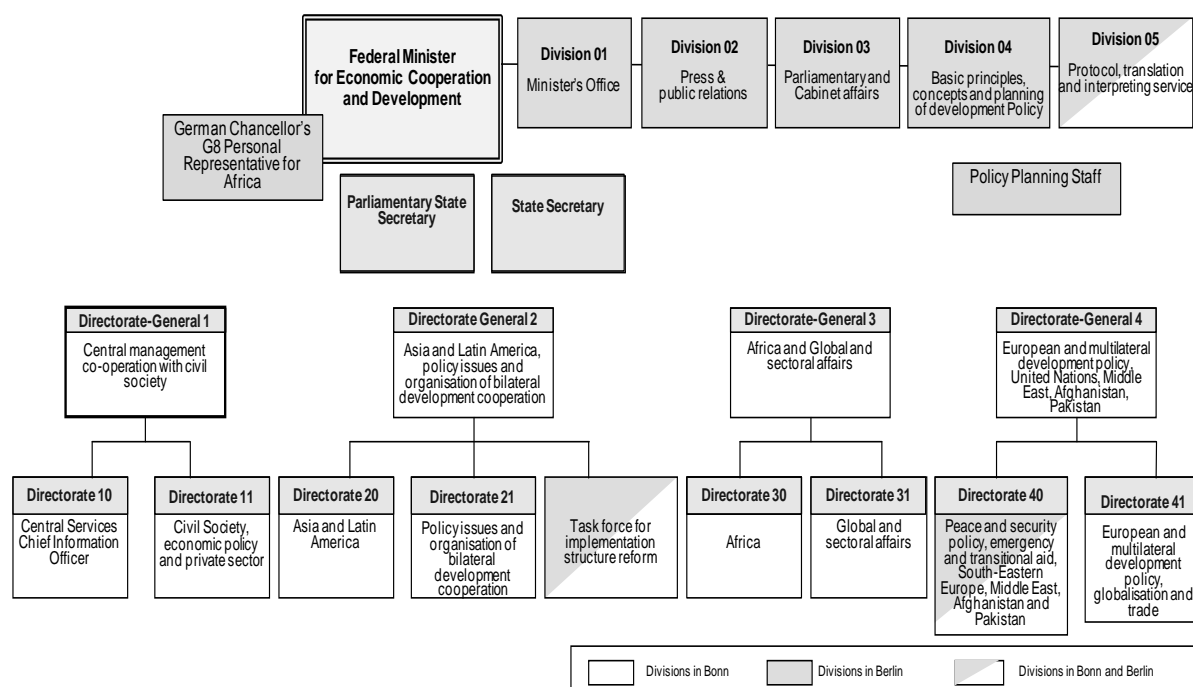


The implementing organisations mostly have their own country office, which means that the institutional diversity of German development co-operation is reproduced at the country level in the relationships with the partners and other donors (DIE, 2009b). Other causes of confusion amongst Germany's partners include: disparity between the centralised oversight function of BMZ and the partial decentralisation of the implementing organisations (more for GTZ than KfW); institutional complexity of financial and technical co-operation; deficiencies in Germany's representation in partner countries; and co-ordination problems with other federal ministries that increasingly finance their own bilateral ODA activities (DIE, 2009a)¹⁴. The German government acknowledges that its fragmented institutional system is a constraint to delivering its aid effectively and is committed to reforming it. The government intends to streamline the country's "complicated multitude" of government aid agencies, starting with a merger of the technical co-operation agencies GTZ, German Development Service (DED) and the German international capacity building agency InWent (this last agency is itself the product of an earlier merger between the Carl-Duisberg-Gesellschaft and Deutsche Stiftung für Internationale Entwicklung). The goal of the merger is clear and a process has been set out for achieving it over the next three years. The government has approved the plans and a task force has been formed to lead the process – the new agency that results from the merger will be known as the German Company for International Co-operation (DGIZ). GTZ is very supportive of the proposed merger and does not expect it to be problematic as, in its view, the three agencies are similar. However, the two other smaller agencies have expressed concerns that they might be "swallowed up" by GTZ in the merger with the loss of their respective specialisms. These tensions will need to be managed carefully and the implications of this reform for future technical co-operation interventions will also need to be clarified.

System complexity is stretching BMZ's limited organisational capacity and resources

BMZ plays a central role in the development co-operation system. After a previous reorganisation in 2003, BMZ was further reorganised in spring 2010 in order to raise the efficiency of development cooperation as well as to ensure the implementation of the new main political focal points, namely economic development and education (Figure 12).

14. These weaknesses have also been highlighted by Price Waterhouse Cooper's study, commissioned by BMZ in 2006, of the implementing structures and the National Audit Office's 2007 opinion on the German development co-operation structure commissioned by the *Bundestag's* Budget Committee. The peer review team was made aware of these studies and their findings by BMZ and National Audit Office officials but it was not permitted to review the reports, thus they cannot be referenced in this report.

Figure 12. BMZ organisation chart

A fourth department has been established now responsible for European and Multilateral development cooperation as well bilateral cooperation within Europe, Near and Middle East, Afghanistan and Pakistan. Education is now represented within a division; economic development is reinforced by a second division. The fact that BMZ is split across two sites (in Bonn and Berlin) does not seem to be a major obstacle to working effectively.

BMZ's organisational capacity and resources appear to be stretched, particularly at the field level, and this is acknowledged by the government (BMZ, 2010) and well documented (DIE, 2009b). This limits BMZ's ability to: (i) lead a development co-operation policy effectively across the government; (ii) oversee the effective development and implementation of its own policies, strategies and programmes in HQ and in the field, including oversight of implementing agencies; (iii) shape the agenda on development issues internationally; (iv) effectively contribute a development perspective to the policies of other ministries, particularly in BMZ's particular priority areas, such as climate change, integrating foreign, security and development policies; (v) move towards a results-based approach to measure the achievements and outcomes of aid (multilateral and bilateral); and (vi) communicate results effectively to parliament, civil society, the media and the general public. The peer review team learned from BMZ officials in Germany, Morocco and Zambia that a great deal of their time is consumed by supervising the implementing agencies and ensuring they are adhering to policies, strategies and guidelines. This supervision includes continuous, but not always systematic, quality assurance of the implementing agencies' work; BMZ also relies largely on agency reporting combined with external quality control by auditors for quality assurance. The complex relationships between BMZ and the many implementers of Germany's development co-operation exacerbate the capacity issues and limit the impact of Germany's aid. The complexity: (i) constrains the ministry's capacity for independent supervision and monitoring of the implementing agencies and their work; (ii) creates some potential conflicts of interest within the development co-operation system;

(iii) limits the range of advice and expertise available to the German and partner governments; and (iv) diverts BMZ's attention from, and actually prevents, streamlined engagement with partners.

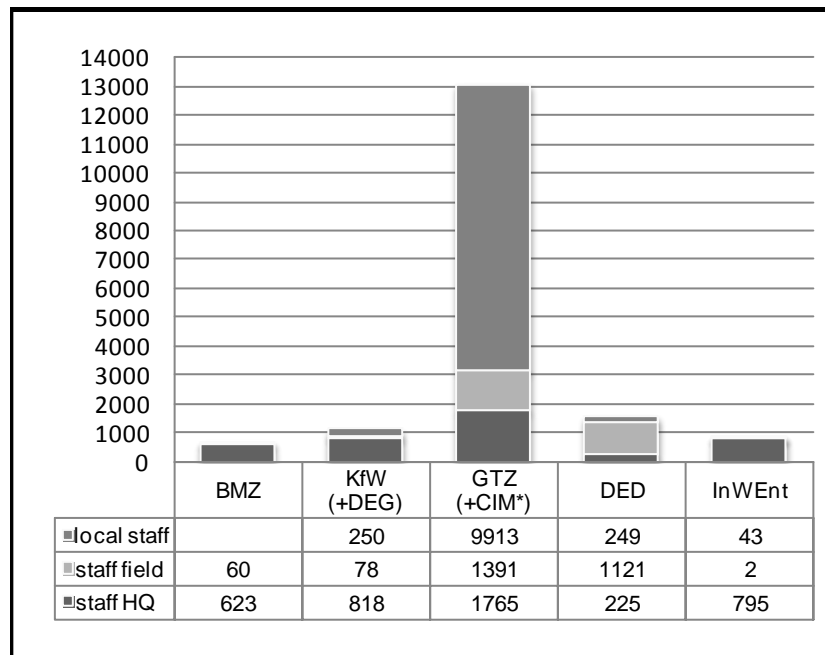
The risk of supply-driven approaches

The implementing agencies are part of the government system, but there is a risk that organisational interests could influence the advice given to BMZ by the agencies and that supply-driven approaches to development co-operation may be a consequence. These risks need to be managed carefully: (i) internal co-ordination among Germany's various implementing agencies and between technical and financial co-operation can be at the expense of co-ordination with partner countries and can make it more difficult to align with their priorities; (ii) the dominant model of technical co-operation delivery with German implementing agencies managing the entire implementation delivery process, including most critically the selection (and evaluation) of core technical assistance personnel, can constrain the achievement of capacity development objectives and the promotion of country ownership (this is not the case with technical co-operation inputs provided through KfW); (iii) the technical dominance of the implementing agencies usually means that a response to any development issue consists of German funded support delivered by these through prevailing agency modalities. A truly demand-driven approach would be reflected by a more diverse range of operational instruments for Germany and its partners than is currently the case. In order to obtain more objective, or at least competitive, policy and technical analysis, advice and technical services it would be helpful for BMZ to also source such inputs from technical resources outside the government system.

An imbalance of staff resources between strategic and implementation functions

In the development co-operation system as a whole there is an imbalance of German staff resources between strategic (BMZ) and implementation functions (implementing agencies), with the former under-resourced, particularly at field level (Figure 13).

BMZ's active staff of 623 includes 240 people (38%) in senior management and professional grades, 137 (22%) in middle management and junior professional grades and 246 (40%) in the intermediate and administrative grades. BMZ created 16 additional posts in 2010, mainly to focus on strategic planning and the implementation of structural reform. All BMZ staff are generalists, while the implementing agencies employ a wide range of specialists. The German development co-operation system devotes the overwhelming majority of its human resources to implementation functions rather than strategic and policy functions, with the result that the implementation agencies tend to dominate technical and policy discourse and analysis within the system owing to their much greater strength in staff numbers and technical resources. BMZ's leadership of policy and strategy and its oversight of the work of the implementing agencies tends thus to be dwarfed by the greater size and technical capacity of those agencies (and by other ministries). Of course, the institutional division of labour between the different functions means that for the lessons of implementation to inform the design of new policy and strategy the implementing agencies do need to be involved in the development of policy and strategy to some extent. Indeed, BMZ informed the peer review team that it is making great use of GTZ and KfW staff for supporting policy and technical analysis owing to limited human resources in the Ministry.

Figure 13. BMZ, GTZ, KfW, DED and InWent numbers of staff in 2009

Notes: *Numbers do not include International Centre for Migration and Development (CIM) Integrated Experts. These are not part of GTZ/CIM staff, as CIM places them into employment contracts with local employers in partner countries. At the end of 2008, 767 CIM Integrated Experts were working abroad. GTZ staff includes all levels of personnel from drivers to professionals.

Source: Data presented to the peer review team by BMZ

Ways forward for reforming Germany's development co-operation system

The merger of the three main technical co-operation implementing agencies is a major step and will reduce BMZ's managerial burden while also lessening the confusion of partners. The government also intends that efficiency gains from the merger, such as agency staff that can be redeployed, will be used to enhance BMZ's capacity. These will all be welcome developments, provided that the redeployed agency staff have the right skills and expertise to work effectively in BMZ, but this important merger should be seen as only the first step in a holistic reform of Germany's development co-operation system. Reforms must aim to rationalise the deployment of the system's human resources (as recommended by the 2005 peer review) and make development co-operation more efficient and effective, particularly in the context of the Paris Declaration, while finding ways to preserve the strengths of the existing system. Japan has recently made major organisational changes to its development co-operation system by merging its financial and technical co-operation agencies. This country's experience may provide important lessons for Germany, particularly in sequencing changes and in integrating the banking authority of KfW with technical co-operation at the managerial level (see the latest DAC peer review of Japan – OECD, 2010d).

Germany should consider ways that BMZ's capacity might be strengthened in the short to medium term. Of course, if resources permit, additional staff would contribute

significantly to increased capacity for BMZ. But as significantly increased staffing seems unlikely (at least until the merger of the technical co-operation agencies has been completed), other options for achieving greater efficiency could be considered, such as: (i) further concentrating bilateral aid on partner countries; (ii) further concentrating the thematic focus of Germany's aid and narrowing the range of sectoral coverage; (iii) reducing the percentage of ODA delivered through projects and increasing the use of programme-based approaches, thus concentrating Germany's aid on fewer and larger programmes of assistance and reducing the number of contracts with implementing agencies; (iv) increasing the proportion of aid that is channelled through multilateral organisations; and (v) increasing the pace of implementing agency reform, thus reducing the workload for BMZ of steering, co-ordination and contracting. As part of a process for improving BMZ efficiency and increasing capacity, the Ministry could undertake organisational analysis to look at whether staff are deployed optimally, whether the right kinds of staff are employed and whether improvements in organisational structure and work flows could be made. Australia and some other DAC members are completing or considering this kind of organisational analysis and their experiences may be relevant to Germany. With increased capacity, BMZ should become more proactive conceptually and strategically in overseeing and co-ordinating the German aid programme and improving policy coherence for development. In addition, a strengthened BMZ would be able to take a stronger lead in helping to shape the international development policy agenda and would also make a greater contribution towards shaping the development co-operation of the EU and other multilateral organisations. BMZ would also be able to strengthen and streamline the representation of Germany's development co-operation in partner countries and make greater contributions to policy dialogue.

Improving co-ordination in partner countries

BMZ now has Heads of Co-operation (HoC) posted in 38 of its 57 partner countries (in other partner countries Germany's development co-operation is supervised by an official of the Federal Foreign Office). Germany has also established the function of focal area coordinators, who are authorized by the German Government (usually communicated to the partner country and local development partners through the Embassy) to speak in local sectoral dialogues on behalf of German co-operation. These key positions are critical for the successful co-ordination and oversight of Germany's development co-operation. The Heads of Co-operation do not always have the capacity to participate fully in policy dialogues with Germany's partners and other donors, so these functions are often performed by the implementing organisations (DIE, 2009b). In some cases the implementing agencies are also representing other countries in policy dialogue as part of a delegated authority arrangement between Germany and its development partners.

The establishment of the Development Co-operation Country Office (joint country offices of German implementing agencies) and focal area co-ordinators in partner countries are important steps forward for improving the coherence of Germany's bilateral development co-operation. The peer review team learned, for example, how the co-ordination of KfW and GTZ's activities has been greatly improved in Morocco through these innovations. The focal area co-ordinators are drawn from the implementing agencies. They take the lead in designing joint programme proposals for approval by BMZ and these are then implemented under contract by the implementing agencies. Joint programming is thus the main mechanism for bringing the implementing agencies together. With some further improvements, the Development Co-operation Country

Office and focal area co-ordinators in partner countries could make even more of a positive difference to the effective delivery of Germany's aid. In particular, the focal area co-ordinator role should be strengthened and developed: first, by increasing the time allocated to this function; second, by making the post-holder more accountable to the Head of Co-operation in the German Embassy; and third, by formalising the role with BMZ and the various other German and partner country actors.

Decentralisation: unfinished business

The recommendation from the last peer review on operational decentralisation (Annex A) remains valid: a new understanding between BMZ and the Federal Foreign Office on their relationships in the field is required. In the Coalition Agreement of October 2009 the government committed itself to improving the field structure of Germany's development co-operation system; it is clear that strong and high-level leadership will be necessary to take this forward. The ministers of BMZ and the Federal Foreign Office will need to work closely together to agree on a division of labour between the two ministries and this will need to be followed through with detailed guidelines for staff. As noted above, the presence of a BMZ Head of Co-operation in the embassy in partner countries is essential for effective management of Germany's development co-operation. A decentralisation pilot in four countries (Egypt, Ghana, India and Morocco) has shown some promising results, particularly the hiring of local staff to support the Head of Co-operation. Further decentralisation of decision-making responsibilities, with accompanying resources, would improve the strategic oversight of Germany's aid and could help to address some partners' concerns about delays in processing decisions and approvals. This is particularly relevant for countries like Zambia, where Germany is taking a lead role in high-level policy dialogue on poverty reduction budget support and joint assistance strategies. In these contexts it is essential that BMZ's representatives in-country are empowered to make more decisions locally and to have far greater delegated authority for policy and strategy. The government's commitment to improve the field structure of Germany's development co-operation should be cemented by a plan for decentralisation that is jointly supported by BMZ and the Federal Foreign Office. This should be a major objective for Germany in the future, particularly in those countries where budget support and joint strategies are features of Germany's programme.

Engaging with civil society organisations

A new unit has recently been established by BMZ in Bonn to lead on engagement with civil society and the private sector. BMZ respects the autonomy of Germany's NGOs and generally does not attempt to guide them in their programming or their selection of countries and themes and this is appreciated by the NGOs. In the last year, however, BMZ has started to earmark funds for CSOs for specific themes (human rights, biodiversity, climate change) and countries (Afghanistan). BMZ could use its partnerships with NGOs more effectively – including as allies in advocating for increased investment in development and as part of consultation processes on policy. BMZ-supported NGOs are obliged to provide annual progress and financial reports. BMZ can also inspect their accounts and transaction records at any time during programme implementation. Evaluations are carried out by the NGOs themselves within the framework of BMZ's evaluation policy. In addition, BMZ's evaluation unit carries out occasional evaluations of NGO programmes supported by the ministry. However,

German NGOs are concerned that there are insufficient funds included in their programme and project budgets for monitoring and evaluation. To overcome these constraints the NGOs would prefer separate funding for evaluations, outside the budgets of the projects supported. There is regular dialogue between BMZ and German NGOs, mainly through the umbrella organisation VENRO. However, the NGOs are critical of the timeliness and meaningfulness of this dialogue, particularly for developing new policies and strategies. NGOs informed the peer review team that while regular consultations are held through the biannual meetings between the board of VENRO and the Minister for Economic Co-operation and Development, there are insufficient smaller single-issue meetings and round-tables between NGOs and BMZ and other ministry officials.

Co-ordination with other federal ministries and federal states

The German government faces a significant institutional challenge in co-ordinating ODA across the various government departments at HQ level and in the field. At HQ level, BMZ appears stretched trying to link up with the various ministries, attend meetings and to co-ordinate development co-operation policy. At partner country level, ministries are sometimes fielding missions without adequate reference to the Head of Co-operation or the relevant focal area co-ordinator. As the DIE has observed: “the danger is that potential synergies will not be sufficiently used and that lessons learned previously in development co-operation will not be incorporated by other ministries, resulting in learning processes being repeated, instead of being shortened” (DIE, 2009b). Insufficient co-ordination with other federal ministries will also result in increased transaction costs for Germany’s partners and less effective aid.

Parliamentary oversight of Germany’s development co-operation

Germany’s aid allocation, including the proportions allocated to financial and technical co-operation respectively, is debated in the *Bundestag*’s Committee for Economic Co-operation and Development and the Budget Committee. The Committee for Economic Co-operation and Development is also responsible for overseeing Germany’s ODA policy and strategy, including aid channels and modalities. This committee is primarily concerned with the 54% of ODA managed directly by BMZ. However, the peer review team welcomes the plans of the Committee for Economic Co-operation and Development to deepen and broaden its work in future to cover the whole of Germany’s ODA.

Evaluation of impact

BMZ is responsible for evaluation rules and standards, quality assurance and strategic evaluations, while the implementing agencies and larger NGOs carry out self and independent evaluations. The last peer review recommended that BMZ should intensify its efforts to join up the different parts of the German system to harmonise evaluation activities and promote learning. BMZ has taken some steps towards this by improving its development co-operation evaluation system. Coherence across evaluation systems is improving, and there are now a policy framework, standards and approaches in place. However, BMZ faces a major challenge in co-ordinating evaluation across 20 governmental and non-governmental implementing and funding organisations, each of which operates its own evaluation system – these organisations are producing a total of

almost 100 evaluations per year (OECD, 2010f). The BMZ evaluation unit has acquired an additional staff member since the last peer review. Nevertheless, a 2009 systematic review of the German development co-operation evaluation, covering BMZ and 19 governmental and non-governmental implementing and funding organisations, considered that the staffing and budget for evaluation in BMZ are wholly inadequate. This capacity issue needs to be addressed if the evaluation system is to fulfil its potential (Borrmann and Stockmann, 2009). Staff from the evaluation units of BMZ, GTZ and KfW informed the peer review team that the main users of their evaluations are the middle managers; it is difficult to get their work used by higher-level staff.

An independent evaluation agency or institute is planned by the government. This important development is designed to improve the legitimacy of evaluations. In addition, more work on lesson learning will be important, with an emphasis on real time and prospective evaluations and evaluating existing interventions rather than waiting until programmes have been completed. In planning for its independent evaluation agency, Germany should take account of the experience of other DAC members, such as Sweden.

Future considerations

- The merger of the three technical assistance agencies should be seen as the first step in a long-term and holistic reform of Germany's development co-operation system. Germany's wider institutional reforms should strengthen significantly BMZ's capacity to oversee the development and implementation of its own policies and to lead development co-operation policy effectively across the German government.
- The government committed itself to improving the field structure of Germany's development co-operation. Germany should therefore pursue operational decentralisation, as recommended in the last peer review. It should be taken forward jointly by BMZ and the Federal Foreign Office in the context of wider institutional reforms and increasing BMZ capacity. A new understanding between BMZ and the Federal Foreign Office on their relationships in the field should be developed.
- BMZ should strengthen and develop the role of the focal area co-ordinators in partner countries by (i) increasing the staff time allocated to this function within the co-ordinator's job description; (ii) making the post-holder more accountable to the Head of Co-operation in the German embassy; and (iii) formalising the role with BMZ and the various other German and partner country actors.
- Germany should ensure that adequate resources are allocated for continuing to improve evaluation and results reporting. BMZ should go further towards linking its country programming and resources to results and aligning them with effective partner country performance assessment frameworks.

Chapter 5

Aid Effectiveness

Germany's commitment to the international aid effectiveness agenda

Germany is committed to the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. The principles and actions contained in each are perceived as important by BMZ and its implementing agencies. Germany is addressing aid effectiveness at three levels with varying degrees of success: (i) internationally and in the European Union; (ii) nationally; and (iii) within partner countries. At the international level, Germany plays a leading role within the EU and the Working Party on Aid Effectiveness in ensuring an effective division of labour. During its EU Presidency in the first half of 2007 Germany successfully pushed for the establishment of the EU Code of Conduct on Division of Labour and Complementarity in Development Policy to increase country and sector concentration, encourage lead donor arrangements and reduce fragmentation and transaction costs. Also at the international level, Germany has been active in and supportive of DAC-related bodies dealing with aid effectiveness. Germany has provided leadership to the work on governance in developing countries (GOVNET) over several years, and has contributed in particular to the work on capacity building in developing countries (through a network called LenCD). In the framework of the Working Party on Aid Effectiveness, Germany has co-ordinated, along with South Africa, several activities related to commitments on predictability, transparency, reduction of aid fragmentation and conditions linked to aid. As a co-ordinator of this cluster of work streams, Germany participates in the Executive Committee of the Working Party on Aid Effectiveness. Germany has demonstrated considerable enthusiasm for the tasks of the Working Party and it has done well to attract quality contributions and engagement from key donors and to get the work done. While there is no doubting Germany's commitment to the international aid effectiveness agenda, there is a lot more it can do to connect this to the field level and to promote this within partner countries.

Germany's Plan of Operations for implementing the Paris Declaration

At the national and partner country levels, BMZ put in place a Plan of Operations (BMZ, 2005) for implementing the Paris Declaration in 2005 (the first donor to do so). It followed this up with an aid effectiveness manual for the German aid system in 2006, and an updated version of the plan in April 2009 that took into account the 2008 Accra Agenda for Action. The April 2009 plan lays down seven areas of action to make sure German development co-operation implements the main Paris Declaration and Accra Agenda for Action commitments (derived from shortcomings seen in the Paris monitoring process), and describes implementation measures for each area: ownership and alignment; division of

labour and complementarities; predictability and transparency; accountability, with a special emphasis on civil society participation; engagement in fragile states and situations of conflict; co-operation with all development actors; and incentives and monitoring (BMZ, 2009g). The aim of the plan is to embed Germany's commitment to aid effectiveness in development policy, guidance and implementation and to achieve specific targets that have been set against each of the Paris Declaration indicators (Table 5). BMZ has also issued policy documents confirming its commitment to expanding the use of programme-based approaches.

The Plan of Operations is a useful tool for building awareness and support for aid effectiveness throughout German development co-operation; it has been disseminated widely. BMZ and the larger implementing agencies have established focal points and units within their structures for dealing with relevant Paris Declaration topics and they have implemented training based mainly on the 2006 manual for the German aid system. Aid effectiveness targets have been integrated into BMZ objectives and targets at the level of divisions and even individual staff members and country-specific implementation plans have been drawn up for many of Germany's partner countries within the framework of the Plan of Operations. However, implementing the Plan of Operations has been and will continue to be a challenge for Germany given its ambitious nature, BMZ's capacity constraints and the fragmented nature of the country's development co-operation system. While the manual on aid effectiveness and the training has been helpful, BMZ has struggled to find ways to bring other ministries, *Länder*, and NGOs into the process for implementing the plan. It also needs to develop stronger management frameworks and incentives for its implementing agencies to adhere to aid effectiveness principles in all contexts. The implementing agencies have incorporated Paris Declaration requirements into their programming (via corporate annual goals) and are making explicit references to the Paris Declaration in their reporting. However, for the Plan of Operations to be successfully implemented the staff of BMZ and of all the other agencies responsible for German ODA needs to have a stronger ownership of it. BMZ and its implementing agencies will therefore need to continue to implement their respective internal training and dissemination strategies to build ownership of the plan and BMZ will also need to be more proactive in targeting ambassadors, other diplomatic staff and the staff of federal ministries for training and briefing on ways to make Germany's aid more effective and how to fulfil the country's obligations in respect of its aid effectiveness commitments and obligations.

Germany's performance against the Paris Declaration indicators

Germany participated in both the 2006 and 2008 *Monitoring Surveys of the Paris Declaration* (OECD, 2007b and 2008b). The results of the surveys for Germany are shown below in Table 5.

The surveys show that while Germany is improving its performance against all of the key indicators, it is still weak in its use of country public financial management systems, common arrangements or procedures and joint missions. The peer review team's assessment of progress towards Germany's targets for these indicators (Table 5) is based on the 2006 and 2008 surveys and the data presented by BMZ during and subsequent to the mission to Germany. While the April 2009 Plan of Operations is designed to strengthen the country's performance, particularly by making more systematic use of partner country structures and procedures, there

is clearly a need for Germany to move faster with implementing this agenda. Meeting the 2010 targets will require considerable managerial effort, particularly by the focal points responsible for monitoring progress, and momentum needs to be built up and maintained.

Table 5. Germany's performance against the Paris Declaration indicators

Indicator	Germany 2005 (33 countries)	Germany 2007 (33 countries) ¹	Germany 2007 (all countries) ¹	2010 target for Germany	Peer review comment on Germany's performance
3. Aid flows are aligned on national priorities and on budget	49%	57%	54%	85%	Aid on budget off target
4. Strengthen capacity by co-ordinated support	33%	72%	73%	50%	Target met, but set lower than DAC average
5a. Use of country public financial management systems	36%	40%	39%	Relative to indicator 2a ²	Little progress
5b. Use of country procurement systems	34%	60%	63%	Relative to indicator 2b ²	Considerable improvements made
6. Avoid parallel implementation structures (PIUs)	40 PIUs	27 PIUs	41 PIUs	13 PIUs	On track
7. Aid is more predictable	47%	54%	51%	74%	Off track
8. Aid is untied	94%	100%	100%	More than 94%	Target met
9. Use of common arrangements or procedures	19%	34%	24%	66%	Some progress
10a. Joint missions	29%	35%	37%	40%	Target likely to be met but set lower than DAC average
10b. Joint country analytic work	50%	78%	70%	66%	Target met

1 2006 survey: Information in the table covers data reported in 31 out of the 33 recipient countries and reflects 39% of country programmed aid in 2005. 2008 survey: Information in the table covers data reported in 47 recipient countries out of 55 and reflects 55% of country programmed aid in 2006. DAC statistics on aid untying for Germany show that 77% of German bilateral aid was untied in 2008 compared to a DAC average of 81% for this year.

2 The 2010 targets for indicators 5a and 5b are based on further improvements in the quality of partner country public financial management (PFM) and procurement systems support, increasing use of them by donors. Germany has a target of 79% for 5a based on a two thirds reduction of the gap between the baseline value of 2005 and 100% (assuming reliable country systems); it also has a target of 57% based on a one third reduction of the gap (country systems being reformed). Germany has a target of 56% depending on the individual baseline value of 2005.

Sources: OECD (2007b), *2006 Survey on Monitoring the Paris Declaration: Overview of the results*, OECD, Paris; OECD (2008b), *2008 Survey on monitoring the Paris Declaration – Making aid more effective by 2010*, OECD, Paris

Ownership

Germany has promoted country ownership by integrating the concept into BMZ's guidelines, plans, strategies and training of staff. The concept of country ownership is widely used in BMZ's country strategies and those reviewed by the peer review team were found to be aligned to national development strategies to a large extent. The degree to which Germany's development co-operation is in accordance with national priorities depends on the partner country's capacity and willingness to lead and manage development. Germany is helping to increase the capacity of its partner governments in the focal areas that it supports and, within these, a range of development actors are taking active roles in discussing with partner governments development policy and the role of aid in the sector. The peer review team observed this first hand in Morocco and Zambia (Annex D). Some of Germany's cross-cutting work on gender equality, human rights and environmental sustainability is strengthening partner country leadership on these issues. However, a recently commissioned evaluation reveals that more work is needed to clarify the principle of ownership among Germany's implementing agencies and to build a better understanding of how to support this (BMZ, 2008i). During 2009 BMZ facilitated a review of the experiences of partner countries and other donors in ownership and alignment and is intensifying efforts to promote partner country ownership and to engage in joint assistance strategies.

Alignment with and use of country strategies and systems

Germany supports the principle that donor countries should align behind partner countries' own strategies and objectives and use local systems. To date, however, Germany has found that orienting its activities to partner countries' national strategies is proving much easier to do than using partner country budgeting, financial management and monitoring systems to deliver its aid. The Plan of Operations of April 2009 states clearly that "financial and technical co-operation measures will be aligned with partner country development strategies and – wherever possible – will systematically utilise country structures" (BMZ, 2009g). However, despite this strong commitment Germany is still weak on Paris Declaration indicators 5a (use of country public financial management systems) and 9 (use of common arrangements or procedures) – see Table 5 above. Germany has committed to making more use of programme-based approaches as a means of aligning to country systems. Progress has been made in this regard, but more needs to be done if the 66% target on programme based approaches is to be achieved. With the introduction of a programme based approaches marker in 2009 (covering integrated projects, basket funding, sector and general budget support), these are now monitored systematically by BMZ. This important instrument allows BMZ to engage in a dialogue internally and with the implementing agencies on the concept of programme based approaches and how their use can be increased in future. In 2007 only a small proportion of Germany's bilateral ODA was provided through programme based approaches (Figure 14). Many valuable lessons have been learnt in Zambia (Box 5) that Germany should build on in other similar contexts; this does not seem to be happening currently.

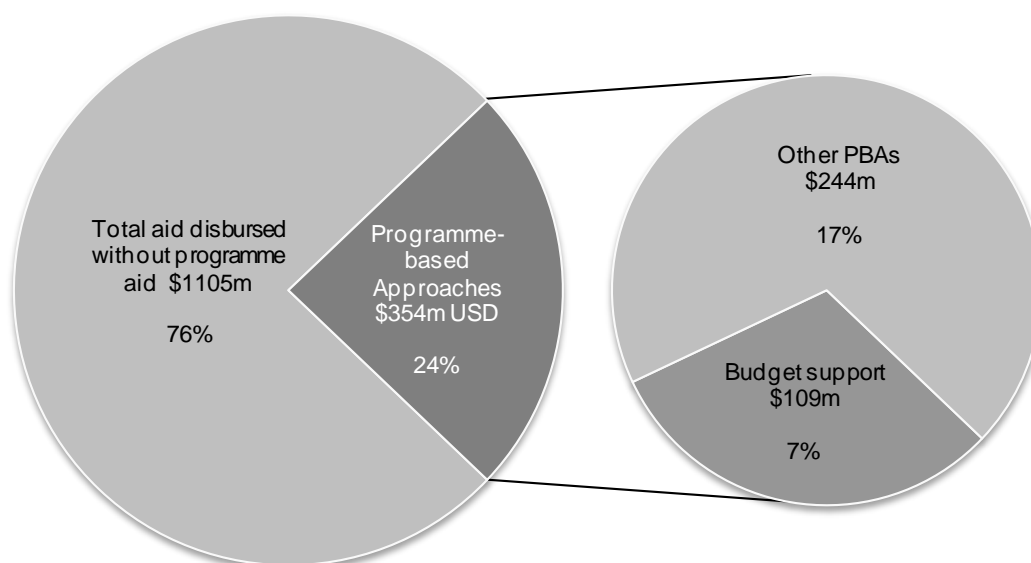
Box 5. Joint Assistance Strategy, Zambia (JASZ)

Zambia is a major beneficiary of ODA, and aid constitutes a substantial share of the country's budget and GDP. To better manage their development co-operation with the government and align their assistance with the country's Fifth National Development Plan (FNDP), a Joint Assistance Strategy for Zambia (JASZ) was prepared in April 2007 and signed by 16 co-operating partners. These included 12 bilateral donors and 4 multilateral agencies (the African Development Bank, the European Commission, the United Nations system, and the World Bank). Of these signatories Germany, Great Britain, Ireland, Norway, and Sweden decided to replace their current country strategies for development co-operation with the JASZ. The other signatories decided that, while maintaining their individual country strategies, they would align their strategies with the JASZ framework. It is envisaged that linking the international arrangements signed under the Paris Declaration with the effectiveness criteria discussed in Zambia's aid policy and strategy will result in lower transaction costs, more effective official development assistance, greater mutual accountability, and stronger local ownership of the development process. More concretely, the key objectives of the JASZ are:

- to establish a shared vision and guiding principles for co-operating partners' support to the objectives of the FNDP, which is the first stage in meeting the Vision 2030;
- to articulate priorities for support during the plan period;
- to replace or better align co-operating partners' country strategies (including resource allocations) with FNDP priorities, targets and country systems;
- to improve aid delivery by achieving more effective division of labour and allocation of co-operating partners' resources;
- to deepen the results focus of assistance programmes;
- to simplify aid management and improve aid predictability; and
- to reduce transaction costs for the government.

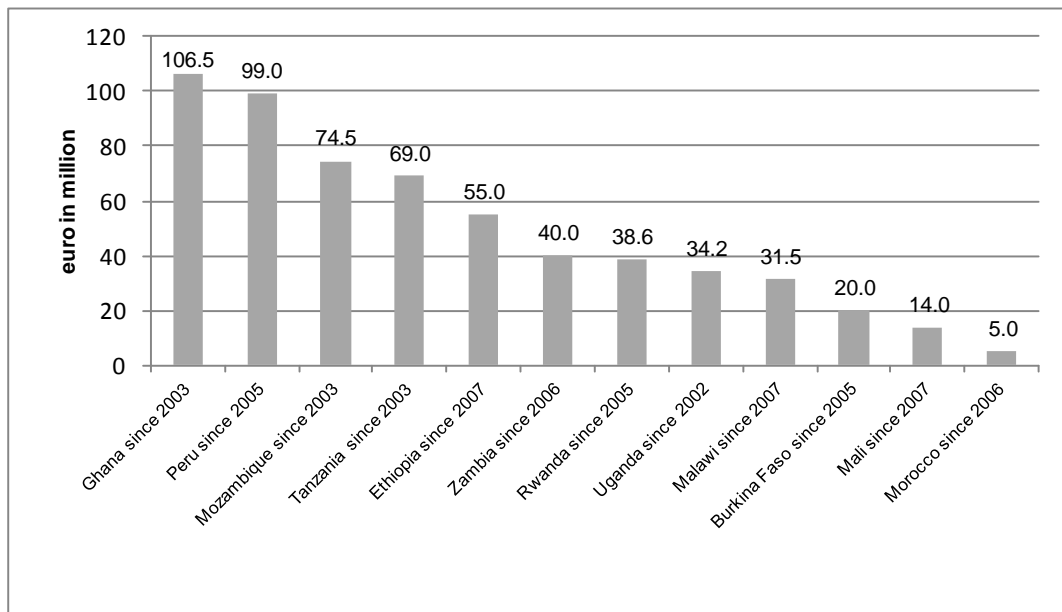
Co-operating partners recognise that a fully subscribed JASZ provides a unique opportunity to develop a joint analytical and programmatic response to the FNDP. It is, however, agreed that the JASZ does not constitute an international treaty or any other legally binding document. In cases where the JASZ is inconsistent with the laws, policies, or commitments of any signatory, those laws, policies, or commitments will prevail.

Source: Joint Assistance Strategy for Zambia, Co-operating Partners, 2007.

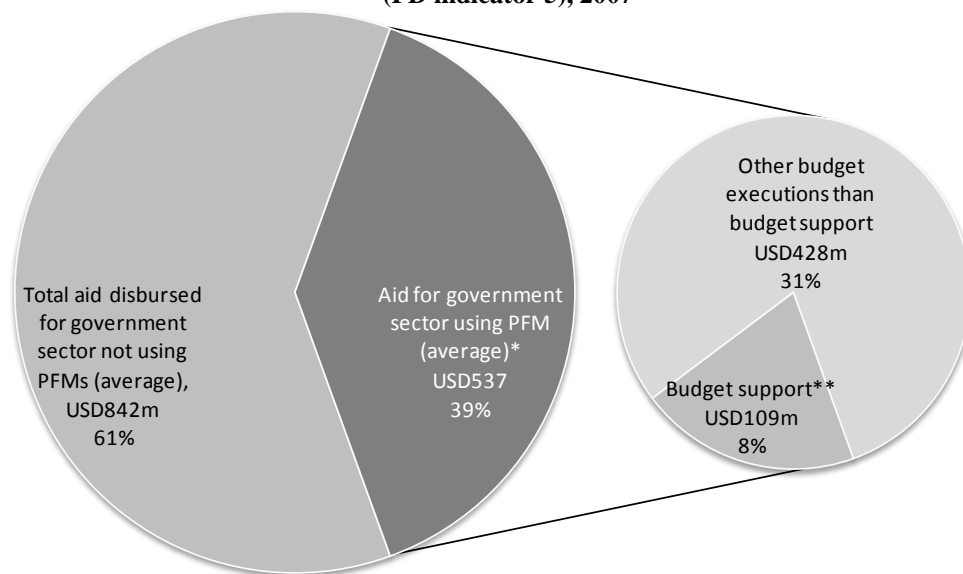
Figure 14. PBAs and budget support operations supported by Germany, 2007

Source: OECD (2008b), *2008 Survey on Monitoring the Paris Declaration – Making aid more effective by 2010*, OECD, Paris

Germany has reduced the number of parallel project implementation structures (PIUs) in its development co-operation to 13 and has therefore already achieved its target for 2010. Nonetheless, there is still a strong tendency in German development co-operation to second expatriate experts to local institutions with project funds that are outside a partner government's own financial management system and to use German-specific monitoring and reporting procedures. The majority of Germany's bilateral development co-operation continues to be delivered through projects and programmes that are implemented by German implementing agencies or NGOs. With regard to budget support, the Federal Court of Auditors recommended applying strict criteria for this and the *Bundestag's* Budget Committee reserves the right of approval in every individual case. BMZ has established three basic criteria for partner countries for providing budget support: sound macro-economic and financial management; medium-level of governance with a positive development trend (assessed based on BMZ catalogue of criteria); and a development-oriented national strategy. Conceptually, BMZ sees the comparative advantages of budget support particularly in highly aid dependent, low-income countries. These conditions exist in a number of Germany's partner countries, particularly the MICs that feature so strongly in Germany's development co-operation, but BMZ is currently implementing budget support in only 12 countries (Figure 15) and making only limited use of partner countries' public financial management systems (Figure 16). In 2007 only 7% of Germany's total bilateral aid was delivered as budget support. Given that other donors are providing budget support in most of Germany's 57 partner countries, there is considerable scope for greater use of this instrument.

Figure 15. General and sector budget support commitments by Germany

Source: Data presented to the peer review team by BMZ

Figure 16. Germany's aid to the government sector using public financial management (PD indicator 5), 2007

Notes

* Average of budget executions, financial reporting and auditing (indicator 5a)

** As in indicator 9.

Source: OECD (2008b), 2008 Survey on Monitoring the Paris Declaration – Making aid more effective by 2010, OECD, Paris

Positive efforts to strengthen and use country systems

It is important to note that Germany is making efforts to strengthen and use country systems in a number of contexts as the peer review team observed in Morocco and Zambia (Annex D). In certain other cases (including Burkina Faso, Ghana and Malawi) Germany's budget support is delivered by KfW, with accompanying technical co-operation provided by KfW itself or (in-kind) by other implementing agencies. Germany has some good experience of direct contributions of technical co-operation and capacity development linked to budget support in Ghana in particular (DIE, 2008). In that country Germany is providing general budget support to the government through KfW and providing accompanying technical assistance in-kind through three other agencies. More generally, however, there will need to be greater use of programme-based approaches and budget support in Germany's development co-operation if the 2010 aid effectiveness targets are to be met.

It is also important to note that Germany is using budget support in innovative ways in some countries. In Morocco, for example, the peer review team saw how KfW engages closely with other development finance partners to provide joint support to national programmes, often blending concessional with non-concessional finance and technical co-operation with financial co-operation (Annex D).

Making aid more predictable

Currently Germany is off track for the achievement of its target for making aid more predictable, but its performance against indicator 7 is better than the average of other donors (Table 5). Germany informs partner countries about its commitments 2-3 years in advance based on co-operation agreements and provides information on plans tailored to requests received from partner governments. By the end of 2011, three-year, rolling, forward expenditure plans will be communicated to partners in a more systematic way. The predictability of Germany's aid can be improved and there do not appear to be any systematic barriers to better performance in this area. Stakeholders interviewed by the peer review team in Morocco and Zambia felt that Germany performed well on in-year predictability and in each case a three-year aid framework was available. In other contexts, with the exception of budget support operations, Germany is weaker on multi-annual predictability of aid and this should be resolved with the new three year rolling plans from 2011. One reason for a weaker performance on this indicator could be inconsistencies between Germany and partner country data, with partner countries not reflecting information provided by BMZ correctly or in time – this should be looked into by BMZ.

Harmonisation

The principle of harmonisation is that donor countries co-ordinate, simplify procedures and share information to avoid duplication. The last peer review recommended that Germany should enhance its efforts to integrate the operations of its implementing agencies in the field in order to fulfil the Paris Declaration. There has been progress in this area with the establishment of Development Co-operation Country Offices, focal area coordinators and joint programming, but it is noticeable that two recent surveys of aid effectiveness in Germany's development

co-operation highlight harmonisation *within* the German development co-operation system as a major issue (Eurodad, 2010 and DIE, 2008). These institutional constraints have already been discussed in Chapter 4, but it is important to note at this point the negative impact of Germany's fragmented development co-operation system on its capacity to harmonise aid with other development partners. This theme was picked up by the second survey (DIE, 2008), which reported that respondents in BMZ, DED, KfW and GTZ felt that harmonisation within the German aid system remained a considerable challenge that in some cases needed to be addressed *before* there could be effective harmonisation with other development partners. Germany's institutional fragmentation is also hampering its efforts to make greater use of common arrangements or procedures and to co-ordinate joint missions.

In pursuing harmonisation, Germany has chosen to focus on division of labour, which it sees as crucial for progress. At the international level Germany has been active in promoting cross-country division of labour within Europe. At the country level Germany has contributed through sector concentration processes. However, it is clear from the peer review's interactions with BMZ officials that Germany did not consult as widely as it should have done when reducing the number of its partner countries from 84 to 57 and this is partly owing to the absence of an international information exchange on such issues. In Zambia, Germany's commitment to an effective division of labour has been translated into good practice processes and decisions that should also be replicated in other countries (see Box 5 and Annex D).

Managing for development results

Germany has gone some way towards linking its country programming and resources to results and aligning them with effective partner country performance assessment frameworks, where these exist. Germany's implementing agencies are using performance indicators that are broadly consistent with partners' national development strategies and partner countries' own results-oriented reporting and monitoring frameworks. Where Germany is providing support to programme-based approaches it is harmonising its monitoring and reporting requirements to a large extent. But in most of Germany's projects and programmes the implementing agencies still use their own statistical, monitoring and evaluation systems as the basis of reporting. There is also an issue of quality assurance that is separate from evaluation and that should be strengthened by BMZ. As discussed earlier in this report, BMZ is assuring the quality of Germany's aid implementation arrangements, but not always in a systematic way. While the obvious trust that exists between BMZ and its implementing agencies is a positive feature of Germany's development co-operation system, there also needs to be stronger verification that Germany's aid has been delivered effectively, efficiently and in accordance with partners' priorities. Good practice that Germany may wish to consider in this regard is the approach taken by Denmark with its Quality Assurance Unit (OECD, 2007c).

Germany's development co-operation system needs to develop a culture of managing for results that is more in line with the Paris Declaration and the Accra Agenda for Action. In part, this will require BMZ to build stronger internal and external monitoring and an independent evaluation system in line with international

standards. This includes a need to establish results frameworks for major programmes, improve monitoring during project implementation, to improve evaluation, and to integrate lessons from evaluations into future programmes. Evaluations should consistently be made public in order to improve accountability in Germany and partner countries. This will require more effective communication of evaluation results, particularly for the *Bundestag* and broader public. More generally, Germany will need to adopt results frameworks for its major programmes which are based on partner countries' national goals. It will also need to improve planning, link interventions to results, make performance monitoring more systematic, and use performance information to influence decision making on programming and budgeting.

Untying aid

In 2008, Germany reported that 77% of its bilateral aid was untied, the remainder being reported as tied. In that same year, 41% of German technical co-operation was reported as untied. The DAC average bilateral untying ratio for 2008 is 81%, while that for technical co-operation is 61%. Germany is thus below the DAC average for untied aid, especially for technical co-operation. To meet its commitments under the Accra Agenda for Action, Germany has set out a credible plan and timetable to untie more aid and should be congratulated for these intentions. Both Germany's financial and food aid is almost entirely untied and BMZ's focus is now on further untying technical co-operation and humanitarian aid (the latter is currently 77% tied). There are two issues for Germany to consider in this area:

- (i) How to better respond to reporting engagements agreed in the untying recommendation of the DAC (OECD, 2008f) to provide better transparency? BMZ is already planning to improve its system for transparency towards domestic and external stakeholders and other development actors. It is recommended that system improvements also cover reporting obligations entered into under the untying DAC recommendation.
- (ii) How might Germany untie more of its technical co-operation? German technical co-operation, while respected for its professional approach, is seen as costly by many stakeholders (*e.g.* Eurodad, 2009). As discussed in Chapter 4, the institutional framework for German technical co-operation is being reformed; in the meantime, Germany should further increase the amounts of technical co-operation that are untied and openly procured, preferably through partner country procurement systems.

Emerging challenges for effective aid

Germany will need to continue responding to existing and new challenges. Many of the emerging challenges relate to the more qualitative issues surrounding commitments on aid effectiveness that are not necessarily reflected in existing performance indicators. As BMZ collaborates increasingly with other federal ministries on its work in fragile states it should give greater emphasis to the Accra Agenda for Action commitments on fragile states and the *Principles for Good*

International Engagement in Fragile States and Situations (OECD, 2007a). BMZ should share its experience and knowledge of aid effectiveness issues with other federal ministries responsible for delivering German ODA in these contexts.

Future considerations

- Germany should build on the progress made in implementing the Plan of Operations by making greater use of partner country systems and adapting its instruments to the context of country-led programme-based approaches. To achieve this it will be necessary to build greater awareness of and support for meeting Germany's aid effectiveness commitments across the German development co-operation system, particularly among other ministries and the implementing agencies.
- Germany should focus its long-term institutional reforms on resolving the constraints to implementing the aid effectiveness principles, especially the fragmented nature of its development co-operation system.
- Germany should untie technical co-operation more and make it better tailored to recipient countries' needs and aligned to country systems. The proposed plan for further untying of German aid should look at the issues surrounding technical co-operation in particular.

Chapter 6

Special Issues

For the 2009-2010 biennium, the DAC has decided that all peer reviews should cover two special topics. The first – capacity development – is obligatory for all peer reviews. The second can be chosen from two options. Germany has chosen environment and climate change.

Capacity development

Capacity is a critical factor for effective development – the DAC defines it as “the ability of people, organisations and society as a whole to manage their affairs successfully” (OECD, 2006a). The objective of capacity development is to strengthen the knowledge and skills of individuals, create functioning organisations and ensure an enabling institutional environment. Capacity development has been an overall goal of Germany’s development co-operation for many years. Technical co-operation has traditionally been Germany’s principal means to promote capacity development, but over time, the focus has shifted from building the technical skills of individuals and strengthening local organisations to improving legislative, economic, social, ecological and political contexts in developing countries.

Concepts, strategic orientations and practices

A holistic and nuanced understanding of capacity development

Germany’s policy statements and the Country Memorandum demonstrate a wider appreciation of capacity development, one that is in line with current DAC thinking. Germany subscribes to the view that capacity development support should be demand-driven and aimed at strengthening partner capacities to implement national and sector strategies and programmes. Germany recognises that more systemic change processes require external actors to understand the political economy of a country, *i.e.* how political institutions, the political environment, and the economic system influence each other, and take account of power relations and interests. Capacity development is understood comprehensively as embracing different, interlinked levels: “the enabling environment, macro and sector policy, the institutional set-up, the level of organisations and the level of individuals” (BMZ, 2008j). Germany also emphasises the need to involve both civil society organisations and the private sector in capacity development interventions. In its *Guidelines for Financial and Technical Cooperation* (BMZ, 2008b), BMZ defines capacity development as a key function for its implementing agencies (Box 6).

Box 6. Germany's implementing agencies and capacity development

Capacity development (CD) is seen as a core task for GTZ. GTZ offers multiple services to support capacity development in partner countries, including capacity assessments, counterpart training, sector-specific and organisational advisory services and advisory services on legal and administrative frameworks. The German Development Service (DED) also addresses CD issues at the micro and meso levels, mostly targeting civil society and public and private sector actors. DED assigns its qualified experts and provides technical advisory services mainly to partners at the decentralised/local levels, complementing measures by other actors. InWent – Capacity Building International – is a German training agency with programmes designed for experts and executives from politics, administrations, the business community and civil society, qualifying people to pass on their knowledge to others and effect long-term structural changes. KfW, the German Development Bank, considers capacity development measures as a permanent and integral component of financial co-operation. In this sense, for KfW capacity development not only focuses on the development of human capacities, but also on the general sector and social conditions which influence people in the partner countries.

Source: OECD (2009f), *Inventory of Donor Approaches to Capacity Development: What we are learning*, OECD, Paris

Germany seeks to include capacity development objectives in its country and focal area strategies and to integrate the theme across all its programming. Germany has also reflected on capacity development in the context of the aid effectiveness agenda and has examined what instruments and approaches donors should apply to promote the development of national capacities to implement the Paris Declaration and for donors to become more effective in delivering capacity development support to partners (BMZ, 2008j). While a wider appreciation of the issue and broader approaches are considered, technical co-operation continues to be seen by Germany as the dominant modality to support capacity development.

The need for a government-wide strategy on capacity development and the role of technical co-operation

Surprisingly, given the importance of the issue, Germany does not yet have a common definition of capacity development or a clear strategy for capacity development to guide its overall development co-operation.¹⁵ In the absence of an overall capacity development strategy, the various implementing agencies have developed their own visions and strategies for how their organisations contribute to capacity development based on their specific institutional mandates. The planned merger of GTZ, InWENT and DED offers an opportunity to harmonise some of these visions and approaches and, more generally, to rethink the role of technical co-operation in partner country-led development. Germany could more explicitly recognise that this instrument has various functions, not all of which develop capacity.¹⁶ Germany should strengthen measures

15. In June 2008, the BMZ prepared a draft discussion paper on capacity development which to date has not been approved. This paper was presented and discussed at the 3rd High Level Forum at Accra, September 2008.

16. See, for example, the EC's backbone strategy for TC which distinguishes: (i) capacity development of organisations and individuals; (ii) providing policy and/or expert advice; (iii) strengthening implementation of services, investments, regulatory activities; (iv) preparation/facilitation of donor

further to ensure technical co-operation primarily contributes to capacity development. In this sense, it is worth noting that Germany agreed to the 2009 decision of the Council of the European Union, which provides a joint European operational framework on technical co-operation for enhanced capacity development (Council of the European Union, 2009).

Germany should also reflect on the reform of its technical co-operation from a “value for money” perspective, given that a single agency will soon be responsible for implementing practically all of Germany’s aid of this type. As discussed in earlier chapters of this report (4 and 5), using a wider range of implementers would help BMZ, and other ministries, access independent advice and create incentives for better value for money. Germany should also reflect on how to expand the choice of technical co-operation providers to ensure access to sources of local and South-South expertise, as called for in the Bonn consensus on capacity development (see Section 6.1.3). Germany’s emerging experience with triangular co-operation could be promising in this regard so long as it remains demand-driven and partner country-owned.

Germany needs to clarify how various other aid modalities and instruments, beyond technical co-operation, can also contribute to capacity development. Building on the BMZ Plan of Operations for implementing the Paris Declaration and Accra Agenda for Action, Germany should link a future capacity development policy to the use of a range of aid modalities and practices that support capacity development objectives, not just technical co-operation. Germany should also clarify how this instrument can be more effectively linked and combined with other aid instruments (*e.g.* programme-based approaches). This should include the use of other approaches and entry points, such as political dialogue to influence the enabling environment and political will (for example in the context of budget support), and advocacy/support for systemic governance reforms in areas of strategic importance (justice, civil service, revenue management, private sector etc.).

Adapting capacity development support to specific country contexts

Germany recognises that approaches to capacity development have to be adapted to various country contexts, in particular emerging economies and fragile and conflict-affected states. In line with recent thinking in the OECD, Germany has placed statebuilding and the role of development co-operation in facilitating constructive state-society relations at the centre of its thinking on how to “engage differently” in fragile situations. Germany recognises the need to develop practical guidance on how capacity development principles and technical co-operation can contribute better to statebuilding in these situations, where the very conditions needed to make it work tend to be weak or absent. BMZ could build on the work of the OECD and the European Commission to develop specific guidance on this topic.¹⁷

Germany’s collaboration with the emerging economies aims at building strategic partnerships for global sustainable development and is focused on training measures,

co-operation projects (EC, 2008). There is recognition within GTZ that not all technical co-operation is capacity development.

17. The EC is currently developing guidance to adapt its backbone strategy on technical co-operation to fragile situations. Work as part of the OECD-supported International Dialogue on Peacebuilding and Statebuilding will include a focus on capacity development/technical co-operation in fragile and conflict-affected states.

integrating people into networks and facilitating peer learning through processes of international comparison.¹⁸ Important reform processes that are considered of regional and global significance are supported through expert conferences, dialogue platforms and institutional partnerships, especially in the fields of law, social and economic policy, and climate, energy and the environment.

A large body of sector experiences, good practice notes and tools

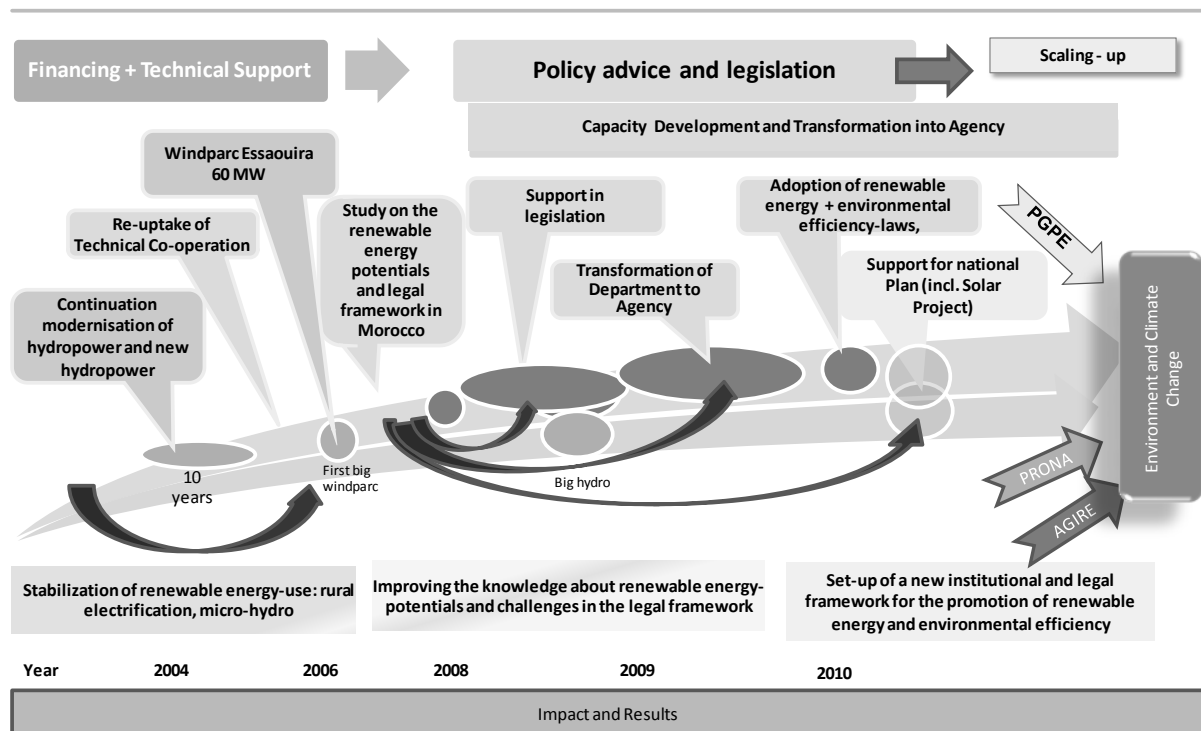
Germany has developed strategy documents and identified lessons on capacity development in key sectors of intervention (e.g. climate, water, education, private sector). A good example are the *Guidelines for Capacity Development in the Education Sector* (BMZ/GTZ, 2008), developed by BMZ/GTZ on behalf of the Fast Track Initiative Education for All Capacity Development Task Team. Within the implementing agencies a number of capacity assessment tools and capacity development related project management guidelines have been developed (e.g. Capacity WORKS¹⁹).

Capacity development in practice

Building on strengths: a long-term, holistic and process-based approach

Germany's approach to capacity development, particularly in the traditional area of technical co-operation, is recognised by partner governments and other donors as effective and relevant (see earlier chapters). Perceived strengths include: (i) a rich institutional experience in human resource development, institutional reform and facilitation of change and dialogue processes, combined with strong sector expertise and high quality technical resources; (ii) a long-term focus using commitments over periods of 6-10 years which recognises that it takes time to generate sustainable results; (iii) a holistic approach to capacity development encompassing support at various levels (e.g. strategy, regulatory reform, institutional/organisational and human resources development) drawing on expertise from various implementing agencies (such as GTZ, DED, InWEnt; Figure 17); and (iv) an increasing use of local and regional expertise. The direct engagement of Germany's implementing agencies, in particular GTZ, often offers a detailed understanding of the partner country context and means that implementing agencies can help facilitate change from within.

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18. The Managing Global Governance Programme, for example, trains young professionals and leaders from government institutions and policy research institutes in Brazil, China, Egypt, India, Indonesia, Mexico and South Africa on issues of common international responsibility. As such it aims to positively shape global governance structures through networking with others. The programme was commissioned by the BMZ, and is implemented by InWEnt (Capacity Building International, Germany) and the German Development Institute.
 19. Capacity WORKS is a GTZ management model for sustainable development; it explains how to structure the management and steering of projects and programmes so that the results of capacity development are as effective and sustainable as possible.

Figure 17. Sustainable capacity development in Morocco's energy sector

Source: GTZ, Morocco

Ensuring demand-driven technical co-operation to support capacity development

Germany is moving towards making its support to capacity development more demand driven. First, BMZ has put in place a system of contracting for GTZ which defines overall development results, targets and indicators rather than specific activities or a detailed path of delivery. This allows GTZ autonomy (once a contract with BMZ has been signed) to provide technical co-operation that is flexible and adaptable to the evolving priorities and needs of its partner agencies. During the peer review field visits partners expressed appreciation for the responsiveness of German technical co-operation to their needs and the long-term nature of the support. Germany's approach reflects an understanding of capacity development as a "complex, multifaceted, dynamic and long-term change process", which can only be planned to a limited extent. Second is the introduction of "joint programme proposals" (see Chapters 1 and 4), which permit financial and technical co-operation inputs to be tied more closely together and ensure that both instruments are more mutually reinforcing.

As mentioned earlier, there are risks inherent in any technical co-operation intervention that international actors will establish gap-filling parallel mechanisms. By replacing country structures or poaching staff from domestic organisations, external action can in fact undermine local capacity and negatively affect the national labour market. This risk is particularly acute in fragile states (OECD, 2010c). While the DAC recommends the hiring of local staff by development agencies (see Chapter 4), Germany should ensure it monitors the impact of technical assistance and local recruitment on the local labour market and government capacity. To ensure technical co-operation projects

contribute to capacity development objectives, it is not only important to integrate them into sector strategies, but also to put appropriate monitoring and evaluation measures in place. This is important because as the implementing agencies are ultimately accountable to BMZ for achieving agreed objectives, project staff can be under pressure to prioritise delivery of results over transfer of skills and capacity development objectives. Germany could play a lead role – both in partner countries and internationally – in contributing to the development of capacity development monitoring systems. Lastly, Germany should make further progress in ensuring that selection (and evaluation) of core technical assistance personnel is led by the partner country and not the donor or its implementing agency.²⁰

Capacity development in the context of the aid effectiveness agenda

Co-ordination of technical co-operation: Germany is improving its co-ordination of technical co-operation activities with other donors and in 2007 a total of 73% of German funding of this instrument was aligned with partner strategies and co-ordinated with other donors (OECD, 2008b). There are also a number of instances where German technical co-operation forms part of harmonised arrangements, including technical assistance pools. BMZ and GTZ are currently preparing guidance on technical assistance pools, which is an encouraging development. The emphasis here should be on building the capacity of partner countries to: (i) identify for themselves capacity development needs and the areas where technical assistance is needed; and (ii) manage the selection, contracting, deployment and use of technical services.

Programme-based approaches: these are key instruments for implementing the principles of the Paris Declaration and Accra Agenda for Action (see Chapter 5) and can also provide a framework for harmonised support to capacity development. Through its leadership of in-country thematic groups (e.g. of the water and environment thematic groups in Morocco), Germany could actively promote the development of joint (capacity) assessments, joint strategies and programme-based approaches involving all key donors in a sector. BMZ will need to set appropriate incentives for the new post-merger TC agency (GIZ) to move further in this direction in Germany's partner countries.

Country systems: Germany is trying to avoid parallel systems by integrating programme implementation structures into partner institutions. Progress has, however, been slow in using country systems for aid delivery (see Chapter 5). The use of partner country systems can make an important contribution to capacity development, especially when combined with technical co-operation measures to strengthen those systems. Germany has prioritised capacity development through technical co-operation support to partner country reforms to meet minimum international standards for procurement, financial and fiscal systems, national statistical systems, internal and external auditing, budget management, and delivery of funds.²¹

20. This is already the case with TC inputs provided through KfW.

21. Germany also highlights the importance of referring to and relying on international agreements, tools and initiatives to support capacity development in key country systems – including, for example, the recommendations of the Joint Venture on Procurement, or existing analytical tools developed within the scope of Public Expenditure and Financial Accountability (PEFA) initiative.

Contributions to the international policy debate

Germany plays an active role in the current international discussion on capacity development and has made important contributions to advancing knowledge and learning on this subject. Germany is actively engaged in the current OECD initiative on the capacity development priorities of the Accra Agenda for Action and international networks such as the Learning Network on Capacity Development (LenCD) and the Capacity Development Alliance.²² In 2008, Germany collaborated with the OECD to host a strategic workshop on capacity development which generated the “Bonn Consensus”, which then helped significantly to raise the visibility of capacity development in the AAA. Germany also contributed significantly to the joint learning agenda on capacity development, including for example, a recent major study on effective technical co-operation, led by Japan and a consortium of other agencies (JICA, 2008).

Future considerations

- BMZ should define its conceptual understanding of capacity development, building on its sectoral experience, and develop a strategy for how all of Germany’s aid instruments and agencies can contribute to capacity development. This should clarify how technical co-operation can be linked and combined more effectively with other aid modalities and instruments (*e.g.* programme based approaches, budget support and sector wide approaches).
- Germany should take advantage of the planned merger of the three technical co-operation agencies as an opportunity to rethink the role of this instrument in partner country-led capacity development. Reforms should enable greater partner-country involvement in selection and evaluation of technical assistance personnel and ensuring technical co-operation projects prioritise capacity development objectives over contractual delivery obligations with appropriate monitoring and evaluation mechanisms in place. Germany should also monitor the impact of its technical co-operation on the local labour market and local capacity.
- Germany should clarify, in collaboration with the broader international learning process on capacity development in fragile situations, how it expects to contribute to statebuilding processes in fragile contexts.
- Germany should continue to harmonise and co-ordinate its technical co-operation which supports capacity development along with other donors through increased engagement in programme based approaches, and the use of technical assistance pooling arrangements and country systems.

22. LenCD is an informal network of researchers and practitioners whose joint aim is to promote capacity development by exchanging experiences, identifying best practices, and conducting research and dialogue. Its co-ordinator was funded by Germany for a transitional period until this year. CD Alliance is a small but high-level group that seeks to provide political advocacy from the South in favour of capacity development good practice. Germany currently co-chairs that group.

Environment and climate change

A long-standing strategic priority

Germany has been strongly committed to the environment and climate change agenda for the past two decades. In recent years climate protection has become of greater significance in Germany's development co-operation, with BMZ's climate related expenditure increasing by 40% between 2008 and 2009. Also, the volume of commitments for the conservation of biodiversity and forest protection has risen continuously since the last Peer Review from EUR 124 million in 2005 to EUR 210 million in 2009. This agenda is being driven by the highest levels of Germany's government. Germany's comprehensive national environment and climate change legal and strategic framework also covers the importance of addressing climate change in developing countries.²³ Within this framework there is an inter-ministerial group on climate change adaptation which also has an international dimension. The political importance of the issue was highlighted during Germany's presidency of the G8 and EU during 2007, with the Chancellor earning the title of the "Climate Change Chancellor" for her strong leadership of this issue domestically and internationally. The Chancellor also provided strong leadership in preparing for the December 2009 Copenhagen Summit (see Chapter 1). This issue was a priority in the 2008 white paper (BMZ, 2008g) and has been given significant emphasis in government statements since September 2009. BMZ has published sector strategies and concepts on the environment, natural resource management and biodiversity since the last peer review and these are informing country strategies; the peer review team saw evidence of this during its visit to Morocco.

The key document for the integration of climate change issues into Germany's development co-operation is BMZ's *Programme of Action on Climate and Development* approved in April 2007 (BMZ, 2007e and see Box 7). This document describes 10 priority areas of action for Germany, with a focus on renewable energy, adaptation and the protection of forests. Two additional strategy papers have been drafted: one is on adaptation to climate change and the other is on reducing greenhouse gases. These will both be published in late 2010 after a consultation phase. Germany has defined environmental protection and globally sustainable development as core objectives of its development policy (BMZ, 2010). Germany aims to achieve these objectives through its bilateral development co-operation with partner countries and through its engagement in the global environmental conventions and processes agreed at Rio de Janeiro in 1992, as well as within the framework of the UN, EU and the OECD. BMZ highlights the following conventions and processes as its frame of reference for development, environment and climate change (Table 6 below) and these are all referred to in its sector strategies and concepts:

23. The legal framework comprises a package of environment and climate change acts and the German Strategy for Adaptation to Climate Change, adopted by the German federal cabinet on 17 December 2008.

Table 6. Germany's frame of reference for environment and climate change

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- The United Nations Framework Convention on Climate Change
 - The United Nations Convention to Combat Desertification
 - The Convention on Biological Diversity
 - The Implementation Track for Agenda 21 (Rio) and the Johannesburg Plan of Implementation (JPOI) facilitated by the Commission on Sustainable Development (CSD)
 - The OECD DAC ENVIRONET (a broad network with a range of activities): Germany reports to the OECD Creditor Reporting System on the Rio Markers which are used to monitor aid for the implementation of the Rio Conventions; Germany makes use of the “Guidance on Strategic Environmental Assessment” and the “Guidance on Integrating Climate Change Adaptation into Development Cooperation” developed by OECD-ENVIRONET and has developed training manuals and other tools both for SEA and Adaptation.
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A lead role in the international community

As a member of ENVIRONET and the Environment Policy Committee (EPOC)/Working Party on Global Structural Policy Bureau, Germany played an active role in the preparation of policy guidance for donors on integrating climate change adaptation into development co-operation (OECD, 2009g) and is currently developing a training manual based on this guidance (see also paragraph 118). Germany has also been involved in the following international task teams: (i) Strategic Environmental Assessment (SEA); (ii) Climate Change Adaptation (CCA); (iii) Task Team on Tracking Aid Financing for Environment through the Rio Markers – and an additional marker on Climate Change Adaptation; and (iv) Governance and Capacity Development for Environment and Natural Resource Management.

Following the UN’s climate change conference at Copenhagen in 2009, Germany is putting forward substantially new and additional funds for Fast Start Climate Financing – USD 1.73 billion of additional funds were promised. Germany is also taking leadership on reducing emissions from deforestation and degradation (REDD) + (the “plus” refers to sustainable forest management activities)²⁴ and is to be congratulated for this. Germany has recently been active in investigating the opportunities and challenges related to “green growth” in developing countries. In addition to its support to the OECD Green Growth Strategy, Germany has funded the African Development Bank for its work on green growth in Africa, and hosted the initial meeting on green growth by the Donor Committee on Enterprise Development (DCED) in May 2010. The peer review team encourages Germany to continue to provide international leadership on climate change and development and to ensure that it maintains its credibility on these issues by meeting the commitments it has made in respect of additional funding.

24. Germany made pledges for REDD funding at the Norway conference on REDD which took place in May 2010.

Operational approaches to environment and climate change

The environmental assessment procedure currently used by Germany is in close conformity with the OECD/DAC *Good Practices for Environmental Impact Assessment of Development Projects*. Since 1988 an environmental impact assessment (EIA) is mandatory for all new German bilateral development co-operation projects and programmes – the EIA was modified in 1999. Since mid-2009, a Strategic Environmental Assessment (SEA) is being introduced while climate change issues have been mainstreamed into German development co-operation by applying a “Climate Check” to all new projects and programmes. The climate assessment involves two parts: (i) climate proofing, which assesses which of the planned project measures are exposed to additional risks due to climate change and how to respond to these risks; and (ii) emission savings, which ascertains the potential for limiting or reducing greenhouse gas emissions from the project, and how this potential can be harnessed.

Germany is now in the process of merging the Climate Check instrument with the existing requirement for environmental assessment (the SEA and EIA). This merger will create a new tool for joint environment and climate assessment and address both the strategic level (German focal area strategy papers and sectoral strategies/joint donor strategies) and the programme/project level. Germany’s work in this area is being guided by the previously mentioned *Programme of Action on Climate and Development* (Box 7) and it is generally following the advice of the DAC in this regard. Germany is commended for this progress and BMZ should continue to give the highest priority to the work on mainstreaming environment and climate change through the Joint Environment and Climate Assessment. A systematic and strategic approach is required to mainstreaming climate change in the programme and monitoring efforts, particularly for adaptation, and lessons from Germany’s experience with environment mainstreaming may be applicable. To take this forward new tools and approaches could be developed on the basis of current good practice.

Box 7. Germany's Programme of Action on Climate and Development

This document sets out the principles and goals for BMZ's involvement in climate protection. These include:

- Recognising the historic responsibility borne by the industrialised countries as the main agents of climate change – a problem affecting the majority of humankind.
- Safeguarding the development progress made to date against possible setbacks triggered by climate change.
- Preventing conflicts caused by climate change, such as social and political conflicts set off by growing resource scarcity, or migration and refugee flows.
- Ensuring equal rights for industrialised and developing countries to access and utilise natural resources, given that the generation of climate burdens hitherto has reflected inequitable exploitation of this public good.
- Giving priority to renewable energy use and improved energy efficiency, as opposed to the combustion of fossil fuels.
- Supporting developing countries affected by climate change in implementing adaptation measures and improving disaster risk management, especially in order to strengthen the resilience of their populations.
- Implementing provisions to replace the obligations and agreements under the Kyoto Protocol, which are soon to expire, including the further development and establishment of financing mechanisms for the developing countries.

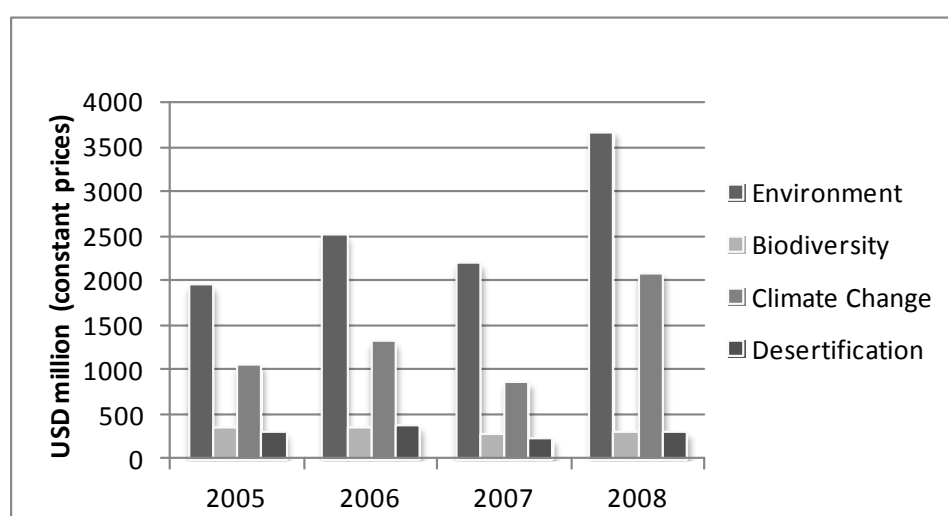
Source: BMZ (2010), *Country Memorandum for the DAC Peer Review of Germany 2010*, BMZ, Berlin.

GTZ has developed and implemented a training course for its staff and those of its partners using ENVIRONET's *Good Practice Guidance on Applying Strategic Environmental Assessment in Development Co-operation* (OECD, 2006b). GTZ is also developing training material for its staff and those of its partners based on ENVIRONET's *Policy Guidance on Integrating Climate Change Adaptation into Development Co-operation* (OECD, 2009g).

Aid for the environment

Overall, Germany's ODA to the environment has been growing over the years, largely as a result of increased allocations, but also, to some extent, because of improved reporting against the Environment and Rio markers. In 2008, Germany's total environment-focused aid almost doubled compared to 2007, amounting to USD 6.184 billion as measured against the Environment and Rio Markers (Figure 18).²⁵ This volume is likely to increase further in the coming years in the light of the country's Copenhagen commitments (USD588 million per year for Fast Start, 2010-2012)²⁶ and the Chancellor's announcement at the 9th Conference of the Parties to the Convention on Biological Diversity in Bonn in 2008 to make an additional EUR 500 million available to protect forests and other ecosystems over the period from 2009 to 2012. Germany's country level support for environment and climate change is diverse and ranges from waste management in Morocco to renewable energy in Brazil and includes holistic approaches involving strategy, regulatory reform, institutional/organisational and human resources development and combining financial and technical co-operation and South-South learning approaches. Germany's development co-operation supports capacity development for partner countries, many of which are LDCs, to develop and implement Clean Development Mechanism (CDM) projects for themselves.²⁷ While BMZ and BMU supported environment and climate change programmes are generally good, they could be made more comprehensive and innovative; for example, by including improved criteria for national sustainable development benefits and indigenous rights in REDD activities. To date Germany's environment and climate change programmes have mainly targeted the energy sector, rather than national planning, budgeting and multiple sectors. These latter areas should be focused on in future, particularly capacity development for environment and mainstreaming environment into national planning and budgeting.

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25. The Rio Marker for climate change only concerns climate change mitigation. There is now a separate marker to track adaptation which will be an official part of the CRS data in 2010 and beyond.
 26. It is unclear how much of this will be new. This funding is not additional to ODA - all will be counted towards Germany's 0.7% ODA commitment.
 27. The CDM allows emission-reduction (or emission removal) projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one tonne of CO₂. These CERs can be traded and sold, and used by industrialised countries to meet a part of their emission reduction targets under the Kyoto Protocol.

Figure 18. German ODA with Environment and Rio Markers

Source: OECD statistics

Germany's commitment of USD 295 million for the Fourth Global Environment Facility (GEF) Replenishment Period from 2006 to 2010 makes it the third-largest donor for this after the USA and Japan. One-third of these funds is earmarked for projects and programmes to reduce greenhouse gas emissions. The German government is also supporting the GEF's Least Developed Countries Fund (LDCF) and its Special Climate Change Fund (SCCF) with EUR 40 million and EUR 20 million respectively.

Partnership between BMZ and BMU and Germany's International Climate Initiative

As noted in Chapter 2, the partnership between BMZ and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) is a good practice example of policy coherence for development and a major feature of Germany's development co-operation in the field of climate change. The centre-piece of this partnership is a new funding instrument that makes use of the proceeds from the sale of CO₂ emissions trading allowances for BMU's International Climate Initiative (Box 8). The ICI financing mechanism is unique and serves as a potential model for innovative financing proposals in the climate negotiation process. In 2009, EUR 105 million proceeds from the sale of CO₂ emissions allowances were allocated to the BMZ budget, and a further EUR 5 million were allocated to the budget of the Federal Ministry of Education and Research (BMBF). These funds are helping expand BMZ's climate-related measures.

Box 8. Germany's International Climate Initiative (ICI)

Since the introduction of emissions trading in the EU in 2008, the German government has made a portion of the revenue generated by the auction of CO₂ emission certificates available for international climate protection purposes (BMZ, 2010). This scheme is known as the International Climate Initiative (ICI) and through it the German Ministry of the Environment (BMU) has been supporting climate protection measures in developing countries and emerging economies, and in countries in transition in Eastern Europe. ICI funding is provided for measures to reduce emissions, to adapt to climate change and to protect carbon sinks (e.g. forests). In 2008 and 2009 respectively the BMU budget included an annual EUR 120 million for the ICI. This is a new and innovative funding instrument of the German government designed to support measures that qualify as ODA. Over 140 ICI projects have been commissioned in more than 50 partner countries with a focus on the major challenges for climate protection and with close strategic links to the international climate negotiations.

ICI is a valuable financial innovation and a model of inter-ministerial co-operation (see Box 3 in Chapter 2) and is rightly being discussed by other countries and in the UNFCCC negotiations as a possible model for others.

Policy coherence between BMZ and BMU on all aspects of environment and climate is facilitated by an agreement between the two ministries that provides for close and early consultation both on the programme as a whole and on individual projects. Also conducive to coherence is the rule that the planning and preparation of projects are generally delegated to those organisations implementing German development co-operation.²⁸ Furthermore, the participation of BMU representatives in the government negotiations and consultations also helps ensure that the German government is both seen and known to be talking with one voice on issues of climate change. The individual ICI projects have to meet ODA criteria (with the exception of support to Russia). BMZ and BMU engage jointly in bilateral government negotiations with Brazil, China, India, South Africa and Mexico and there are regular meetings between the staff of the two ministries at the strategic level. There are also co-ordination mechanisms at partner country level and BMU is contributing policy ideas to BMZ country strategies for priority countries.

Increased capacities for environment and climate change

In December 2008 BMZ created a new division for Climate Policy and Climate Financing. This has doubled the number of BMZ staff members responsible for environment and climate over the last two years – BMZ already had a division for Environment and Natural Resources. This increase in the number of personnel and the creation of a separate division reflects the considerable growth in the importance of climate protection within German development co-operation policy. The two divisions work closely together to support the development of policy and strategy and to also mainstream environment and climate issues across BMZ and the development co-operation system as a whole. Staff from the two divisions: (i) contribute to the partnership with BMU and other federal ministries; (ii) lead on strategic level issues (such as reviewing focal area strategies and country strategies) and international issues;

28. To manage this GTZ and KfW Entwicklungsbank have opened a Programme Office for the International Climate Initiative in Berlin.

(iii) contribute to bilateral dialogue with partner countries; and (iv) provide oversight of the environmental and climate assessment at programme and project level, including the forthcoming Joint Climate and Environmental Assessment (see Section 6.2.3 above). The new division for Climate Policy and Climate Financing is also responsible for global climate negotiations and for fundamental issues of environment and climate financing, including funding of the World Bank GEF and Climate Investment Funds (CIFs). The peer review team welcomes the creation of the new division as it has strengthened BMZ's influence, as well as its political profile, in negotiations on the future international climate regime and the necessary mainstreaming of development policy concerns in this context.

Disaster risk reduction and management

Germany regards disaster risk reduction and management as crucial to sustainable development and closely links them with the overarching MDG of reducing poverty (BMZ, 2008d). BMZ's *Topic Paper 193* reports on the contributions to disaster risk management made by German development co-operation (BMZ, 2008d). This paper highlights numerous programmes Germany has delivered in disaster-prone poor countries which aim to mainstream disaster risk management in project and programme planning, particularly in urban planning, rural development and water management. At the multilateral level, Germany is the main donor for the World Bank-managed Global Facility for Disaster Reduction and Recovery (GFDRR) which, among other things provides technical and financial assistance to high-risk low income countries to mainstream disaster reduction in their national development strategies.

Future considerations

- Germany should continue to provide international leadership on climate change approaches and fulfil its international commitments, particularly to “fast start” financing for climate change mitigation and adaptation and REDD+.
- BMZ and BMU should consider how their environment and climate change programmes could be made more comprehensive and innovative; for example, by including improved criteria for national sustainable development benefits and indigenous rights in REDD activities. Germany should also broaden its environment and climate change programmes to include capacity development for environment, mainstreaming environment into national planning and budgeting, green growth and multiple sectors.
- Germany should ensure that other environment and natural resource management issues also receive sufficient attention, in addition to its work on climate change adaptation and mitigation.
- Germany should continue to give the highest priority to the work on mainstreaming environment and climate change through the Joint Environment and Climate Assessment. A systematic and strategic approach is required to mainstreaming climate change in the programme and monitoring efforts, particularly for adaptation, and lessons from Germany's experience with environment mainstreaming may be applicable. To take this forward new tools and approaches could be developed on the basis of current good practice.

Annex A

Progress since the 2005 recommendations

Key Issues	Recommendations 2005	Progress in implementation
Overall framework and new orientations	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.	Germany has continued adjusting its policies and approaches and has developed strategies for aligning its development co-operation to the goal of poverty reduction. A review of Germany's basic strategy on poverty reduction is being carried out during 2010. In addition, reflecting its strong commitment to promoting evidence-based decision making, Germany led the work within POVNET to develop the ex ante Poverty Impact Assessment (PIA) approach which helps identify the anticipated distributional impacts of interventions and thus can be used to improve the results of poverty reduction activities. To date, Germany has applied PIA successfully to 15 projects/programmes and the findings are informing 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.	There has been some progress in planning for the major reform of the overall structure of the German development co-operation system recommended by the last peer review. The German development co-operation system remains multi-institutional and fragmented with institutional separation of financial and technical co-operation. The German government acknowledges that its fragmented institutional system is a constraint to delivering aid effectively and efficiently and is committed to reforming it, starting with a merger of the technical co-operation agencies, GTZ, InWent and DED, the plans for which have been approved at the highest level of government.
	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.	There has been progress in implementing this recommendation. Since the end of 2009, public relations activities and dialogue with civil society, in particular, have been substantially expanded, and this is reflected in increased funding and a new strategy on development information and education from 2008. This strategy includes enhancing BMZ's Internet presence; the replacement of the <i>Development Policy Media Manual</i> with a brief and accessible guide; the enhancement of development co-operation in the school curriculum in 2007 and a new development volunteer service, known as <i>Weltwärts</i> , which was launched in early 2008.
Aid volume and distribution	Germany needs to address urgently the challenge of implementing its ODA commitments. This requires the new government to adopt an ODA growth implementation plan ,	Germany did not adopt an ODA growth implementation plan as this would interfere with the parliament's constitutional right to decide annually on the budget and the expected levels of increase in ODA have not materialised. ODA in 2008 was USD 13.98 billion, or 0.38% of GNI, but declined to 0.35% of

Key Issues	Recommendations 2005	Progress in implementation
	focusing both on the resourcing and spending dimensions of the equation.	GNI in 2009. The government acknowledges that it will miss the target of 0.51% ODA/GNI in 2010. Despite this most recent setback and the challenges ahead, the government remains committed to the 2015 goal of 0.7%.
	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.	There has been progress in implementing this recommendation, particularly in reducing the number of partner countries and tightening the thematic focus. While there has been a slight re-balancing of Germany's development co-operation towards LDCs and LICs, the bulk of Germany's gross bilateral ODA (62%) was spent in lower and upper middle income countries in 2007/08 and forward projections indicate that this trend will continue. A general review and adjustment of development co-operation with the least developed countries is planned for 2010.
	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.	Criteria are being developed by BMZ which can serve as a basis for the allocation of multilateral funding in future, such as performance, mandate and political relevance. In parallel, efforts to improve the effectiveness of internal capacities are also continuing, for example within the Multilateral Organisation Performance Assessment Network (MOPAN), which Germany joined in 2008. A new strategy for multilateral aid is being developed which should include an assessment of effectiveness in collaboration with other donors. The strategies for co-operation with individual multilateral institutions are set out in internal strategy papers ("institution briefs").
Policy coherence for development	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 the 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.	While a clearer and more operational BMZ policy statement on coherence for development has not been framed, there has been progress over the past five years in selected policy areas, particularly climate change. Areas where progress has been made include: a new format for sector strategies, with policy coherence aspects to be included in situational analyses; a binding structure for country strategies staff exchanges with other government departments; and coherence-related agreements with other government departments. Inter-ministerial co-operation has been intensified and placed on a binding footing; agreements were reached with the BMBF and the BMU. The German government will produce an inter-ministerial strategy to support reform processes in fragile and failing states and countries with poor governance. Inter-ministerial regional strategies for Africa and Latin America are under preparation. BMZ regularly participates in meetings of the EU and OECD coherence networks.
Aid effectiveness	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	There has been progress over the past five years to improve the co-ordination of the implementing agencies and with other donors and to increase alignment with partner country strategies. The introduction of the Development Co-operation Country Office, focal area co-ordinators and joint inter-institutional programmes and joint reporting since July 2007 has better integrated the implementing organisations'

Key Issues	Recommendations 2005	Progress in implementation
	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.	operations in the field. In some countries (such as Zambia) Germany is building on progress implementing the Paris Declaration aid effectiveness agenda through making greater use of country systems and packaging its instruments in the context of country-led programme based approaches. But Germany remains weak overall on using country systems and common arrangements and the majority of its bilateral development co-operation continues to be delivered in the form of projects and programmes managed by German implementing agencies.
Aid management and implementation	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 the BMZ and the Federal Foreign Office on their relationships in the field.	There has been little progress in implementing this recommendation: decentralisation has not been followed through beyond some limited work in four pilot countries. A new understanding between BMZ and the Federal Foreign Office on their relationships in the field is still required. In the Coalition Agreement of October 2009 the government has committed itself to improving the field structure of Germany's development co-operation system. The decentralisation pilot in four countries has shown some promising outcomes, particularly the hiring of local professionals to support Heads of Co-operation.
	The 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.	Germany has shifted away from narrow technical assistance to technical co-operation which supports capacity development at broader levels of the national setting within its focal areas. Germany has also played an active role in exploring capacity development issues with other donors at the local level and internationally. The international Bonn Workshop on Capacity Development successfully established a profile for the issue in the aid effectiveness context that was reflected in the Accra outcome document. Germany participated in several initiatives, including: a multi-donor study "Effective TC for capacity development" which involved country studies in 12 partner countries; co-commissioning a joint evaluation study on the role of technical assistance personnel in capacity development; and inclusion of capacity development objectives in the national Plan of Operations for Implementing the Paris Declaration.
	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, and support from headquarters or other sources).	There has been some progress in strengthening German development co-operation in the field. However, because of the continuing fragmented institutional nature of the German development co-operation system, the overall deployment of human resources in partner countries is not yet seen as a system responsibility. BMZ and the implementing agencies each make individual decisions on staffing in-country and the system is not being co-ordinated or managed in its entirety.
	The 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.	There has been progress in implementing this recommendation. In 2006, BMZ initiated, for the second time, a systematic review of evaluation activities in German development co-operation, covering the ministry and 19 implementing and funding organisations. BMZ has drafted new evaluation principles for German development co-operation, guidelines for the evaluation process, and quality standards for evaluation reports, thereby stepping up its efforts to achieve a joined-up approach to evaluation. In 2009, together with the Federal Foreign Office, BMZ launched an interdepartmental evaluation of German humanitarian aid for the first time, in response to a recommendation made in the 2005 DAC Peer Review. BMZ is seeking to develop an overall evaluation system for German development co-operation.

Key Issues	Recommendations 2005	Progress in implementation
		BMZ's evaluation budget will be significantly increased in 2010 compared with 2009 and a new independent evaluation agency is planned.
Humanitarian aid	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.	Germany recognizes the European Consensus on Humanitarian Aid adopted in December 2007 as the overall conceptual framework for its humanitarian aid policy. While a comprehensive humanitarian policy has not been developed, policy guidance notes for the various humanitarian aid instruments managed by the Federal Foreign Office have been updated since the last peer review. BMZ is also currently revising its strategy for development-oriented emergency and transitional aid, and its guidance on co-operation with the World Food Programme (WFP). <i>The Twelve Basic Rules of Humanitarian Aid Abroad</i> , which have been in place since 1993 (see the report of the previous peer review) continue to provide the guiding principles for Germany's humanitarian assistance. There are also policies and strategy papers covering disaster risk reduction and management (see Chapter 6.2), disaster preparedness, humanitarian mine and munitions clearance, crisis prevention and peacebuilding, and engagement in fragile states. All policies are aligned with international good practice and, where appropriate, embrace the GHD principles
	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.	The volume of humanitarian assistance reported by Germany to the OECD Creditor Reporting System (CRS) actually declined by 21% between 2005 and 2008. This comparison is made on the basis of 2005 figures that include a special allocation for the tsunami response. If the distorting effect of this special allocation is removed from the 2005 OECD CRS figures, the new calculation shows a 7% increase in Germany's overall humanitarian aid funding from 2005 to 2008. Germany's DAC Peer Review Memorandum reports that funding under the specific federal budget lines for humanitarian aid increased by 40% from 2005 to 2009.
	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.	The German government continues to take the view, expressed on previous occasions, that its humanitarian aid is particularly flexible and target-oriented. The German government argues that the separation between the emergency relief provided by the Federal Foreign Office and the development-oriented emergency and transitional aid from BMZ has enabled the ministries to acquire a high level of specialised expertise and skills based on their comparative advantages. Nonetheless, a comprehensive humanitarian aid policy, as recommended by the 2005 peer review, would further consolidate overall coherency.
	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 the BMZ.	This recommendation has been implemented to a large extent. Inter-ministerial work on a three-phase evaluation of humanitarian assistance began in 2008 with two pre-studies to take stock of the present system. During the current (second) phase, German humanitarian assistance is undergoing a comprehensive independent evaluation over a period of 13 months. Building on the findings of this study, specific proposals for the establishment of a coherent system for monitoring and evaluation will be developed.

Annex B

OECD/DAC Standard Suite of Tables

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

Germany	Net disbursements						
	1994-98	1999-2003	2004	2005	2006	2007	2008
Total official flows	7 438	5 298	6 483	17 137	4 707	9 765	13 519
Official development assistance	6 676	5 529	7 534	10 082	10 435	12 291	13 981
Bilateral	4 124	3 241	3 823	7 447	7 034	7 950	9 063
Multilateral	2 552	2 288	3 712	2 635	3 401	4 341	4 918
Other official flows	762	-230	-1 051	7 055	-5 728	-2 525	-462
Bilateral	1 031	-203	-1 051	7 055	-5 728	-2 525	-462
Multilateral	-269	-27	-	-	-	-	-
Net Private Grants	1 040	896	1 148	1 523	1 348	1 271	1 626
Private flows at market terms	13 198	4 029	7 619	12 023	19 938	25 702	18 251
Bilateral: <i>of which</i>	12 761	4 730	7 595	12 434	18 890	25 768	18 525
Direct investment	4 290	2 843	6 761	14 069	10 795	11 640	9 598
Export credits	1 696	746	949	-131	19	3 736	3 708
Multilateral	437	-701	24	-411	1 048	-66	-275
Total flows	21 676	10 223	15 251	30 683	25 992	36 739	33 395
<i>for reference:</i>							
ODA (at constant 2007 USD million)	8 131	8 105	8 558	11 369	11 592	12 291	13 060
ODA (as a % of GNI)	0.30	0.27	0.28	0.36	0.36	0.37	0.38
Total flows (as a % of GNI) (a)	0.97	0.50	0.56	1.10	0.89	1.10	0.91
<i>ODA to and channelled through NGOs</i>							
- In USD million	321	405	523	839	706	761	796
- In percentage of total net ODA	5	7	7	8	7	6	6
- DAC countries' average % of total net ODA	4	8	8	9	7	7	7

a. To countries eligible for ODA.

ODA net disbursements
At constant 2007 prices and exchange rates and as a share of GNI

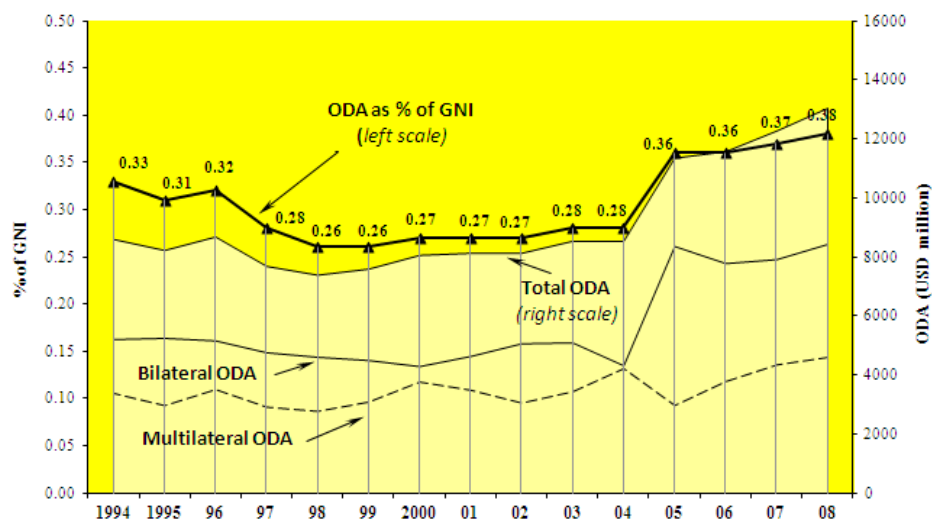
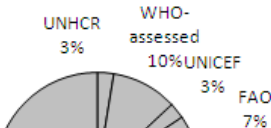


Table B.2. ODA by main categories

Disbursements											Total DAC 2008%
Germany	Constant 2007 USD million					Per cent share of gross disbursements					
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	
Gross Bilateral ODA	5 948	10 103	9 608	9 346	10 315	58	77	72	68	69	74
Grants	5 126	9 301	8 417	8 091	8 773	50	71	63	59	59	65
Project and programme aid	726	924	851	938	1 066	7	7	6	7	7	25
Technical co-operation	2 824	3 231	3 462	3 527	3 911	28	25	26	26	26	12
Developmental food aid	27	26	27	55	48	0	0	0	0	0	1
Humanitarian aid	217	357	397	279	283	2	3	3	2	2	7
Action relating to debt	925	4 404	3 349	2 993	3 073	9	34	25	22	21	8
Administrative costs	281	233	253	262	277	3	2	2	2	2	4
Other grants	126	127	78	37	116	1	1	1	0	1	8
Non-grant bilateral ODA	822	803	1 191	1 255	1 542	8	6	9	9	10	9
New development lending	765	621	748	919	1 052	8	5	6	7	7	8
Debt rescheduling	17	47	21	0	-	0	0	0	0	-	0
Acquisition of equity and other	40	135	422	335	490	0	1	3	2	3	1
Gross Multilateral ODA	4 225	2 972	3 778	4 341	4 594	42	23	28	32	31	26
UN agencies	372	224	247	274	276	4	2	2	2	2	4
EU institutions	2 136	2 486	2 387	2 452	2 627	21	19	18	18	18	10
World Bank group	1 304	-	657	1 097	1 061	13	-	5	8	7	6
Regional development banks (a)	193	61	337	181	252	2	0	3	1	2	2
Other multilateral	220	201	151	337	378	2	2	1	2	3	3
Total gross ODA	10 174	13 075	13 386	13 687	14 910	100	100	100	100	100	100
Repayments and debt cancellation	-1 616	-1 706	-1 794	-1 396	-1 850	Contributions to UN Agencies (2007-08 Average)					
Total net ODA	8 558	11 369	11 592	12 291	13 060						
For reference:											
Associated financing (b)	-	-	-	-	-						
Net debt relief	560	3 927	2 957	2 828	2 395						
Imputed student cost	880	1 044	1 000	959	867						
Refugees in donor countries	18	20	20	14	69						

a. Excluding EBRD.

b. ODA grants and loans in associated financing packages.

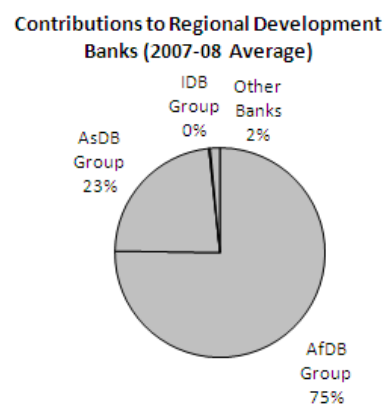
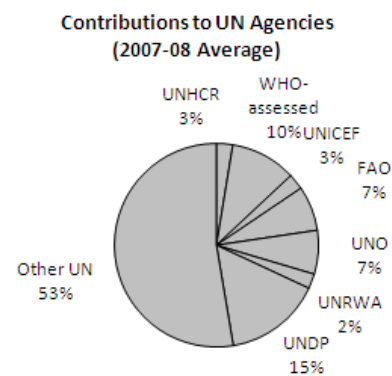
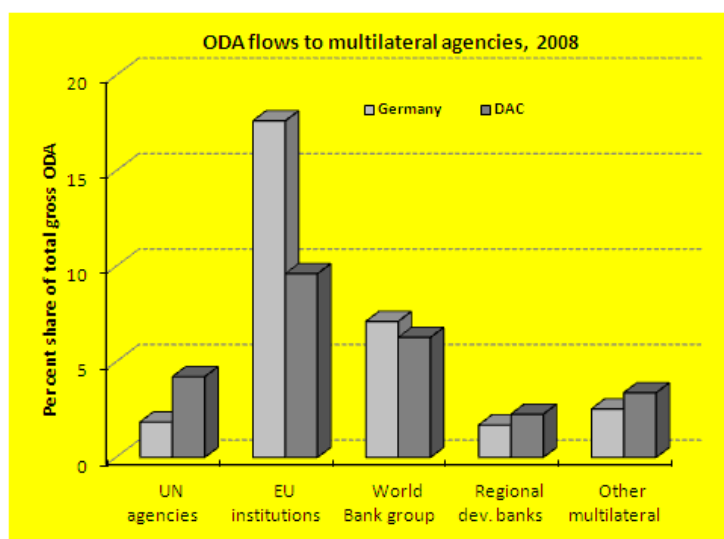
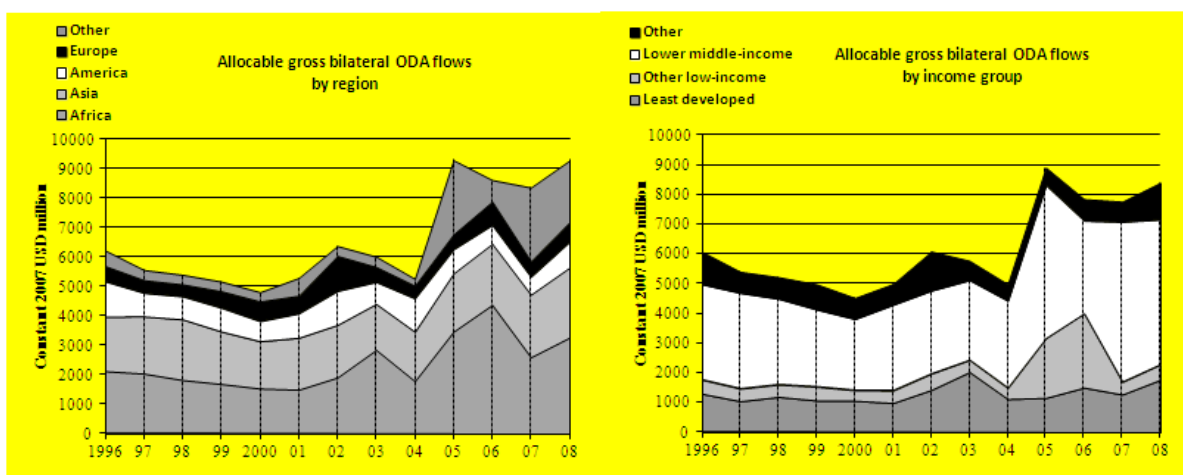


Table B.3. Bilateral ODA allocable by region and income group

Gross disbursements											
Germany	Constant 2007 USD million					Per cent share					Total DAC
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2008%
Africa	1 810	3 480	4 381	2 616	3 279	34	37	51	31	35	37
Sub-Saharan Africa	1 439	3 035	3 909	2 004	2 714	27	33	45	24	29	32
North Africa	321	367	454	507	458	6	4	5	6	5	4
Asia	1 674	1 988	2 097	2 128	2 386	32	21	24	25	26	30
South and Central Asia	620	795	828	979	1 079	12	9	10	12	12	16
Far East	1 013	1 082	1 148	1 088	1 099	19	12	13	13	12	12
America	1 132	820	640	608	881	22	9	7	7	9	10
North and Central America	667	301	174	160	222	13	3	2	2	2	4
South America	421	473	396	383	482	8	5	5	5	5	4
Middle East	232	2 532	739	2 527	2 114	4	27	9	30	23	17
Oceania	6	6	2	1	5	0	0	0	0	0	2
Europe	403	492	784	506	646	8	5	9	6	7	4
Total bilateral allocable by region	5 257	9 319	8 643	8 386	9 311	100	100	100	100	100	100
Least developed	1 133	1 169	1 514	1 284	1 780	23	13	19	17	21	34
Other low-income	367	2 000	2 490	419	509	7	22	32	5	6	10
Lower middle-income	2 936	5 165	3 129	5 397	4 886	59	58	40	70	58	46
Upper middle-income	549	561	708	659	1 220	11	6	9	8	15	10
More advanced developing countries	2	1	1	2	-	0	0	0	0	-	-
Total bilateral allocable by income	4 987	8 897	7 843	7 760	8 395	100	100	100	100	100	100
For reference:											
Total bilateral	5 948	10 104	9 608	9 346	10 315	100	100	100	100	100	100
of which: Unallocated by region	692	784	965	960	1 004	12	8	10	10	10	19
of which: Unallocated by income	961	1 206	1 765	1 586	1 921	16	12	18	17	19	27



1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total.

Table B.4. Main recipients of bilateral ODA

Germany	1997-2001 average			Memo: DAC countries' median		2002-06 average			Memo: DAC countries' median		2007-08 average			Memo: DAC countries' median	
	Current	Constant	Per cent			Current	Constant	Per cent			Current	Constant	Per cent		
	USD million	2007 USD mln	share			USD million	2007 USD mln	share			USD million	2007 USD mln	share		
China	370	528	9			Nigeria	625	702	10		Iraq	1 975	1 914	19	
Indonesia	198	279	5			Iraq	494	559	8		Cameroon	669	650	7	
India	183	260	4			China	392	473	6		China	552	532	5	
Egypt	177	247	4			Cameroon	220	265	3		India	289	280	3	
Turkey	144	207	3			Serbia	205	277	3		Afghanistan	256	246	3	
Top 5 recipients	1 072	1 521	26	26		Top 5 recipients	1 936	2 276	30	29	Top 5 recipients	3 740	3 621	37	31
Peru	81	116	2			India	170	209	3		Indonesia	246	238	2	
Brazil	79	113	2			Indonesia	170	203	3		Liberia	234	219	2	
Serbia	72	107	2			Congo, Dem. Rep.	147	182	2		Botswana	221	206	2	
Jordan	67	99	2			Zambia	144	171	2		Egypt	207	200	2	
Tanzania	64	91	2			Nicaragua	139	165	2		Morocco	177	172	2	
Top 10 recipients	1 434	2 047	35	40		Top 10 recipients	2 707	3 206	41	45	Top 10 recipients	4 825	4 656	47	44
Morocco	63	90	2			Egypt	134	162	2		South Africa	133	128	1	
Bolivia	63	92	2			Bolivia	121	168	2		Turkey	128	123	1	
Pakistan	63	90	2			Turkey	111	137	2		Brazil	121	116	1	
Mozambique	53	76	1			Ghana	107	125	2		Viet Nam	110	106	1	
Bosnia-Herzegovina	53	78	1			Afghanistan	100	125	2		Serbia	105	101	1	
Top 15 recipients	1 729	2 473	42	50		Top 15 recipients	3 281	3 923	50	53	Top 15 recipients	5 421	5 229	53	54
Iran	52	73	1			Morocco	91	108	1		Ethiopia	97	94	1	
Zambia	52	76	1			Mozambique	83	113	1		Peru	91	86	1	
Cameroon	50	73	1			Brazil	80	97	1		Jordan	88	86	1	
Thailand	49	69	1			Viet Nam	79	94	1		Pakistan	84	81	1	
Viet Nam	48	70	1			Peru	74	89	1		Kenya	78	75	1	
Top 20 recipients	1 980	2 834	48	58		Top 20 recipients	3 689	4 424	56	58	Top 20 recipients	5 859	5 652	57	61
Total (143 recipients)	3 510	5 029	85			Total (142 recipients)	5 580	6 718	85		Total (140 recipients)	8 373	8 077	82	
Unallocated	631	919	15	22		Unallocated	981	1 176	15	22	Unallocated	1 821	1 753	18	21
Total bilateral gross	4 141	5 948	100	100		Total bilateral gross	6 561	7 894	100	100	Total bilateral gross	10 194	9 831	100	100

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

Germany	1997-2001 average		2002-06 average		2007-08 average		2007-08 Total DAC per cent
	2007 USD million	Per cent	2007 USD million	Per cent	2007 USD million	Per cent	
Social infrastructure & services	2 299	41	2 690	32	3 922	37	40
Education	1001	18	1 105	13	1 541	14	9
of which: basic education	115	2	118	1	150	1	2
Health	135	2	193	2	264	2	4
of which: basic health	94	2	108	1	140	1	3
Population & reproductive health	86	2	133	2	150	1	6
Water supply & sanitation	537	10	459	6	720	7	5
Government & civil society	232	4	525	6	1 060	10	12
of which: Conflict, peace & security	-	-	50	1	212	2	3
Other social infrastructure & services	308	5	275	3	187	2	4
Economic infrastructure & services	1 072	19	1 160	14	1 782	17	15
Transport & storage	400	7	236	3	119	1	6
Communications	20	0	18	0	7	0	0
Energy	379	7	477	6	851	8	5
Banking & financial services	164	3	300	4	650	6	3
Business & other services	109	2	129	2	156	1	2
Production sectors	435	8	358	4	427	4	6
Agriculture, forestry & fishing	345	6	261	3	228	2	4
Industry, mining & construction	70	1	76	1	151	1	1
Trade & tourism	18	0	20	0	44	0	1
Other	2	0	1	0	5	0	0
Multisector	672	12	928	11	755	7	6
Commodity and programme aid	96	2	82	1	158	1	5
Action relating to debt	368	7	2 472	30	3 034	28	10
Humanitarian aid	185	3	296	4	288	3	8
Administrative costs of donors	354	6	288	3	269	3	5
Aid to NGOs (core support)	6	0	10	0	0	0	2
Refugees in donor countries	124	2	25	0	41	0	2
Total bilateral allocable	5 610	100	8 309	100	10 676	100	100
<i>For reference:</i>							
Total bilateral	5 812	59	8 408	69	10 710	69	75
of which: Unallocated	202	2	100	1	34	0	1
Total multilateral	4 048	41	3 819	31	4 858	31	25
Total ODA	9 860	100	12 227	100	15 568	100	100

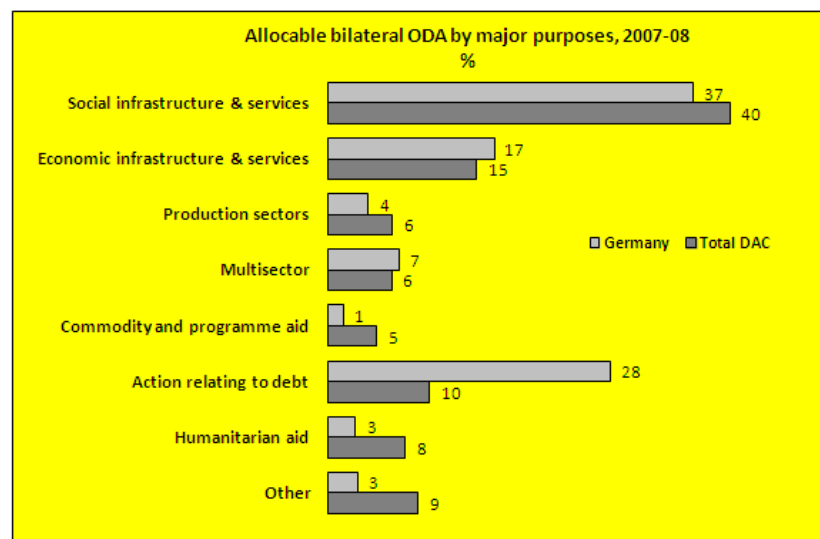


Table B.6. Comparative aid performance

Net disbursements										
Official development assistance				Grant element of ODA (commitments) 2008	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies 2008	
2008			2002-03 to 07-08 Average annual % change in real terms		2008				% of ODA	% of GNI
USD million	% of GNI				% of ODA		% of GNI			
					(b)	(c)	(b)	(c)		
Australia	2 954	0.32	8.3	100.0	10.2		0.03		25.9	0.08
Austria	1 714	0.43	18.0	100.0	28.0	10.9	0.12	0.05	16.3	0.07
Belgium	2 386	0.48	-0.2	99.7	42.3	19.3	0.20	0.09	39.0	0.19
Canada	4 785	0.32	6.4	100.0	29.8		0.10		38.8	0.13
Denmark	2 803	0.82	0.7	100.0	34.8	25.1	0.28	0.21	39.1	0.32
Finland	1 166	0.44	7.7	100.0	40.5	22.4	0.18	0.10	34.3	0.15
France	10 908	0.39	1.7	90.0	40.8	17.6	0.16	0.07	28.0	0.11
Germany	13 981	0.38	8.7	92.1	35.2	15.1	0.13	0.06	25.9	0.10
Greece	703	0.21	3.4	100.0	55.6	21.6	0.12	0.05	20.5	0.04
Ireland	1 328	0.59	13.4	100.0	29.9	18.3	0.18	0.11	50.8	0.30
Italy	4 861	0.22	3.7	99.0	62.2	26.9	0.14	0.06	32.7	0.07
Japan	9 579	0.19	-1.8	85.3	28.8		0.05		26.1	0.05
Luxembourg	415	0.97	7.7	100.0	32.9	24.3	0.32	0.24	39.1	0.38
Netherlands	6 993	0.80	4.1	100.0	25.6	16.6	0.21	0.13	29.0	0.23
New Zealand	348	0.30	8.1	100.0	20.2		0.06		29.1	0.09
Norway	3 963	0.88	3.8	100.0	23.4		0.21		37.8	0.33
Portugal	620	0.27	1.6	79.2	39.8	13.8	0.11	0.04	36.2	0.10
Spain	6 867	0.45	14.6	94.3	30.1	15.0	0.13	0.07	21.3	0.10
Sweden	4 732	0.98	7.4	100.0	33.6	25.8	0.33	0.25	32.6	0.32
Switzerland	2 038	0.42	4.5	100.0	23.9		0.10		24.5	0.10
United Kingdom	11 500	0.43	6.8	100.0	35.9	18.3	0.16	0.08	36.5	0.16
United States	26 842	0.19	7.4	100.0	11.1		0.02		30.8	0.06
Total DAC	121 483	0.31	5.6	96.0	28.8	18.1	0.09	0.06	30.4	0.09
Memo: Average country effort		0.48								

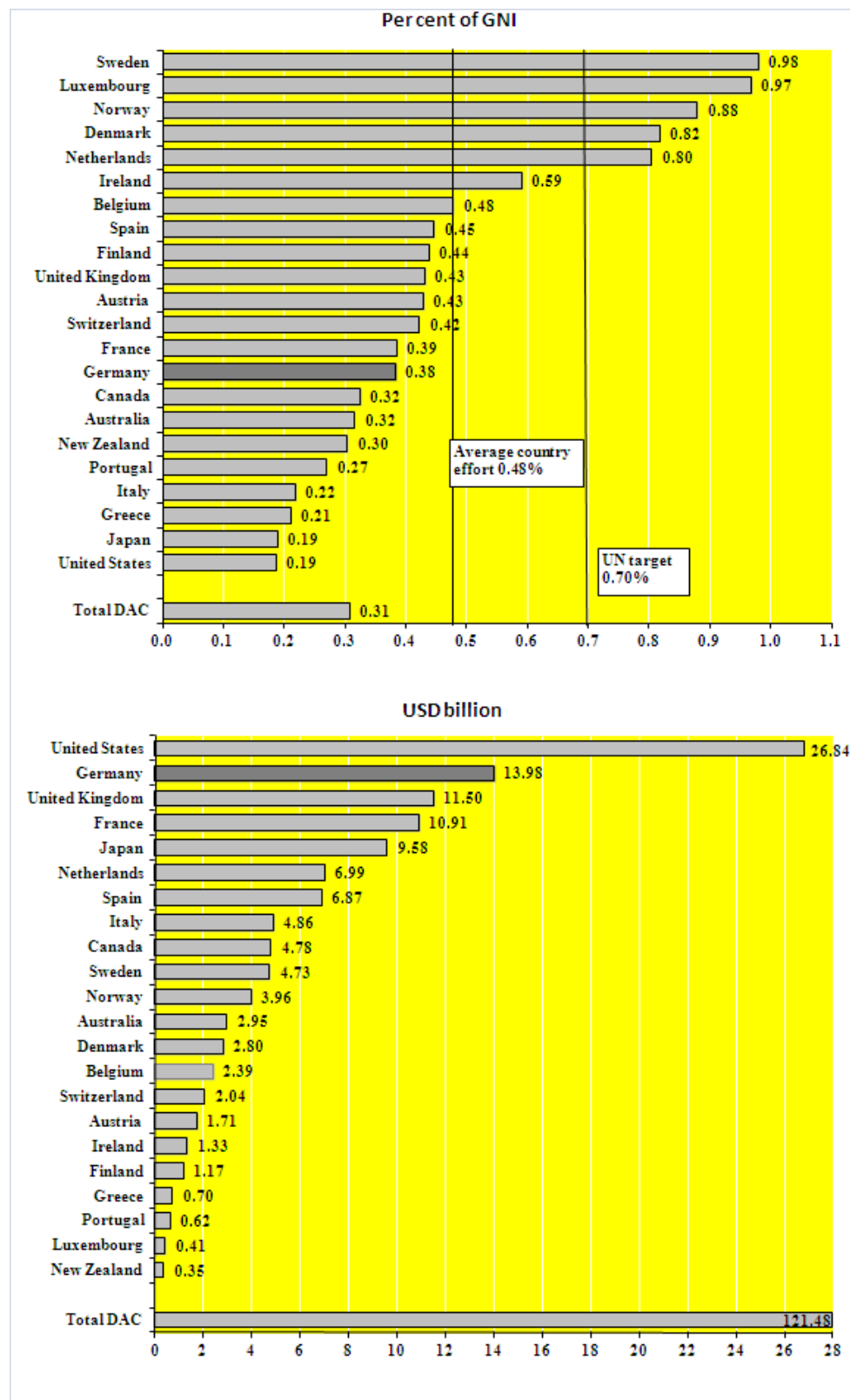
Notes:

a. Excluding debt reorganisation.

b. Including EU institutions.

c. Excluding EU institutions.

.. Data not available.

Graph B.1. Net ODA from DAC countries in 2008

Annex C

Germany and the Good Humanitarian Donorship Initiative

Germany is a signatory to the Principles and Good Practices of Humanitarian Donorship (GHD) and continues to apply these principles throughout its operations. Germany's emergency response-focused humanitarian aid is managed by the Federal Foreign Office. BMZ is responsible for longer-term development oriented emergency and transitional aid. At the international level, Germany played a major part in initiating and formulating the European Consensus on Humanitarian Aid (December 2007), which is based on GHD principles.

This peer review has been conducted in accordance with the DAC's 2004 humanitarian assessment framework which is based on the GHD. The assessment framework is structured in line with the four thematic clusters of the GHD principles and good practices: (i) policy framework for humanitarian action; (ii) funding flows; (iii) promoting standards and enhancing implementation; and (iv) learning and accountability. The following two clusters are also assessed: (v) organisation and management of humanitarian action and (vi) cross-cutting themes. The assessment concludes by identifying issues for further consideration by the German development co-operation system. The report draws on a series of meetings held in Bonn and Berlin in March 2010 with the Federal Foreign Office and BMZ and Civil Society Organisations (CSO) partners. Further comments were also sought from humanitarian multilateral agencies. This peer review is the second time that the DAC has assessed Germany against its GHD commitments. The previous peer review (OECD, 2005a) reported that while Germany's performance against the assessment framework was reasonably positive, its potential for financing humanitarian action was under-utilised, with humanitarian aid only a small part of the country's ODA in 2005.

Overall, Germany's performance against the DAC's Assessment Framework for Humanitarian Action continues to be largely positive, even though the volume of humanitarian assistance reported to the OECD Creditor Reporting System (CRS) actually declined by 21% between 2005 and 2008.²⁹ A clearer division of labour, better co-ordination between the humanitarian aid instruments, and clearer linkages between humanitarian and development programmes and policies, could further enhance Germany's overall humanitarian effectiveness. In this light, the three phase inter-ministerial evaluation of Germany's humanitarian assistance and its intention to focus on enhancing Germany's humanitarian impact in the field is welcome.

29. This comparison is made on the basis of 2005 figures that include a special allocation for the tsunami response. If the distorting effect of this special allocation is removed from the 2005 OECD CRS figures, the new calculation shows a 7% increase in Germany's overall humanitarian aid funding from 2005 to 2008. Germany reports that the specific humanitarian aid federal budget lines increased by 40% between 2005 and 2009.

Humanitarian policies

Germany recognizes the European Consensus on Humanitarian Aid adopted in December 2007 as the overall conceptual framework for its humanitarian aid policy. Policy guidance notes for the various humanitarian aid instruments managed by the Federal Foreign Office have been updated since the last peer review. BMZ is also currently revising its strategy for development-oriented emergency and transitional aid, and its guidance on co-operation with the World Food Programme (WFP). *The Twelve Basic Rules of Humanitarian Aid Abroad*, which have been in place since 1993, continue to provide the guiding principles for Germany's humanitarian assistance. There are also policies and strategy papers covering disaster risk reduction and management (see Chapter 6.2), disaster preparedness, humanitarian mine and munitions clearance, crisis prevention and peacebuilding, and engagement in fragile states. All policies are aligned with international good practice and, where appropriate, embrace the GHD principles.

While the policy framework is quite well defined, the division of labour among the various humanitarian instruments remains unclear, and linkages between humanitarian programmes and Germany's broader development co-operation programming and policy are not fully exploited. Germany considers that the division of the humanitarian instruments between the Federal Foreign Office and BMZ is an effective system, as it builds on the comparative advantages of each organisation, including the superior rapid response capacity of the former. It also considers that the existing division of labour reflects the three phases of the LRRD concept (Linking Relief, Rehabilitation and Development³⁰). However, grey areas remain, including disaster risk reduction programming and emergency food aid, which can receive funding from both organisations. Neither organisation takes full responsibility for core funding contributions to multilateral agencies involved in humanitarian emergencies – instead BMZ funds the WFP, and the Federal Foreign Office funds the Office for the Co-ordination of Humanitarian Affairs (OCHA), United Nations High Commissioner for Refugees (UNHCR) and the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), complicating the process of developing a consolidated approach to core funding and accountability by these multilateral organisations.

The previous peer review recommended that Germany should develop a comprehensive policy to cover all its humanitarian instruments. This remains a valid goal. An overarching policy should aim to ensure a clearer division of labour among the various instruments building on comparative advantages; and help to put in place proper formal co-ordination mechanisms among instruments and promote stronger interchanges with development actors, including raising the profile of humanitarian programming within BMZ and promoting an exchange of lessons with thematic policy areas. The policy should also promote linkages on thematic issues with development specialists within BMZ, for example by ensuring that Disaster Risk Reduction development efforts feed into, and feed off, humanitarian preparedness efforts.

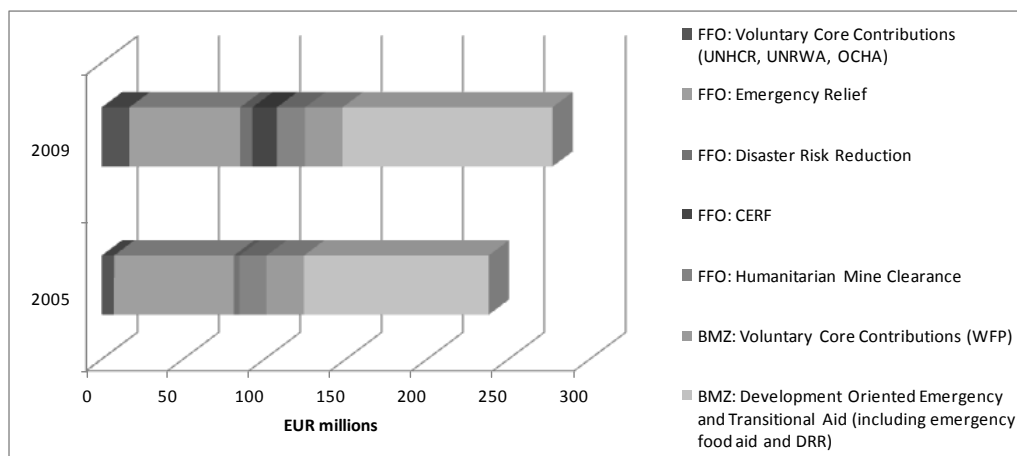
Financing humanitarian action

The size of Germany's humanitarian aid budget decreased from EUR 357 million in 2005 to EUR 283 million in 2008. However, once the distorting effect of the special tsunami allocation made in 2005 is removed, the overall budget actually increased by 7%

30. Communication from the Commission to the Council and the European Parliament on Linking Relief, Rehabilitation and Development (LRRD), [COM(1996)153], April 1996.

from 2005 to 2008. This increase is encouraging, but the budget still represents only 3.3% of Germany's ODA (adjusted for debt relief), significantly lower than the DAC donor average of 9.2% (Development Initiatives, 2009). Alongside this budget, it should also be recognised that Germany is the largest contributor to the European Community's Humanitarian Office (ECHO), providing 20% of ECHO's total budget, which in 2008 amounted to a considerable EUR 937 million. The breakdown of humanitarian aid expenditure for 2005 and 2009 is presented in Figure C.1 below. As noted above, Germany reports that the specific humanitarian aid federal budget lines increased by 40% between 2005 and 2009.

Figure C.1. Breakdown of humanitarian aid expenditure, 2005 and 2009



Source: Based on 2009 preliminary figures provided by Germany

Germany considers the Consolidated Appeals Process (CAP) and the Appeals from the Red Cross Movement to be important to its humanitarian decision-making process. Timely non-earmarked contributions are also provided to multilateral organisations at the beginning of each year, although the multilaterals would prefer that Germany accept their Global Appeal documents rather than requiring tailored proposals – sometimes one for the Federal Foreign Office and one for BMZ – for different parts of the same project. Germany also provides significant funding to the Red Cross Movement and is a member of the International Committee of the Red Cross (ICRC) Donor Support Group. It is also a member of the Executive Boards of the WFP and UNHCR as well as of the UNRWA Advisory Commission and is represented in the Central Emergency Response Fund (CERF) Advisory Group (since 2008), and will chair the OCHA Donor Support group in 2012/13.

Germany is able to provide timely emergency assistance, especially to rapid onset emergencies, using its Emergency Relief instrument under the Federal Foreign Office. This instrument allows a rapid transfer of funds, allowing it to often disburse funds to partners – which include NGOs and multilaterals – before a Flash Appeal is issued. Alongside this rapid response through partners, the German technical support organisation *Technische Hilfswerk* (THW) can provide critical search and rescue and other technical support required in the initial phases of disaster response under the umbrella of the International Search and Rescue Advisory Group (INSARAG). Furthermore, the Federal Foreign Office supports the United Nations Disaster Assessment and Coordination team (UNDAC) and is the national UNDAC Focal Point.

While project funding provided to international organisations generally has duration of more than six months, the short duration of Federal Foreign Office emergency response project funding provided to NGOs, a maximum of six months, can limit the completeness and appropriateness of responses. In addition, the requirement to spend Federal Foreign Office funds before the end of each financial year also harms the flexibility of its responses, especially to emergencies that occur towards the end of the financial year. The split of instruments between the Federal Foreign Office and BMZ also places an additional burden on partners, especially in protracted crises, forcing them to submit separate proposals, using different formats and guidelines, for different parts of the same project. .

Germany is to be commended for its decision, in 2007, to provide ongoing funding to the CERF. It should now build on this positive experience to enable the use of other country level pooled funding and rapid response mechanisms.

The Development-Oriented Emergency and Transitional Aid budget line under BMZ, which aims to lay the foundations for sustainable development, holds semi-annual planning exercises to set geographic and thematic priorities, consulting with its major partners. This approach, coupled with the availability of BMZ funding for up to three years and the requirement for partners to establish and implement realistic exit strategies, are good practices. Predictability could be further enhanced by strengthening the linkages between Federal Foreign Office and BMZ responses to the same crisis or disaster, helping to develop coherent strategies that apply the Linking Relief, Rehabilitation and Development principles across the range of humanitarian instruments.

Promoting standards and enhancing implementation

Germany is committed to driving innovation and international coherence in humanitarian action. It is a major advocate for strengthening disaster risk reduction programming across the world, including creating and supporting structures at local, national and regional levels. The Federal Foreign Office aims to devote 10% of its total funding to disaster preparedness efforts. BMZ also funds disaster risk reduction through its transitional budget line and through development programming (Box C.1). Preparedness measures are also supported by the Federal Ministry of the Interior and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. Germany could build on this cross-government work to lead global efforts to shape the international agenda on disaster risk reduction, and also to promote efforts to make humanitarian operations more environmentally friendly and eco-sustainable. Stronger co-ordination among the various programmes across the different ministries could also support such an effort.

Germany is also focusing on strengthening the evaluation of international humanitarian assistance, as a member and donor of the Active Learning Network for Accountability and Performance (ALNAP), and by ongoing involvement in joint evaluations of humanitarian assistance in various protracted crises.

In its own programming, Germany has a comprehensive set of policies that support major international standards, including GHD principles. However, it is not clear how Germany ensures that these policies and principles are incorporated into partners' programmes, nor how it monitors compliance. A stronger focus on monitoring and evaluation of partner programmes would be welcomed.

Box C.1. Germany's approach to disaster risk reduction

Germany plays a leading role in disaster risk reduction (DRR), addressing it at an inter-ministerial level and actively promoting the issue on the international stage. In the humanitarian context, Germany takes the following approach, based on the Hyogo Framework for Action:

Federal Foreign Office: DRR programming is focused on saving lives and protecting livelihoods, by promoting measures designed to reduce the impact of disasters. Early warning mechanisms are a major priority, as are innovative disaster preparedness projects that can then be scaled up and adopted in new areas. Local people should participate in the design and implementation of preparedness projects, and local structures should oversee the ongoing management of preparedness projects. Projects are implemented by both German and local aid agencies, up to a maximum duration of two years. The DRR actions of international partners such as the UN and the European Union are also supported.

BMZ: The approach is more one of mainstreaming DRR into projects funded under the Development Oriented Emergency and Transitional Aid budget. Partners are asked to conduct risk and vulnerability analysis to determine whether disaster prevention can be included in their disaster recovery programmes. Support for local and national disaster risk management structures is promoted. Normal funding modalities apply.

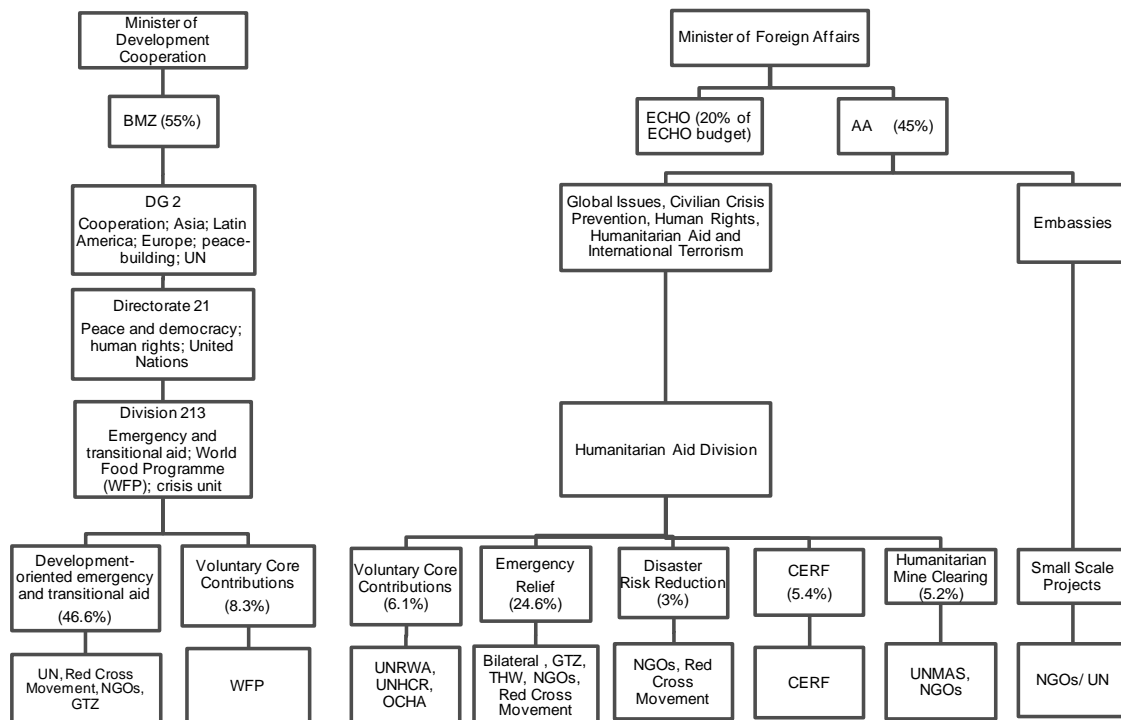
Organisation and management of humanitarian action

As noted above, the diverse group of German humanitarian instruments is governed by individual policies and strategy guidance papers, and is also subject to separate funding modalities. Initial emergency response to any crisis is supported mostly by Federal Foreign Office funding through the Emergency Relief budget line (Figure C.1). Funding from this budget line is always earmarked; eligible expenditure is strictly defined; funding duration for NGOs is a maximum of six months (within a single financial year); partners include German NGOs and multilaterals; and NGO partners are required to provide 10% of the total emergency response budget from their own funds. Funding decisions are usually made rapidly by the Federal Foreign Office and funds transfer is also completed within a short space of time. The Federal Foreign Office also contributes to the CERF (since 2008), as well as funding Humanitarian Mine Action. Germany should reduce the transaction costs for its partners, for example by accepting Global Proposals and Global Reports from multilaterals, and accepting project proposals and reports that span funding from both major humanitarian instruments.

BMZ's focus is oriented towards protracted crises and ongoing disaster recovery efforts. Eligible projects can be funded for periods of up to three years, and are required to include a realistic exit strategy, as there are no formal links from BMZ funded recovery projects to BMZ development programmes. Partners include German NGOs and multilaterals, and GTZ is also commissioned under its General Agreement with BMZ. NGOs that are eligible for Federal Foreign Office funding are not, however, automatically eligible for BMZ funding, hindering the predictability of German financing. NGOs are not aware of BMZ's eligibility criteria, nor of when or how to apply to become an eligible partner. However, civil society organisations are consulted in BMZ's annual planning process.

Un-earmarked funding is provided by the Federal Foreign Office to UNHCR, UNRWA and OCHA, and BMZ provides un-earmarked funding to the WFP. Germany does not accept Global Appeals or Global Reports from these organisations as a basis for project funding, however, resulting in major transaction costs for these multilaterals which have to prepare different reports instead.

Figure C.2. Organisational responsibility for humanitarian budget lines
Percentage of 2009 humanitarian budgets



Source: BMZ and Ministry of Foreign Affairs

Germany supports international co-ordination structures, including the cluster system and donor co-ordination fora, and it fully supports and promotes the co-ordination mandate of OCHA. Co-ordination between national humanitarian actors in headquarters takes place in the Humanitarian Aid Coordinating Committee, which meets regularly every two months and, additionally, is assembled rapidly following major rapid onset crisis or disaster. This Committee, which includes relevant elements from several different ministries and representatives of key partners, is an effective mechanism for sharing information with respect to overarching humanitarian issues and improving effectiveness of interventions in specific humanitarian crises. However, there are no formal mechanisms to co-ordinate the ongoing projects and strategies funded by BMZ and the Foreign Office beyond the remit of the Coordinating Committee. In addition, BMZ's transitional funding and programming has limited visibility within BMZ, meaning that there is little impetus to translate lessons from humanitarian and transitional programming into development strategies for countries emerging from crises. Nor is there a drive for transition programmes to adhere to Germany's wider thematic policies, which could lead to missed opportunities, especially in key policy areas such as disaster risk reduction and environment.

Germany does not currently send humanitarian experts to its embassies, even in major crisis situations. The Federal Foreign Office staff that are, or will be, deployed to countries at risk of humanitarian crises continue to receive training on humanitarian principles and on international aid architecture, and this important work should continue.

It would be useful to reflect on whether to invest in humanitarian expertise at field level in major emergencies. Neither the Foreign Office or BMZ delegates authority for decision making to German embassy staff, but they are consulted during the decision-making process.

Learning and accountability

Germany continues to rely largely on its partners to monitor and report on their own humanitarian programmes and projects, although it reserves the right to conduct an independent review. The Federal Foreign Office and BMZ will ask partners for clarification if reports are unclear, and may also ask staff in the field to examine the partner's progress. While this practice is in line with the measures taken by many DAC members, it does limit Germany's opportunities for cross-programme learning, learning across partners, and the timely mitigation of implementation risk, especially related to projects in sensitive contexts – for example fragile states.

Overall evaluations of some complex emergency situations have taken place, for example the recent evaluations of Germany's support to humanitarian action in Zimbabwe and its support to UNRWA. Lessons from these exercises could be useful in designing and monitoring current and future humanitarian responses, for example the humanitarian components of aid to Afghanistan.

Following on from the recommendations of the 2005 peer review, the Federal Foreign Office and BMZ are currently conducting an overall inter-ministerial evaluation of Germany's humanitarian aid. The peer review team welcomes this development, especially the intention to focus on developing coherent performance audit and evaluation systems for projects funded by Germany.

Cross-cutting themes

Cross-cutting issues, including gender and HIV/AIDS, are adequately incorporated in Germany's various humanitarian policy and strategy documents. However, it is not clear how these themes are being mainstreamed into humanitarian programming, nor how their implementation is being monitored.

Disaster risk reduction is successfully mainstreamed across Germany's humanitarian programming, with disaster risk reduction programming funded under both the Federal Foreign Office and BMZ.

Future considerations

Germany's range of humanitarian instruments is achieving results; however the overall impact of its humanitarian assistance could be further enhanced if the country focused more clearly on holistic programming, especially by:

- Putting in place an overarching German humanitarian policy, and strengthening the links between relief and development, so that immediate relief actions support and are supported by recovery projects (whether or not funded by Germany). This in turn would create the foundations for longer-term development programming. This policy should also outline how cross-cutting issues, including gender, will be mainstreamed across Germany's humanitarian programming.
- Clarifying the division of labour among the various instruments, including those used for disaster risk reduction activities, and allowing more holistic programmes to

be funded from both humanitarian pots simultaneously, using the same proposal and accountability measures.

- Strengthening co-ordination on policy setting and strategic orientation issues between the Government units in charge of humanitarian aid, and continuing the current exchanges between Government and national humanitarian partners through the Humanitarian Aid Coordinating Committee.
- Continuing to increase the level of its humanitarian aid with a view to achieving the DAC average by the time of the next peer review.

Annex D

Field Visit Report: Morocco and Zambia

The peer review team, comprising four examiners from Australia and the United Kingdom and two staff from the OECD/DAC Secretariat, visited Morocco in March and Zambia in April 2010.³¹ The team members met with German government officials in Rabat and Lusaka, as well as representatives of key external stakeholders and partners in both countries. This annex summarises the team's observations.

Country contexts

Morocco: Despite impressive progress in the last few years, the Kingdom of Morocco, a lower middle income country, faces significant challenges to achieving the Millennium Development Goals (MDG). Morocco lies in 130th place (2009) on the Human Development Index (HDI) and has a high incidence of poverty (15% in 2004 according to the World Bank). It also faces significant challenges in the management and economical use of natural resources and energy. Developing renewable energy is a high priority for Morocco and could contribute to global public goods. Morocco's continuing stability, democratisation and development are important for the region. Morocco is able to finance most of its development through the mobilisation of its own resources; ODA contributed only 1.3% of GDP in 2005. The most important donors are France and the EU, with a strong role for the multilateral banks.

Zambia: this Southern African country is a relatively stable, peaceful and democratic state with enormous economic potential, now grounded in its rich endowment of natural resources. Despite its progress and potential, Zambia remains one of the poorest countries in the world and ranks 164 among 182 listed states in the UN Human Development Index (HDI) of 2009. Current political, social, and economic conditions present several challenges as well as opportunities for achieving the government's Vision 2030³² and the MDGs. Zambia is moving towards achieving most of the MDGs and is a good performer compared to other sub-Saharan countries. ODA contributed 11% of Zambia's GDP in 2009. The World Bank is Zambia's largest multilateral partner and the International Monetary Fund (IMF), the European Union, UN agencies and the African Development Bank also play important roles. The United States is Zambia's largest bilateral donor, followed by the United Kingdom and the Netherlands.

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31. Unfortunately, only one member of the peer review team was able to visit Zambia because of the disruption caused to flights to and from Europe at this time by the volcanic eruptions in Iceland.
 32. The government's strategy to reduce poverty and reach middle-income status by 2030 is articulated in its Vision 2030. Its Fifth National Development Plan (FNDP) outlines an agenda of actions for 2006-2010.

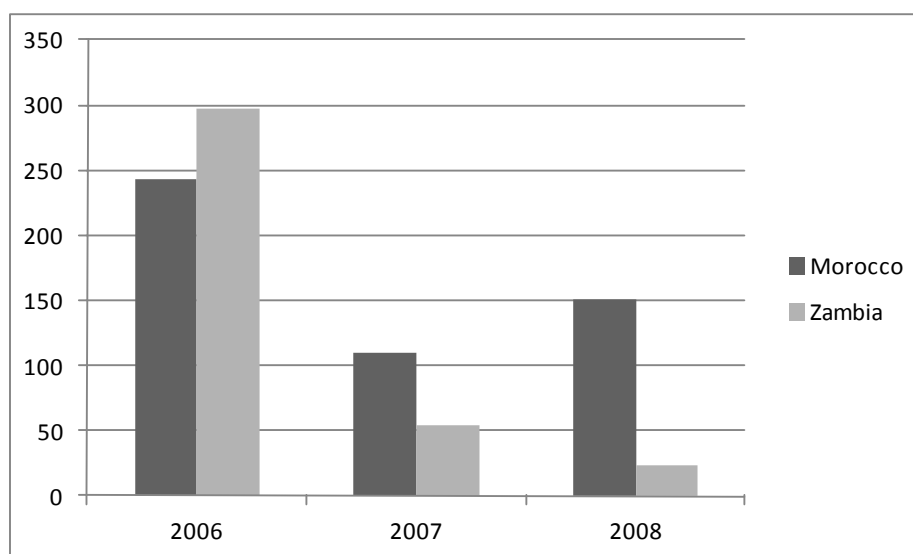
Germany's development co-operation in Morocco and Zambia

Morocco and Zambia are both partner countries for Germany, but only Morocco is currently among the top 20 recipients of German aid. They represent two quite different contexts for Germany's country programmes and each provide some positive examples of the direction in which Germany wants to take its country programmes in the future. Key features of both country programmes are Germany's long-term engagements, a strong focus on a small number of sectors that are relevant to country context, well-respected expertise in the water sector, good practice in capacity development and gender equality, increasing use of country systems for aid delivery and effective alignment with partner country priorities.

Germany has been active in both countries for more than four decades and is a well-established and respected partner in each case. Currently Germany is a major development partner in Morocco, where it is the second largest bilateral donor. Germany is now a less important development partner in Zambia, where it is currently the sixth largest bilateral donor. Germany's yearly budget allocation in terms of grants to Zambia and Morocco are at the same level, around 50 million EUR per year. However, Zambia receives grants only, whereas Morocco receives grants and concessional loans which makes overall ODA for the latter country significantly higher (Figure D.1). In 2007/08 (average) Morocco was the tenth largest recipient of Germany's ODA and Zambia was the 32nd, receiving 2% and less than 1% of Germany's bilateral aid respectively. Although Germany's programme in Zambia is currently less than one-quarter the size of that in Morocco, it was amongst the largest of Germany's aid programmes in Africa during the 1990s. During 2006 Zambia benefited greatly from debt relief, hence the spike in ODA in that year; the decline in bilateral ODA for Zambia between 2007 and 2008 is explained largely by exchange rate fluctuations between the Euro and the USD. It should be noted that Germany is also making a significant contribution to multilateral aid to both countries, particularly through the European Union.

Figure D.1 Germany's bilateral ODA to Morocco and Zambia, 2006 to 2008

Disbursements in USD million (2006 constant prices)



Source: OECD Statistics (figures do not include imputed multilateral contributions)

Germany's current country strategy for Morocco covers 2008 to 2010. Morocco is a key co-operation partner for Germany in the Middle East and North Africa (MENA) region and Germany's priorities for bilateral development with Morocco are established within the framework of BMZ's overall strategy for MENA. This strategy emphasises the geographical proximity and close cultural, political and economic links between the countries of the region and Europe and the many common interests, which include peace and stability, security, migration, energy supply and protection of the shared environment. There is a joint approach to climate change in Morocco, with BMZ and BMU working closely together to support the development of renewable energy.

In Zambia Germany's country programme has been incorporated into the Joint Assistance Strategy for Zambia (JASZ; see Box 5 in Chapter 5), a national medium-term framework (2007-2010) developed by the donors to manage their co-operation with the Government of Zambia in alignment with the country's Fifth National Development Plan (FNDP). This strategy has allowed donors to harmonise their country strategies and describe their envisaged contribution to the implementation of the FNDP between 2007 and 2010. The JASZ was developed by 16 donors (12 bilateral donors, the World Bank, the African Development Bank, the European Commission, and the United Nations) and signed in April 2007. Germany took an active role in this process as a member of the drafting team. A new JASZ is currently being prepared for the next five years.

Germany's development co-operation in Zambia concentrates on poverty reduction budget support (PRBS) and two focal areas which are strategically important for the Zambian government and where it can add value and play a leadership role (water and good governance, including decentralisation). Germany is also supporting education in Zambia, but through delegated co-operation with the Netherlands. During the 2008-2010 bilateral government negotiations, Germany committed a total of EUR 76 million to the focal areas listed in Table D.1.

Table D.1 Germany's programme in Zambia 2008-2010

EUR million

Sector	Technical co-operation	Financial co-operation	Total
Poverty Reduction Budget Support		30.0	30.0
Decentralisation	1.0		1.0
Governance, state, civil society	5.0		5.0
Water	7.0	25.0	32.0
Education Sector Programme (Background Partnership with the Netherlands)		8.0	8.0
Total	13.0	63.0	76.0

Source: German Embassy in Zambia

In Morocco, Germany's development co-operation is adding technical value and plays a leadership role in water (57% of the country programme) and environment and climate change (36% of the programme). Germany has moved out of certain sectors (*e.g.* health) and is thus more focused than other donors in the country. Germany continues to support sustainable economic development, but with only a modest contribution (4% of the programme). The peer review team was particularly impressed with Germany's support for gender mainstreaming in Morocco (3% of the programme) – see Box D.1 below.

Box D.1. Germany's support for gender mainstreaming in Morocco

Morocco was ranked 130th in the human development index in 2009, which is much lower than most other middle income countries. In the same year, the gender related development index placed Morocco 149th out of the 155 countries which had provided data. Rights such as access to education, employment, and property, a life free of violence and coercion are more difficult for women to achieve in Morocco than most other countries.

Germany has supported the efforts of the government of Morocco to achieve gender equality since 2003. These efforts have included technical assistance for the responsible ministry to support its leadership of reforms, training and capacity building of key agencies, and funding for NGOs. Some key areas in which German development co-operation has provided support are the following, all of which have been led by the government of Morocco:

- Development of a national strategy for gender equality, which is now the reference document for all actors in the country, including periodical indicators and objectives for 25 national institutions.
- Support for the implementation of the pro-equality family code adopted by the government in 2004, using innovative means which were then used in other Arab countries, such as Egypt and Algeria.
- Successful support for a recommended quota of women in local elections (approved in 2009). The representation of women at the local level rose in 2009 from 0.56% to 12% thanks to this quota.
- Development of a manual for 62 NGOs to develop systems of gender disaggregated data and production of a Label of Social Responsibility for Enterprises, including “gender equality at work”, which has already been granted to more than 30 enterprises.
- The launch of the 1st Moroccan Master’s course on Gender Equality and Public Policy at the national university and contributions to stimulate the national debate on culture, values and individual rights and practices towards women rights and development.

Source: German Embassy and GTZ, Morocco

Germany uses a mix of grants, financial co-operation, technical co-operation, projects, programme-based approaches and budget support in both countries. In Morocco, Germany also uses concessional lending. All of the resources transferred by Germany to Zambia are in the form of grants. The main instrument for development co-operation in both countries continues to be projects and programmes implemented by German implementing agencies and NGOs, but in Zambia particularly the share of Germany’s aid given as budget support and through programme-based approaches is increasing significantly.

Germany has established strong development relationships with Morocco and Zambia in its focal areas over several decades, building mainly on the long-term presence of its advisers in Moroccan and Zambian ministries and partner institutions. The quality of Germany’s sectoral expertise in the water sector and in renewable energy in particular is highly appreciated by its partners. A holistic approach to capacity development is taken in each of these focal areas, encompassing strategy, regulatory reform, institutional and human resources development. Germany provides predictable aid flows to both countries – in each case Germany outlines the volume of its support over three years,

making annual allocations within this framework. However, the evidence made available to the peer review team on the portion of German ODA delivered by departments other than BMZ in the two countries was more limited and a degree of caution is needed to avoid generalising BMZ-specific findings as being representative of the quality of Germany's development co-operation as a whole.

Organisation and management

The embassies in both countries have minimum staffing levels for overseeing Germany's development co-operation – a single Head of Co-operation in each case – and BMZ staff in both Morocco and Zambia were being stretched to provide strategic oversight of country programmes and to engage in policy dialogue with partners. There is an imbalance of German staff resources in both countries between policy/strategic and implementation functions, with the former under-resourced. This imbalance has been mitigated to some extent by the appointment of focal area coordinators. This imbalance is particularly important in Zambia where Germany plays a significant role in PRBS policy dialogue, aid effectiveness and donor harmonisation. Germany's upcoming role as Chair of the PRBS group in Zambia will increase the strain on BMZ capacity in-country. Failure to match resources to the high-level engagement required will place the credibility of Germany, the other co-operating partners and the PRBS process at risk.

Germany's aid is implemented by its implementing agencies, mainly GTZ and KfW but also DED and InWent, other federal ministries, NGOs and political foundations. The Development Co-operation Country Office, established in Morocco as a means to improve co-ordination of programme implementation among the agencies, is working well and there is a plan to establish a similar structure in Zambia. The focal area co-ordinators are taking the lead in designing joint programme proposals for approval by BMZ and these are then implemented under contract by the implementing agencies. Joint programming is thus the main mechanism for bringing the implementing agencies together. The focal area co-ordinators in each country are an important step forward in improving the coherence of Germany's development co-operation. These roles should be strengthened and developed by increasing the time allocated to this function, by making the post-holder more accountable to the Head of Co-operation and by formalising the role with BMZ and the various other German and Moroccan actors.

In both Morocco and Zambia, the peer review team noted the significant potential for delegating authority to the country office as a way of improving strategic oversight, aid effectiveness and strengthening Germany's contribution to high-level policy dialogue. But this increased delegation would need to be supported with adequate resources. The level of autonomy given to GTZ after contracts have been agreed with BMZ has allowed this agency to be flexible, responsive and timely in its co-operation with partner governments, and this was appreciated in both Morocco and Zambia. The peer review team noted in both countries that BMZ's policies, strategies and guiding documents at times lack clarity in their hierarchy and interrelationship, and that reporting against specific policies and strategies can place a significant burden on embassies. Despite the obvious differences in country context and in the size of the German government's presence, BMZ has made efforts to work closely with other German government departments in both countries. BMZ's representatives work closely with their embassy colleagues on political issues and governance in both countries, but, with the exception of PRBS in Zambia, the tendency is to focus on the chosen focal areas and to make insufficient linkages to the MDGs and broader governance issues.

The aid co-ordination contexts

Two very different country contexts highlight the importance of partner government leadership in supporting donor co-ordination and harmonisation. Morocco is content to manage bilateral relations with the 30 agencies it is dealing with and is not actively promoting donor co-ordination and harmonisation. On the other hand, the government in Lusaka perceives considerable benefit in implementing the aid effectiveness principles, particularly donor co-ordination and harmonisation with its more than 40 development partners. Germany is one of the main driving forces among bilateral donors for donor harmonisation in Morocco and implements several main programmes as joint programmes with other donors, such as the national sanitation programme (PNA), INDH and the Solar energy power plant in Ouarzazate. Germany's ability to harmonise with other development partners in Morocco has been constrained by the government's preference for bilateral relationships with donors, while it has played a more significant role in supporting donor harmonisation in Zambia, where the government there has encouraged joint approaches to working.

In both Morocco and Zambia, some stakeholders identified a need for improved communication by Germany around some of its strategic decisions. For example, in Morocco partner donors felt that Germany could consult earlier on sector and country strategies. In Zambia, some stakeholders felt that Germany could have better communicated its rationale for seeking to strengthen its focus on the water sector. In both countries the focus on two or three focal areas was strongly evident and in each case these areas had been supported by Germany for decades. The peer review team questioned the rationale for remaining in some focal areas – particularly sectors that had benefited from as much as 40 years of accumulated capacity development – while leaving others.

The BMZ Heads of Co-operation, GTZ and KfW in both countries have internalised international commitments on aid effectiveness, but country-level data suggest that Germany performs poorly against several of the Paris Declaration indicators in Morocco and could do better in Zambia. Government partners noted the effort made by Germany to align its support to their priorities. In both countries, particularly Zambia, some steps have been taken by Germany to both strengthen and rely further on country systems in the delivery of aid, but more can be done to promote programme-based approaches and the use of country systems. Incentives are needed for GTZ to move further in this direction. KfW is already making use of country systems for most of its aid transfers and is also combining its financial co-operation with partner-led competitively sourced technical co-operation in both Morocco and Zambia. The lessons from Germany's experience in Zambia with joint assistance strategies and poverty reduction budget support should be widely disseminated throughout Germany's development co-operation system and should inform the country's approach in other sub-Saharan African countries in particular.

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.*³³

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with other official or private funds 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 the Development Co-operation Report.

DAC LIST OF ODA RECIPIENTS: For statistical purposes, the DAC uses a list of ODA recipients which it revises every three years. From 1 January 2007, the list 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 USD 825 or less in 2004 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 826 and USD 3 255 in 2004. 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 3 256 and USD 10 065 in 2004.

DEBT REORGANISATION (also RESTRUCTURING): Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, or 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 ODA Recipients. In practice it is recorded

33. For a full description of these terms, see the *Development Co-operation Report 2009*, Volume 10, No. 1.

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** (the gross amount 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 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). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* as an indication of the opportunity cost to the donor of making the funds available. 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 DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on the DAC List of ODA Recipients and multilateral agencies that are undertaken by the official sector; with the promotion of economic development and welfare as the main objective; 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): Transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as official development assistance, either because they are not primarily aimed at development, or because they have a grant element of less than 25%.

TECHNICAL CO-OPERATION: Includes both a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and b) 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): The flow data are expressed in United States dollars (USD). To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. This means that adjustment has been made to cover both inflation in the donor's currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period.

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