



## Institutional Reform Needs of Germany's Bilateral Development Cooperation

In 2005, the previous Federal Government had signalled that it would improve the linkage between financial and technical cooperation to make Germany's development cooperation more efficient and effective. This had not been followed through.

Germany's official development assistance (ODA) has institutional strengths and weaknesses. Its strengths are, inter alia, its representation at cabinet level, its own ministry (BMZ) and experienced implementing organisations. Its weaknesses include capacity constraints at the BMZ, the institutional complexity of financial and technical cooperation, which has been repeatedly described as being in need of reform by the Organisation for Economic Cooperation and Development (OECD), deficits in the

representation in partner countries, as well as coordination problems with other federal ministries that increasingly finance their own bilateral ODA activities.

The new Federal Government should respond to the problems by introducing reforms. In addition to merging financial and technical cooperation, it will be important to concentrate and partly delegate the duties and responsibilities of the BMZ, to strengthen the representation of Germany's development cooperation in partner countries and to improve the coordination of bilateral ODA activities of other government departments. This would increase the overall effectiveness of Germany's development cooperation system.

In November 2005, the previous German government had stated in its coalition agreement: *"Our main concern is to achieve a high level of effectiveness in development cooperation. (...) In order to increase the efficiency and improve the structure of German development cooperation, further streamlining is needed, particularly with regard to better linking technical and financial cooperation."*

This was not the first time this type of statement was issued. The Federal Government's coalition agreement in 1998 provided for *"streamlining national development cooperation and considering the fusion of the various implementing organisations."* As a result, in 2002 the former Carl Duisberg Gesellschaft (CDG) and the former German Foundation for International Development (DSE) were merged into InWEnt - Capacity Building International, Germany.

Remarkably, the 2005 announcement was not followed through despite the fact that it had a clearer mandate than that of 1998. It did trigger a lively discussion, initiated by a report by the auditing and consulting company PricewaterhouseCoopers that had been commissioned by the BMZ in 2006. In the course of the debate the Federal Audit Office also took a stand. Nevertheless the opportunity for reform created by the coalition agreement was missed.

The new German Government should take up the issue again. However, the focus should not be exclusively on the horizontal relationship between financial and technical cooperation, as it has been in the debate until now. Rather, parallel to merging financial and technical cooperation, it will be important to concentrate and partly delegate the duties and responsibilities of the BMZ, to strengthen the representation of Germany's development cooperation in partner countries, and to enhance the coordination of the increasing bilateral ODA engagement of other ministries. This would increase the overall effectiveness of the German development cooperation system. What are the issues?

### The challenges of development cooperation

The development policy of the German Government forms part of its global structural and peace policy. In line with the United Nations Millennium Declaration of 2000, the Federal Government has pledged to contribute to four goals: reducing poverty worldwide; protecting the natural environment and the climate; securing peace and promoting democracy; and ensuring equitable forms of globalisation (BMZ 2008, 15–19). To that end, the German Government is engaged at three levels: promoting the improvement of living standards in partner countries through development cooperation; helping to shape global framework conditions in a development-conducive way; and striving domestically for greater coherence between development cooperation and other policies, because: *"The measures of all German policy areas should have a positive impact on development"* (ibid, 15). This agenda is ambitious and demands considerable commitment and strategic competence in development policy.

Implementing the international agreements to improve the effectiveness of development cooperation is no less ambitious. Because of the increasing number of donors, frequently with diverse priorities, concepts and approaches, the international aid system has reached a complexity that increasingly burdens the partners and adversely affects the efficiency and effectiveness of development cooperation. In 2005, most of the bilateral and multilateral donors and over 90 partner countries endorsed the Paris Declaration on Aid Effectiveness. It set out five key principles for improving aid effectiveness, among other things the harmonisation of donor contributions, and translated them into 56 commitments. Of these, 12 have been operationalised through measurable indicators and targets to be achieved by 2010. The Accra Agenda for Action (2008) further developed the Paris Declaration and is calling on donors, to, inter alia, take sufficient steps to decentralise their development cooperation by delegating authority to country offices.

Germany's development cooperation responds to the conceptual and procedural challenges with a system that reveals strengths and weaknesses.

### **Institutional strengths of Germany's ODA**

#### **Representation in the cabinet and its own ministry**

Development policy is represented in the Federal Government at cabinet level, i.e. it has its own minister and its own ministry (BMZ). This enables development policy to adhere to its complex remit in its own right and with its own profile, within the context of overall government policy and foreign policy. It also makes it easier to advocate greater development orientation in other policy areas (policy coherence for development).

#### **Experienced implementing organisations**

In contrast to many other donors, development cooperation in Germany has its own implementing organisations. They possess considerable regional and sectoral know-how and expertise, and their experience is internationally acknowledged. The most important implementing organisation for financial cooperation is the Kreditanstalt für Wiederaufbau (KfW), with KfW Development Bank as part of the KfW Banking Group. The implementing organisations for technical cooperation are the German Agency for Technical Cooperation (GTZ), InWEnt, the German Development Service (DED), and the Centre for International Migration and Development (CIM).

### **Institutional weaknesses of Germany's ODA**

#### **Capacity problems of the BMZ**

The conceptual and procedural changes experienced in international development cooperation over the last decade have made considerable demands on the BMZ with regard to policy formulation, planning, steering and national and international coordination. At the same time, in parallel with other ministries, the BMZ has had to absorb staff cuts ("lean government") since 1993 (1.5 % annually until 2005, thereafter fewer, but still 0.6 % in 2009). The gap between its enlarged range of duties and the reduction in personnel will widen further if the cuts continue and Germany fulfils its pledge to increase its ODA/GNI (Gross National Income) ratio, which was 0.38 % in 2008, to 0.51 % in 2010, and 0.7 % in 2015.

The BMZ has reacted to the growing gap by four measures: the transfer of personnel from implementing agencies to the BMZ for advisory work, the review of tasks, adjustments to human resources management, and changes in procedures. Even so, many staff members at the BMZ report difficulties in adequately ensuring oversight of Germany's development cooperation system, coordination with other ministries to improve coherence, closer alignment with partner countries and better harmonisation with other donors (Ashoff et al. 2008, 61–64).

#### **A complex implementation structure**

The institutional structure of Germany's financial and technical cooperation is complex (KfW, GTZ, InWEnt, DED, CIM). The institutional diversity is also reflected in separate budget lines in the BMZ budget, which encourages "pillarisation" in financial and technical cooperation. The results have been both a duplication of work, particularly in relation to country, sector and thematic analyses and dialogues, and coordination problems, which have not been solved by previous efforts to better link financial and technical cooperation. The well-intended endeavours to link the various instruments ("development cooperation in one mould") by creating country teams (in Germany and in the partner countries) as well as sector and thematic teams and networks, in which the BMZ and the implementing organi-

sations closely cooperate, have considerably increased the time and effort needed for coordination. The OECD's Development Assistance Committee (DAC) sees hardly any potential for further efficiency gains within the current structure (OECD 2006, 12).

The institutional separation of financial and technical cooperation, which is not typical for donors, complicates their integration into joint programmes of partners and other donors and has been repeatedly criticised by the DAC in its peer review reports on German development cooperation, most recently in 2006, as being "increasingly artificial" and inadequate (OECD 2006, 57). In addition, an evaluation of the implementation of the Paris Declaration by Germany's development cooperation system showed that harmonisation with other donors was hampered by the diversity of implementing organisations (Ashoff et al. 2008, 66, 73).

#### **The weaknesses of Germany's development cooperation representation in partner countries**

Germany's development cooperation is represented in partner countries at two levels: by development cooperation officers at the German embassies (mostly seconded by the BMZ) and by country offices of the implementing organisations. In the last few years, the BMZ and the implementing organisations have strengthened their presence and coordination in partner countries by increasing the number of development cooperation officers and GTZ and KfW offices as well as by introducing country teams and priority area coordinators in the field. Even so, Germany's ODA does not always meet the demand for dialogue, planning and decision-making, which increasingly arises at the country level, for the following three reasons:

*First*, the development cooperation officers do not always have the capacity to fully participate in policy dialogues with the partners and other donors, so these functions are often performed by the implementing organisations. *Second*, the implementing organisations mostly have their own country offices, which reproduce the institutional diversity of German development cooperation at the country level in the relations with the partners and other donors. *Third*, there is a disparity between the centralised oversight function of the BMZ and the partial decentralisation of the implementing organisations (more for the GTZ than for the KfW) (OECD 2006, 55).

#### **Insufficient coordination with other federal ministries that are increasingly becoming engaged in bilateral ODA**

Some government departments are expanding their own bilateral ODA engagement. This is especially true for the Foreign Office (whose 2009 budget, in addition to emergency aid and foreign cultural policy, includes about EUR 285 million on conflict prevention, the Stability Pacts for Afghanistan and South Eastern Europe, the G8 Africa Action Plan and regional cooperation with North Africa, the Middle East and Asia); the Federal Ministry for the Environment (2009: EUR 120 million for climate protection in developing countries from emissions trading); and the Federal Ministry of Education and Research (2008: EUR 57.6 million).

The problem with this is that they scarcely coordinate with the BMZ with regard to content and procedures and little attention is paid to the principles of the Paris Declaration. Partners and other donors have to deal with a still higher number of German actors in development cooperation. The danger is that potential synergies will not be sufficiently used and that lessons learned previously in development cooperation will not be incorporated by other ministries, resulting in learning processes being repeated, instead of being shortened.

## Consequences for Germany's bilateral ODA

### Strengthening the BMZ by concentrating and delegating duties

The possibilities to increase capacity by improving human resources management are limited in view of the already implemented reforms. Staff increases seem rather unlikely, and assigning advisors from implementing organisations to the BMZ is restricted where ministerial core responsibilities are involved. But the following ways can certainly offer relief.

**Country concentration:** In order to enhance the effectiveness of Germany's ODA, the BMZ decided at the end of the 1990s to reduce the number of partner countries from 120 to 70–75; in 2008 the number was further reduced to 58 countries. Provided that this decision is maintained even when the German ODA/GNI ratio is increased, this focus relieves the BMZ by decreasing its planning, steering and coordinating efforts. However, the effect will only be felt in the mid-term, since approved and ongoing projects cannot be terminated overnight. This can also be seen from the EU Code of Conduct on Complementarity and Division of Labour in Development Policy of 2007. It calls upon EU donors for more cross-country division of labour, but implementation is proceeding only at a slow rate.

**Thematic concentration:** The coalition agreement of 2005 included a mandate, not only to decrease the number of partner countries, but also to consider reducing the list of thematic areas of German development cooperation. So far the BMZ has tried to achieve the thematic concentration administratively rather than substantively. It has identified 75 areas where it feels that the German development cooperation system needs expertise for designing bilateral ODA programmes and engaging in international discussions. This list was not reduced, but split up according to levels of responsibility: 23 thematic areas were prioritised as highly political, requiring intensive BMZ involvement. An additional 30 areas have also been assigned mainly to the BMZ, whereas only 22 areas should primarily lie with the implementing agencies.

The workload of the BMZ can effectively be reduced by narrowing the range of thematic areas, as some donors have done, or, if this is not desired, by having a larger part of the thematic areas dealt with by the implementing agencies. Merging the latter, as suggested below, will reduce thematic duplication of work and thus free up capacities.

**Concentration in delivery modalities:** In the Paris Declaration, donors and partners agreed to increase the percentage of ODA delivered as programme-based approaches to 66 % by 2010. (Germany 2007: 24 %) in order to decrease the project-related dispersion of ODA and the transaction costs involved. Although this approach requires an intensive dialogue with the partner countries and other donors, it eventually yields a workload reduction, since project-related planning, approval, steering and coordination efforts are scaled back.

**Concentration within the implementation system:** Below there will be a plea for merging KfW Development Bank, GTZ, DED, InWEnt and CIM into a German Aid Agency under the political responsibility of the BMZ, and the country offices of the implementing organisations into joint German Aid Missions. This will decrease the steering and coordination efforts of the BMZ regarding the level of implementation.

**Delegating tasks (see Box 1):** Although the existing regulations partly permit to delegate tasks, the delegation can be further facilitated through the merge of financial and technical cooperation. To some extent, delegating tasks requires more decentralisation, in particular of BMZ authority.

#### Box 1: Scope for delegating BMZ tasks

- Responsibility for more thematic areas: → existing implementing organisations or proposed German Aid Agency.
- Drafting sectoral, cross-sectoral and thematic concepts, which are professional-technical rather than political in nature (e.g. on vocational training): → existing implementing organisations or proposed German Aid Agency; for politically high-profile concepts, the BMZ should continue to be in charge.
- Drafting the priority area strategy papers, which in coordination with the partners and other donors specify the approach and type of Germany's support in the areas defined in the BMZ's country concepts: → development cooperation officers in the German embassies together with the German Aid Missions at the country level and the German Aid Agency (requires decentralisation).
- Selecting development cooperation projects and programmes (except for budget aid due to its particular role): → development cooperation officers in the embassies together with the partners on the basis of appraisal reports from the German Aid Agency + German Aid Missions (requires decentralisation).
- Monitoring and controlling the individual projects and programmes of bilateral German ODA: → German Aid Missions + German Aid Agency; in the case of deviations from the original project concept: decision to be made by the development cooperation officers in the embassies (requires decentralisation).
- Evaluations previously conducted under BMZ responsibility: → independent evaluation institute to be created (without affecting the evaluation responsibility of the implementing organisations).

The BMZ should use the reduction of its workload that can be achieved by the aforementioned measures to become more proactive conceptually and strategically on the following levels: (i) overseeing and coordinating the German aid system; (ii) improving policy coherence for development; (iii) shaping the international development policy agenda; (iv) shaping the development cooperation of the EU and other multilateral organisations.

#### Institutional merger of financial and technical cooperation

There are several reasons for advocating a merger (see Box 2). The report from PricewaterhouseCoopers introduced several models, one being a development agency owned by the Federal Government (Chair of the Supervisory Board: BMZ), another offering several variants under the umbrella of the KfW.

#### Box 2: Reasons for merging financial and technical cooperation

- Institutional implementation of the claim made by the BMZ since the 1990s to join up German development cooperation ("ODA in one mould"). Coordination within the German aid system still needs considerable efforts that can be reduced.
- The country- and sector-specific as well as great part of the planning know-how of the implementing agencies does not differ substantially and should be merged to create synergies.
- According to the Paris Declaration, the ODA instruments should be integrated into programmes that are aligned with partner countries' strategies and harmonised with other donors. This external coordination and harmonisation is hindered if there is insufficient internal coordination within the German aid system.
- An institutional merger facilitates the joint representation of German development cooperation at the country level.
- Finally, merging the implementing agencies yields a dividend in the form of vacancies that can be used for strengthening the representation of German ODA in the partner countries.

German financial cooperation includes grants and loans. Due to the latter, the objection was raised against the proposed German Aid Agency that it would require a bank licence, which the KfW has, but the Agency would probably not obtain. With this argument, the Federal Audit Office has only recommended the GTZ, InWEnt, DED and CIM as candidates for the first step of a

merger. While it is true that providing loans (and the use of market funds for blending with BMZ funds to development loans) is a banking activity that requires a bank licence, this does not mean that financial and technical cooperation can only be merged under the umbrella of the KfW (see Box 3).

**Box 3: Is merging financial and technical cooperation only possible under the umbrella of the KfW?**

- Legally, it is possible to grant the proposed German Aid Agency a bank licence if the requirements of § 32 Banking Act are fulfilled and the Agency has the necessary starting capital (report by the Research Services of the German Bundestag of 2006).
- A large proportion of German financial cooperation consists of grants (Ø 2003–08: 46 % of financial cooperation reported as ODA). Providing grants does not require a bank.
- Merging Germany's substantial technical cooperation into a bank does not reflect the growing international consensus that development cooperation with many partner countries requires a comprehensive approach to capacity development rather than just offering concessional finance. The latter is often but one component or just the vehicle for capacity development.
- Finally, political requirements also need to be considered when financial and technical cooperation are to be merged under the umbrella of the KfW. The Federal Finance Ministry and the Federal Ministry of Economics and Technology alternately chair the Board of Supervisory Directors of the KfW; the BMZ is only one of 37 members. It would be essential that the BMZ chairs the supervisory board of a merged organisation for development cooperation under the umbrella of the KfW.

Ultimately, merging technical cooperation as well as ODA loans and ODA grants into one development agency is a political decision. An example is Japan, which in October 2008 transferred the responsibility for ODA loans from the Japan Bank for International Cooperation (JBIC) and for part of ODA grants from the Ministry of Foreign Affairs to the Japan International Cooperation Agency (JICA), which was previously only responsible for technical cooperation. The new JICA is now responsible for technical cooperation as well as ODA loans and grants.

**Strengthening the representation of Germany's development cooperation in the partner countries**

Merging financial and technical cooperation permits integrating the country offices of the implementing organisations into joint German Aid Missions and thereby offering a unified presence at the field level.

As for BMZ's representation at the country level, two steps are necessary. In important partner countries, the function of development cooperation officers at the embassies should be strengthened through more staff in order to create sufficient capacity needed for the policy dialogue with the partners and other donors. In addition, and as recommended by the DAC (OECD 2006, 55–56), there should be more decentralisation, in particular by transferring more responsibilities to the development cooperation officers in the embassies.

In 2006–2008, the BMZ conducted a decentralisation pilot project in four countries. The development cooperation officers were assigned the following duties: drawing up country concepts and priority area strategy papers; preparing the country allocation of ODA commitments; appointing priority area coordinators; developing project portfolios further (by using the study funds). It should be kept in mind, however, that with this

shift process responsibilities were transferred rather than decision-making and budget competencies (except for the use of the study funds). Other donors have made more progress.

The experiences gained in the pilot were positive. However, the BMZ has not made a decision on whether to extend the decentralisation to further competencies and/or countries. Only the continuation of the decentralisation experience in the four pilot countries is being discussed. The main reason behind this is the concern that transferring further responsibilities to the development cooperation officers expands the authority of the Foreign Office in ODA since the development cooperation officers report to the ambassadors. This issue requires a new understanding between BMZ and the Foreign Office on their relationship in the field (OCED 2006, 17).

**Better coordination of bilateral ODA activities financed by other government departments**

The growing bilateral ODA engagement of other ministries increases the diversity of German actors and makes it even more difficult to achieve German ODA "in one mould". Transferring all ODA activities to the BMZ, which has repeatedly been advocated, should be examined under practical considerations. With good reason, emergency assistance and foreign cultural policy lie in the realm of the Foreign Office. Moreover, the BMZ would hardly have the expertise to manage some of the specialised ODA projects of the Federal Ministry of Education and Research. In the other cases mentioned above, however, the programmes should rather be placed in the BMZ. But even without this happening, it is important to improve coordination with the BMZ, and to abide by the Paris Declaration and the Accra Agenda for Action, both signed by the German Government.

**Conclusion**

Implementing the proposed reforms requires a major effort, but would also be a great step. They would pave the way for an up-to-date, efficient and effective German ODA and enable Germany (since 2007 the second most important bilateral donor after the US and, therefore, an important actor in international development cooperation) to play a stronger role in shaping international development cooperation. The donor community expects its partner countries to make a wide range of institutional reforms and tries to push through these reforms by imposing conditionalities. How willing and able is Germany to reform its own development cooperation system?



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