

The Director
DEVELOPMENT CO-OPERATION DIRECTORATE
Director's Office

DAC Delegates and Observers

23 November 2012

DCD/JL(2012)63

To: DAC Delegates & Observers

DAC mid-term review of Germany: Berlin, 6th November 2012

On 6th November I visited Germany to conduct its mid-term review accompanied by Michael Ward of DCD. I would like to thank Mr Dirk Niebel, Federal Minister for Economic Co-operation and Development, his ministerial colleagues and officials for an excellent programme of meetings and discussions. We met senior staff from the Federal Ministry of Economic Co-operation and Development (BMZ) as well as representatives of the Federal Ministry of Foreign Affairs and civil society organisations. We discussed issues around implementing the DAC's recommendations from the 2010 peer review. Overall, I found that Germany has taken the Committee's recommendations seriously and it has made considerable progress against them, but some challenges remain.

While the main purpose of the mid-term review was to focus on the implementation of the DAC's recommendations, we also took account of national and international developments since 2010. For example:

- the continuing impact of the global downturn and banking crisis on Germany's economy and public sector and the consequences of this for ODA volume;
- the shaping of a new vision for German development co-operation with its prioritisation of Africa and fragile states and an emphasis on the private sector;
- the institutional reforms within Germany's development co-operation system; and
- the discussions regarding measuring and reporting on development financing towards and post-2015.

Encouraging progress since the 2010 peer review, but some challenges remain

Strategic orientations

The Minister and his senior colleagues from BMZ outlined Germany's development priorities as set out in its overarching policy document, *Minds for Change*, which it put in place in August 2011. This kind of policy was recommended by Germany's peer review and BMZ is using it to both guide its strategy and also to build consensus within the German population that development policy is a worthwhile investment in the future of the world. The policy outlines five key areas: strengthening Africa, particularly through the promotion of the private sector; sustainable energy for poverty reduction; climate friendly development; helping fragile states; and the promotion of innovative global leadership. In addition to these areas Germany will continue to emphasise the cross-cutting issues of gender equality and women's empowerment and human rights. BMZ has embarked on a dialogue process based on *Minds for Change* and has elaborated details on implementation in an extended paper called *BMZ Roadmaps 2013*. This dialogue process is engaging parliamentarians, representatives of civil society, academics and think tanks as well as representatives of Germany's partner countries. As an additional overarching cross-cutting element of Germany's development policy, BMZ has published a new poverty alleviation strategy.

As well as developing its overarching policy, BMZ has also acted on the peer review's recommendations to draft a paper to guide its multilateral aid and to prepare strategies for how it will work with civil society and

the private sector. Given that Germany is the largest contributor of multilateral ODA in the DAC its new strategy for this channel will have considerable significance for the entities that it supports. Senior officials from BMZ confirmed that Germany's new multilateral strategy should make its objectives for this channel clear; outline how it will support multilateral reforms; and how it will strengthen links between this channel and its bilateral programmes. In addition, the strategy will also set out criteria to be applied for the evaluation of multilateral organisations' performance and for determining Germany's multilateral allocations, including: organisational mandate; relevance of this mandate to Germany's development policy; capacities of the entity; and scope for Germany to have influence. Germany remains committed to MOPAN and will continue to support efforts to improve this instrument. BMZ has developed separate strategies for working with civil society and the private sector and envisages key roles for both of these in its future programmes. A service point has been established to advice companies for sustainable investments in developing countries. Additionally a new organisation - Engagement Global - was founded in 2012 to foster civil engagement.

I praised Germany for its contributions to the post-Busan *Private Sector Building Block* and its work within the G20 on inclusive growth. BMZ's strategy for co-operation with civil society will be presented to parliament and the public in early 2013 and has been consulted on widely. This strategy should clarify Germany's objectives for working with civil society organisations and define BMZ's relationship with them, in particular to focus this on development results.

Policy coherence for development

Germany has made some progress with policy coherence for development since 2010, but it does not yet have a whole of government statement to clarify goals and responsibilities as recommended by the peer review. An example of progress is how the Federal Ministry of Food, Agriculture and Consumer Protection (BMELV) and the BMZ are working more closely together in order to coordinate their international activities and projects in the area of agriculture. Both ministries want to ensure that the actions of the Federal Government are coherent overall and they thus aim at achieving common positions on development and international agrarian policies to promote global food security. A prominent example of this approach is the German position to abolish agricultural export subsidies within the EU Common Agricultural Policy. BMZ has been strengthened through the establishment of a new department on planning/policy and communication and a division for policy coherence. With this new structure BMZ aims to strengthen its internal coherence and promote cross-departmental cooperation and coordination. We learned that BMZ has drafted an agenda that should form the basis of interdepartmental discussions on policy coherence for development. In addition, Germany has commissioned jointly with the Netherlands an interesting study on the feasibility and potential design of a 'development-friendliness' index to evaluate non-aid donor policies affecting developing countries. The report of this study demonstrates the feasibility, given sufficient political will among rich countries, of a potential 'policy coherence' or 'development friendliness' index to evaluate and compare countries' policies. The study is a useful contribution to the debate on the comparison of countries' contributions to global development and can be built on within Germany and internationally.

Whole of government approaches and fragile states

Germany has acted on the recommendation to strengthen its whole of government approaches by giving BMZ the mandate for coordinating German ODA. This is a welcome move and should help to improve coordination of Germany's ODA and hasten the adoption of whole of government approaches at all levels of its system. To enable BMZ to fulfil this important mandate at field level the German government, with the approval of the Bundestag's Budget Committee, has increased the number of development staff seconded to Germany's diplomatic missions abroad (46 new posts). BMZ's new "Division for Coherence and Co-operation within the German government", referred to above, is reaching out to other ministries working on ODA through workshops

and other means with a view to agreeing and establishing coordination procedures with these entities. At the moment Germany's Lander are not included in these coordination activities and BMZ will approach these in due course.

In response to the recommendation that it needs a new joined-up approach for fragile and conflict affected states, Germany has developed inter-ministerial guidelines for BMZ, the Federal Foreign Office and the Federal Ministry of Defence. These guidelines define the objectives and principles for Germany's engagement in fragile states and are in line with the *New Deal for Fragile States* endorsed at Busan by over 40 countries, including Germany. BMZ is also revising its own strategy for development co-operation in the context of crises, conflict and fragile states. Fragility, conflict and crisis affects 22 of Germany's 50 programme partner countries.

Aid volume and allocations

Germany has been the second largest DAC member in ODA volume terms for several years. In 2011 Germany's ODA was USD 14.533 billion, equivalent to 0.4% of its gross national income (making it 12th in the DAC in terms of ODA/GNI). This represents a 5.9% increase in real terms over 2010. Germany is, however, among the seven members of the European Union (EU) that have not met the 0.51% ODA/GNI target for 2010 set by the EU. A few days after our visit, the *Bundestag's* budget committee amended the government's development budget proposal for 2013 making it even more difficult for the German Government to live up to its commitment to meet the ODA/GNI-target of 0.7% by 2015. Germany has not set annual ODA volume milestones as recommended by the peer review and it will now need to clarify its position in respect of its commitment to the 0.7% target. In the context of Germany's commitment to achieve a balanced budget by 2014, a timetable for achieving 0.7% ODA/GNI at some future date would be helpful and is something that civil society representatives are calling for.

The peer review highlighted the need for Germany to concentrate its bilateral ODA on fewer countries, particularly on its partner countries in sub-Saharan Africa and fragile states. While Germany has reduced the number of its programme partner countries from 58 to 50, in 2010 Germany's top 10 ODA-recipients included nine Middle Income Countries. This ODA-allocation pattern is unique among DAC members and is partly a reflection of Germany's increasing use of concessional loans as part of differentiated development partnerships, the increasing engagement of other Ministries in emerging economies and an outcome of Germany's strategy for working with emerging economies for the purpose of global and regional development and its policy of focusing on global public goods, such as climate and food security.

I discussed with the Minister and his colleagues how Germany is working at the international level for a reform and restructuring of financing for development reporting systems post 2015. As an initial contribution to the international debate, Germany jointly commissioned with the Netherlands a study on *Financing for Development Reporting Post 2015*. This study, completed in 2012, associates other development-related financial contributions to ODA reporting and is a useful contribution to the debate and will inform discussions of these issues at the forthcoming High Level Forum and subsequent dialogue. We also discussed the importance of maintaining the present ODA definitions till 2015. I pointed to the challenge presented by the lack of consensus among DAC members about the definition of "concessional in character" and expressed my hope that such a consensus could be reached through the on-going initiative of the DAC Chair.

Organisation and Management

Germany has made progress with the recommendations to implement institutional reforms within its development co-operation system. The merger of the three technical co-operation agencies (GTZ, InWEnt and DED) to form GIZ has been completed successfully. The new organisation has over 17,000 staff and is the biggest development agency in the world by far. BMZ has been strengthened with the addition of 196 new posts – this

represents an unprecedented increase in BMZ's staffing levels of 30%. BMZ has also established a clearer division of labour between itself and the implementing agencies, with the Ministry now solely responsible for policy dialogue, including at sector level, with partner countries. With 46 additional cooperation officers in partner countries decentralisation is proceeding and a strategy on division of labour between BMZ and the Federal Ministry of Foreign Affairs has been agreed, but there is still far to go to achieve the level of decentralisation recommended by the last two peer reviews. With this considerable institutional capacity in place Germany is in a position to engage on and to influence international development issues to a much greater extent than it has previously and to share its development knowledge on a much larger scale. I encouraged the Minister and his colleagues to make the most of this potential.

Germany has acted on the recommendation to improve evaluation and results reporting and has established an independent evaluation agency. Our visit coincided with the launch of this new institution. This is a major step forward for Germany's development co-operation and provides it with the means to inform and improve its focus on results, the use of evidence to inform decision making and the identification and dissemination of good practice. I encouraged BMZ to ensure that the new institution engages in international forums to up-date itself regularly on practices and latest thinking and to reflect on what this development means for the evaluation capacity that exists within BMZ and the implementing agencies.

Aid Effectiveness

Germany has improved its performance against 8 out of 10 indicators measured by the latest Paris Declaration survey, but it met only two of the 10 targets: strengthen capacity by coordinated support; and predictability of aid. BMZ has introduced stronger measures under its *Plan of Operations* to make it compulsory for its implementing agencies to make use of country systems unless it can be demonstrated that these are not fit for purpose; to identify concrete constraints and develop a strategy for a gradual approach - together with partners and other donors - to strengthening and using the systems at stake. While BMZ works with its implementing agencies' assessments of country systems, particularly procurement systems, it is coordinating more with other development partners on these assessments on the basis of internationally approved assessment tools. KfW due to the nature of its focus on financial co-operation is making more use of partner country systems than GIZ. This suggests there may be instrumental and institutional constraints in respect of GIZ that prohibit greater progress in this area as well as on untying Germany's technical co-operation (most of which is managed by GIZ); this was a particular focus of the peer review's recommendations. However, BMZ reports that the proportion of Germany's technical co-operation that is untied has increased from 48% in 2010 to 68% in 2012. The ministry is assessing possibilities to further untie aid as called for in the Busan commitment.

Germany has made progress against the recommendations relating to capacity development and climate change. It is preparing a strategy for capacity development on the basis of the reformed instruments aimed at making its approach to this more demand driven. Germany has continued to provide international leadership on climate change approaches and to fulfil its international commitments, particularly to "fast start" financing for climate change mitigation and adaptation and for REDD+.

Humanitarian assistance

Germany has made progress on the two recommendations regarding humanitarian assistance and has achieved some good results in this area since the peer review. The Federal Foreign Office is drafting a strategy for the German government's humanitarian aid with the aim of increasing efficiency in its administration and use of funding, improving the links between humanitarian relief and development efforts and strengthening the mainstreaming of cross-cutting themes such as gender equality and human rights. The strategy should be completed and published by the end of November 2012 and has been discussed with civil society and partners in focus regions and countries. Germany's comparative advantage lies in its regional and sector focus, particularly in

respect of fields of action and preparedness and these are emphasised in the new strategy. Germany has also clarified the division of labour between BMZ and the Federal Foreign Office as recommended by the peer review. An inter-ministerial agreement concluded in mid 2012 has made the Federal Foreign Office solely responsible for Germany's humanitarian aid and there is now one proposal and reporting system and this has reduced fragmentation. Transitional financing is a joint responsibility of the Federal Foreign Office and BMZ. Germany's approach to transitional financing has been improved ensuring a holistic response to crises. Germany's humanitarian aid has been strengthened by these changes, but it now needs to ensure that all areas of humanitarian assistance receive sufficient emphasis and funding in its responses.

Conclusion

As evident from the above, significant progress is being made on all of the recommendations and there are some interesting initiatives under way with lessons of value to the Committee. Germany faces a big challenge on aid volume and will need high level political support if it is to set and achieve a revised timeline for achieving its target of 0.7% ODA/GNI. Moreover, as the peer review noted in 2010, as the second largest member of the DAC and with the biggest aid agency in the world Germany can and should play a more influential and proactive role in the international development arena, particularly in the field of knowledge sharing. Finally, I wish to particularly thank Ambassador Heimsoeth and Renate von Boddien, Germany's DAC Delegate here in Paris, and Daniela Zehentner-Capell and Yvonne Stein of BMZ for facilitating a most enjoyable day in Berlin.

With kind regards



Jon Lomøy

cc: Brian Atwood, DAC Chair, 2, rue André-Pascal, 75775 Paris CEDEX 16 (brian.atwood@oecd.org)

cc: Karen Jorgensen, Head of Division, REED, DCD, (karen.jorgensen@oecd.org)