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**How fit are donors to implement the
Paris Declaration on Aid Effectiveness?
Results from an evaluation on Germany**

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Abstract

The Paris Declaration on Aid Effectiveness (PD) of 2005, if fully implemented, amounts to a silent revolution in the way development cooperation is realised. It therefore constitutes a considerable challenge for donors and partners and involves a substantial learning process. The purpose of the present paper is to specify and illustrate this challenge from a donor's perspective with a view to making an analytical and empirical contribution to the joint learning process. Analytically the paper looks at three variables derived from a systemic perspective on development cooperation and considered to be key for implementing the PD: commitment, capacity and incentives. Empirically the paper draws on evidence from Germany as a major bilateral donor.

Main findings: (i) The PD, while being acknowledged by the German aid system as a relevant frame of reference for enhancing aid effectiveness, requires further clarification regarding some principles and modalities. (ii) Commitment to the PD is high as demonstrated not only by its acknowledgement, but also by its translation into policies and procedures and its mainstreaming in the German aid system. (iii) The PD agenda makes additional demands on capacity at the level of both individual aid organisations and the German aid system as whole and, despite a number of positive responses, requires further reform. (iv) There are a number of incentives and disincentives at institutional and systemic level, which work in favour and against PD implementation. (v) The overall conclusion is that in addition to commitment, capacity and incentives matter and therefore deserve attention.

1 Starting point, purpose, main questions, background, approach and structure of the paper

1.1 Starting point, purpose and main questions of the paper

The Paris Declaration on Aid Effectiveness (PD), adopted in March 2005 by a large number of donors and partner countries, is another milestone of the international aid effectiveness agenda, whose main pillars are by now a set of internationally agreed development goals, the commitment to substantially increase resources for development and, endorsed in the PD, principles and modalities intended to enhance the efficiency and effectiveness of development cooperation. Regarded individually, the PD's principles and modalities are not entirely new. Taken together, however, and in view of the targets and timetable (2010) set for their implementation, they constitute a considerable challenge for donors and partners alike. If fully implemented, the PD will amount to a silent revolution in the way development cooperation is realised and involve a substantial learning process on the part of all actors involved.

The purpose of the present paper is to specify and illustrate the challenge which the implementation of the PD poses for donors with a view to making an analytical and empirical contribution to the joint learning process. Analytically the paper looks at three variables derived from a systemic perspective on development cooperation and considered to be key for implementing the PD: commitment, capacity and incentives. Empirically the paper draws on evidence from Germany as a major bilateral donor. More specifically, the following questions will be dealt with:

- To what extent is there actual commitment to the PD beyond its formal approval? Actual commitment (that is translated into practice) depends, *inter alia*, on three factors:
 - general acknowledgement of the PD and interpretation of its principles and modalities,
 - translation of the PD into policies, implementation plans and procedures,
 - mainstreaming (dissemination) of the PD throughout the aid system.
- Is there sufficient institutional and systemic capacity to implement the PD?
 - Institutional capacity (referring to individual institutions) is defined as comprising three aspects that are crucial for the implementation of the PD: (i) institutional embedding of the PD, (ii) PD-related knowledge (with training being an essential input to knowledge), (iii) human resources and capacity of action (particularly in partner countries, i.e. human resources and capacity of action of embassies and country offices).
 - Systemic capacity (referring to the German aid system as a whole) means the ability of the aid system to cope with the challenges posed by the PD. Are there factors in the institutional set-up of the German aid system and the interplay of the main actors that support and/or complicate the implementation of the PD?
- Are there incentives and disincentives at institutional and systemic level that work in favour or against the implementation of the PD?

1.2 Background of the paper

The paper is based on an evaluation commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ) and carried out by the authors (Ashoff et al. 2008). The evaluation was part of a more comprehensive process in the course of which the implementation of the PD was evaluated by eleven donors¹ and ten partner countries.² While the donor evaluations focused on the three 'input' categories commitment, capacity and incentives, the partner country evaluations looked at the implementation of the PD by the donor community and the government in the host countries (output level). The individual evaluations are synthesised in a joint report which will be presented at the Third High-Level Forum on Aid Effectiveness in Accra in September 2008.³

1.3 Approach and sample of the evaluation

In accordance with the generic terms of reference of the overall evaluation, a qualitative approach was adopted, including the analysis of documents, semi-structured interviews at headquarters level and questionnaires sent to the representations of the German aid system in the ten partner countries that joined the first phase of the overall evaluation.

The evaluation had to take the complex institutional structure of the German aid system at headquarters and country level into account. To keep the evaluation manageable, the authors focused on the main actors listed in **Box 1**. They represent two groups of institutions:

- a core group comprising BMZ, the Federal Foreign Office and the main implementing agencies: German Agency for Technical Cooperation (GTZ), KfW Development Bank, German Development Service (DED) and InWEnt Capacity Building International,
- an additional group made up of the Federal Ministry of Finance, the Federal Parliament's Committee on Economic Cooperation and Development (AwZ) and several civil society organisations (CSOs) engaged in development cooperation: the Association of German Development Non-governmental Organisations (VENRO), Church Development Service (EED; protestant), Catholic Central Agency for Development Aid (KZE) and German Agro Action (DWWH).

In addition to the analysis of a large number of documents, the evaluation team conducted 54 interviews with 103 interlocutors and sent 40 questionnaires to the representations of the core institutions of German development cooperation in the ten partner countries, 34 of which were answered.

1 Asian Development Bank, Australia, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, New Zealand, United Kingdom, UNDP.

2 Bangladesh, Bolivia, Mali, Philippines, Senegal, South Africa, Sri Lanka, Uganda, Vietnam, Zambia.

3 This is the first phase of the overall evaluation (addressing input and output levels). The second phase is scheduled for the time after Accra and will focus on outcomes and impacts of the PD.

Box 1: Sample of interlocutors^a						
		Headquarters level			Country level	
		Institution	Number of interviews	Number of interviewees	Questionnaires sent off	Questionnaires answered
Core group of interlocutors	Ministries	BMZ	23	28	– ^b	– ^b
		Foreign Office	1	2	10	10
	Implementing agencies	GTZ	9	21	10	10
		KfW	8	22	10	9
		DED	5	13	7 ^c	5
		InWEnt	2	3	3 ^d	0
Additional interlocutors	Federal Parliament	AwZ	1	8	–	
	Federal Ministry	Ministry of Finance	1	2	–	
	CSOs	VENRO ^e	1	1 ^e	–	
		EED	1	2	–	
		KZE	1	1	–	
		DWHH ^e	1	1 ^e	–	
		Total	54	103	40	34

^a The term 'interlocutor' refers to the interviewees and the persons in the ten partner countries who replied to the questionnaires.

^b BMZ is represented at the country level by development cooperation officers seconded to the German embassies and acting under the authority of the ambassadors.

^c DED has offices in seven out of the ten partner countries of the overall evaluation (Bolivia, Mali, Philippines, South Africa, Uganda, Vietnam, Zambia).

^d InWEnt has offices only in three of the ten partner countries (Philippines, South Africa, Vietnam).

^e The interview with VENRO and DWHH took place at the same time and was conducted with the same interviewee, who represented both VENRO and DWHH.

1.4 Structure of the paper

As mentioned before, implementation of the PD is a challenge. To substantiate this remark with regard to Germany, Chapter 2 briefly describes Germany's achievement of the PD targets in 2005 and thus portrays the background against which the following analysis has to be regarded. Chapters 3, 4 and 5 present the main results of the evaluation regarding commitment, capacity and incentives and are structured in accordance with the subcategories or sub-questions indicated at the beginning. Chapter 6 draws country-specific and general conclusions.

2 Germany's achievement of the PD targets?

In the PD, donors and partners committed to monitoring their progress in improving aid effectiveness. A first round of monitoring was conducted in 2006 on the basis of activities undertaken in 34 partner countries in 2005. The resulting Baseline Survey was published in 2007 and documents the state of PD implementation in 2005 as measured against the twelve PD indicators. The results concerning Germany are presented in **Box 2**. An updated monitoring survey was conducted in 2007 and will be published in 2008.

Box 2: Germany's results in the OECD 2006 PD Baseline Survey						
Indicator	Definition	Baseline ratio		Average country ratio		Illustrative 2010 targets
		Germany	All donors	Germany	All donors	
3	Aid flows are aligned on national priorities	55 %	88 %	50 %	42 %	85 %
4	Strengthen capacity by co-ordinated support	37 %	48 %	36 %	42 %	50 %
5a	Use of country public financial management systems	35 %	40 %	28 %	33 %	[80 %]*
5b	Use of country procurement systems	34 %	39 %	35 %	38 %	[80 %]*
6	Avoid parallel implementation structures	40 PIUs	1832 PIUs	1,3 PIUs per country	61 PIUs per country	13 PIUs
7	Aid is more predictable	75 %	70 %	48 %	41 %	87 %
8	Aid is untied	94 %	75 %	69 %	82 %	> 94 %
9	Use of common arrangements or procedures	20 %	43 %	23 %	35 %	66 %
10a	Joint missions	28 %	18 %	28 %	29 %	40 %
10b	Joint country analytic work	50 %	42 %	50 %	52 %	66 %
<p>* Based on a two-thirds reduction of the gap</p> <p><u>Definition of indicators</u></p> <p>3 Percent of aid flows to the government sector that is reported on partners' national budgets</p> <p>4 Percent of donor capacity-development support provided through coordinated programmes</p> <p>5a Percent of aid flows that use public financial management systems in partner countries</p> <p>5b Percent of aid flows that use partner country procurement systems</p> <p>6 Number of parallel project implementation units (PIUs) per country</p> <p>7 Percent of aid disbursements released according to agreed schedules in annual or multi-year frameworks</p> <p>8 Percent of bilateral aid that is untied</p> <p>9 Percent of aid provided as programme-based approaches</p> <p>10a Percent of donors' field missions undertaken jointly</p> <p>10b Percent of country analytic work, including diagnostic reviews, undertaken jointly</p>						
Source: OECD (2007), pp. 103, 53, 80-88.						

The baseline ratios, which describe a donor's aggregate performance in all partner countries surveyed, show that in 2005 Germany ranked below the average of all donors in the case of indicators 3, 4, 5a, 5b and 9 and above the average in the case of indicators 7, 8, 10a and 10b.⁴ Compared with the 2010 targets, Germany has still to go a considerable way in the case of most indicators, notably 3 (aid flows aligned on national budgets), 4 (proportion of technical cooperation implemented through coordinated programmes), 5a and 5b (use of partners' public financial management systems and public procurement system), 7 (predictability of aid), 9 (aid provided in the context of programme-based approaches) and 10a and 10b (proportion of field missions and country analyses undertaken jointly).⁵

The following three chapters present the evaluation results concerning the commitment, capacity and incentives/disincentives of the German aid system to implement the PD.

3 Commitment to the PD

3.1 Acknowledgement and interpretation of the PD

Commitment to the PD in the German aid system is high. It is widely acknowledged as a politically binding framework for the German aid system and there is a broad consensus among virtually all actors in the German aid system that the five principles laid out in the PD are key for enhancing the effectiveness of aid.

- *Ownership* is generally attributed the highest relevance among all five principles of the PD. Yet, there is a concern that the PD's concept of ownership may be too narrowly focused on recipient governments' ownership.
- *Alignment* is generally accepted to be of fundamental importance for effective development cooperation, too. It was noted, however, that deficient partner systems did sometimes not allow the principle to be implemented to its full extent.
- *Harmonisation*, while also accepted as an important principle of the PD, is sometimes perceived to conflict with pluralistic competition of ideas, and some actors warn against too dogmatic an approach to harmonisation. There are complaints that partner countries frequently do not play their role in coordinating donor agencies, limiting the scope for harmonisation. Strikingly, many interlocutors see harmonisation within the German system as more pressing than harmonisation with other donors.

4 This picture is only slightly modified by the average country ratios, which describe a donor's performance irrespective of the volume of activity in each country. Germany again ranked below the average of all donors with regard to indicators 4, 5a, 5b, 9 and, additionally, 8, whereas performance was above-average in the case of indicators 3 and 6.

5 It should be borne in mind that achieving the PD targets is in most cases a joint commitment of donors and partner countries. For donors' to meet part of their targets, partner countries need to create the necessary conditions (such as an operational development strategy and reliable public financial management and procurement systems). Donors can support capacity building in these areas.

- *Managing for results* is regarded a key principle for improved aid effectiveness. All organisations have adopted specific procedures to implement results orientation in their internal management processes as well as in their cooperation with partner countries. With regard to implementing the principle at partner country level, however, many interlocutors felt that more efforts are required to make the principle operational.
- *Mutual accountability* is generally perceived as the least clearly defined principle in the PD. Many interlocutors explain that they have no clear concept of what it means in practice and whose responsibility it is to implement it. The relation between domestic and external accountability is felt to be insufficiently addressed by the PD.

There is a general concern about somewhat unclear definitions and different interpretations of some of the principles and modalities in the PD. In particular with regard to the principle of mutual accountability and – to a lesser degree – managing for results, a number of interlocutors expressed their concerns that both principles were not as clearly defined as the other three and stressed that their relevance ultimately depended on the definition adopted.

The PD is criticised by various actors as being too much focused on central government. This is perceived to affect the interpretation of the principle of ownership, which is generally assigned the highest relevance among the five principles in the PD but is felt to be interpreted by some actors in too narrow, i.e. government-focused, a sense. In the view of many interlocutors this neglects other important stakeholders in development processes, namely parliaments, sub-national levels of government, and civil society.

A number of potential conceptual conflicts between some of the principles were highlighted, in particular between ownership on one side and harmonisation, managing for results and mutual accountability on the other.

Overall commitment to the modalities and indicators agreed in the PD is similarly high. Yet, views on how the individual indicators are to be interpreted tend to differ between German aid institutions.

- The main debate is on the interpretation of indicators 4 (capacity strengthening by coordinated support), indicators 5a and 5b (use of country public financial management and procurement systems) and, in particular, indicator 9 (use of common arrangements and procedures through programme-based approaches). The view expressed by many of the GTZ interviewees is that the PD is mistakenly interpreted as promoting budget support as the aid modality of choice. Similarly, GTZ has reservations against the interpretation by some actors that TA pooling can only involve financial contributions.
- Echoing also the international debate, there has been a controversy on the interpretation of the concept of programme-based approaches (PBAs), in particular on the question whether the PBA concept implied only financial contributions in support of joint programmes or whether the concept allowed for direct contributions (in kind) as well. By now, a common understanding within the German aid system has been achieved that PBAs represent a broad concept of support to partner programmes that can involve differ-

ent aid instruments, including direct contributions through technical cooperation. This consensus entails the policy that joint financing mechanisms such as basket funding arrangements and in particular budget support can effectively contribute to implementing the PD principles. However, serious reservations against these instruments remain in Parliament, particularly in the Budget Committee.

- The need to reduce transaction costs through joint missions, monitoring and evaluation with other donors is widely acknowledged and German aid agencies seem committed to actively coordinate efforts with other donors. Yet, the main challenge created by the principle of harmonisation is seen in better coordination within the German aid system.
- BMZ acknowledges that delegated cooperation can be a sensible approach to achieve better division of labour. It is, however, considered a transitional instrument and BMZ does not aim at delegated cooperation for the long term, in particular not as a silent partner.

In principle, the PD is considered to be relevant across all countries receiving German development aid. Nonetheless, it is generally acknowledged that the PD is primarily relevant for LDCs. In conflict or fragile states as well as in so-called anchor countries⁶ some principles and modalities would require country-specific interpretation and weighing.

3.2 Reflection of the PD in policies, implementation plans and procedures

The high commitment is reflected in various policy documents and planning processes. Soon after having signed the PD, BMZ elaborated a detailed implementation plan and a manual on the PD for the German aid system (i.e. BMZ and implementing agencies). Implementing agencies have individually incorporated PD requirements into their programming (via the corporate annual goals) and are making explicit references to the PD.

Planning and programming has particularly evolved with regard to programme-based approaches. Procedures in German development cooperation have been adapted to some extent: The Guidelines for Bilateral Financial and Technical Cooperation have been updated in March 2007 and allow for enhanced flexibility in joint funding mechanisms as well as for delegated cooperation and silent partnerships. Particular work was done under the German EU Presidency to establish a Code of Conduct for the Division of Labour in Development Cooperation. Concerning managing for results, BMZ has established a system to better direct aid management towards objectives. An important step in this regard are the common programme proposals being elaborated by the implementing agencies on the basis of the priority area strategy papers and indicating the results to be achieved. Implementing agencies have monitoring and evaluation systems in place. Changes in procedure have at times pre-dated the PD and are also motivated by improvements towards a joined-up German development cooperation.

⁶ Countries that, due to their economic weight and political influence, play a growing role in their respective regions and on a global scale (e.g. China, India, Russia, South Africa, Brazil, Mexico).

3.3 Mainstreaming (dissemination) of the PD in the German aid system

The PD and related topics and documents have been disseminated widely and intensively in the German aid system: widely because of the involvement of the main actors at the levels of government, parliament and CSOs, and intensively since the dissemination frequently extended beyond the mere provision of information by taking the form of discussions of specific subjects of the PD. An overview is given in **Box 3**. The continuous dissemination and discussion have contributed to increasing the knowledge and understanding needed to implement the PD agenda.

<p>Box 3: Levels and forms of dissemination of the PD and related topics and documents in the German aid system</p>
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I Government level (BMZ, Foreign Office, main implementing agencies)

- Dissemination of PD-related documents (BMZ implementation plan, policy statements, guidelines, manuals, briefs, best practices etc.)
- Particular information events on the PD and related topics (other than training programmes, workshops and seminars)
- Discussion of PD-related subjects in regular meetings or standing fora
- Informal (day-to-day) exchange of information and experience concerning PD-related subjects

II Parliamentary level

- PD-specific discussions with Committees and Members of the Federal Parliament (Bundestag)
- PD-related hearings held by the Bundestag's Committee on Economic Cooperation and Development (AwZ)

III Civil society organisations (CSOs)

- PD-specific discussions with CSOs or information events organized by CSOs
- Papers and articles on the PD and CSOs

4 Capacity to implement the PD

4.1 Institutional capacity

As mentioned at the beginning, institutional capacity is defined as comprising: (i) the institutional embedding of the PD, (ii) PD-related knowledge (with training being an essential input to knowledge), (iii) human resources and capacity of action (particularly at partner country level).

4.1.1 Institutional embedding of the PD

The PD appears to be clearly embedded institutionally. BMZ, DED, GTZ and KfW appointed focal points for the PD. In the Foreign Office, the division in charge of development cooperation serves as the focal point for the PD. In addition, BMZ, DED, GTZ and KfW created special units of different configurations or strengthened existing ones to deal with specific PD-

related topics. The task of these units essentially consists of studying the topics, mainstreaming them in the own organisation and providing support to the staff at headquarters and country level.

4.1.2 Knowledge and training

Judging from the interviews and the questionnaires, the knowledge of the PD and is high. The interviewees at headquarters, who comprised not only staff directly concerned with the PD but also members of regional divisions, and the persons that answered the questionnaires, proved to be well informed about the principles and modalities agreed in the PD and the agenda resulting from the PD for the German aid system as defined in the BMZ's implementation plan. The uncertainties and differing views expressed with regard to the interpretation of some principles, modalities and indicators do not contradict this finding since the concerns voiced expressed the need for further clarification of relevant aspects rather than lack of knowledge of the PD.

This picture does not necessarily mean that the details of specific topics of the PD agenda are always fully known. As an example, reference was made to German embassies whose development cooperation officers, according to the Foreign Office, are not always sufficiently trained to engage competently in discussions on budget aid. Another example is the PD's principle of managing for results: While its relevance is acknowledged and its meaning as defined in the PD is understood, several interlocutors expressed uncertainties about how to precisely identify and assess the development results of aid contributions, attributing this to methodological uncertainties rather than to a lack of information and training.

The widespread knowledge of the PD was attributed by the interlocutors to five factors:

- the mainstreaming (dissemination) of the PD referred to above,
- intensive PD-related training which was provided both directly (through seminars, workshops and conferences) and indirectly (through manuals, operational guidelines, briefs etc.),
- the fact that the PD agenda concerns most work areas at headquarters and country office level, fostering the knowledge and understanding of the PD,
- the need to "live" the PD in practice, particularly in the partner countries (e.g. need to participate in the intensified dialogue with other donors and the partners as a consequence of the pressure to harmonise and align);
- the continuous exchange of information and experience regarding the PD within the German country teams, in the country offices, at the headquarters and between the country offices and headquarters.

4.1.3 Human resources and capacity of action (particularly at country level)

According to many interlocutors, the implementation of the PD has so far led to a considerable increase in transaction costs for German aid institutions (as for other donors) particularly at the country level and put additional pressure on staff capacity not only in qualitative terms (prompting the training efforts described before) but also in quantitative terms. The situation is complicated by the fact that human resources have already been strained before (BMZ, DED, German embassies). There was not much hope of a considerable decline in transactions costs for the short term.

Increasing transaction costs, which were emphasised particularly by the Foreign Office and several German embassies, were reported to result primarily from the principles of alignment, harmonisation and managing for results. As a consequence of these principles, the need for dialogue and coordination within the German aid system, with other donors and with partner countries has risen considerably, requiring additional staff capacity at headquarters and particularly at field level. Moreover, the PD agenda involves a shift to new modes of delivery (such as PBAs and budget support) and to consequent results orientation, both of which entail a demand for new substantive and management skills that are not always available and therefore to some extent have to be created first.

The German aid system has reacted to this challenge in a number of ways (see **Box 4**). Yet, the efforts taken so far appear to be still insufficient. Some other donors have delegated a considerable part of decision-making power to their country representations. German embassies' capacity needs to be strengthened not only in terms of staff seconded but also through more delegation of authority. KfW is planning to increase its country representation by transferring one fourth to one-third of its headquarters staff to the country offices in the next few years.

<p>Box 4: Responses by the German aid system to the PD-induced pressure on human resources and capacity of action at the country level (other than training and organisational rearrangements)</p>

<p>Headquarters</p>

<p><u>Assigning additional tasks to existing staff (increasing the individual workload)</u></p>

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| <ul style="list-style-type: none"> • Desk officers in country, sector or institutional divisions assuming additional tasks resulting from the PD agenda (such as harmonisation) (BMZ) |
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<p><u>Reshuffle of existing staff (assigning existing staff to PD-related tasks)</u></p>
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| <ul style="list-style-type: none"> • Assignment of several staff members to division 220 ("Planning, principles and quality control of cooperation with regions and countries"), which is in charge of the PD, to deal with different subjects of the PD agenda such as budget aid, delegated cooperation, division of labour among donors (BMZ) • Assignment of a staff member to division 310 ("Poverty reduction; Programme of Action 2015; sectoral and thematic principles") to deal with managing for development results (BMZ) • Appointment of focal points for specific subjects of the PD (BMZ, DED, GTZ, KfW) • Assignment of several professionals to the "competence area" on PBAs (GTZ, KfW) |
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<p><u>Recruitment of new staff</u></p>
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|---|
| <ul style="list-style-type: none"> • Employment of new staff in the headquarters (GTZ, KfW) • Recruitment of a professional for management for development results and the new planning, monitoring and |
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<p>evaluation system (DED)</p> <p><u>Including PD-related qualifications in job descriptions</u></p> <ul style="list-style-type: none"> • Knowledge of the PD being an element of job descriptions (GTZ) • More emphasis on management qualifications in job descriptions (DED)
<p>Country level</p> <p><u>Assigning additional tasks to existing staff (increasing the individual workload)</u></p> <ul style="list-style-type: none"> • Priority area coordinators, country directors and programme managers of the implementing agencies increasingly supporting the economic cooperation officers at the German embassies <p><u>Increasing staff capacity at the country level</u></p> <ul style="list-style-type: none"> • Increase of the number of economic cooperation officers and development cooperation advisers (to 37 in January 2008) seconded from the BMZ to the embassies in the last few years (the process started already before the adoption of the PD and was accelerated afterwards) • Secondment of professionals from the headquarters to the country offices to assume the role of PGF managers (KfW; since 2005, 2006: 6, 2007: 13 PGF managers for the most part in Africa) • Increase of staff in some country offices (including local staff) (GTZ, KfW) • (<i>Planned:</i>) Transfer of one fourth to one third of headquarters staff to the country level (KfW) <p><u>Strengthening the representation and capacity of action at the partner country level</u></p> <ul style="list-style-type: none"> • "Decentralisation pilot" in Egypt, Ghana, India, Morocco (economic cooperation officers being given greater autonomy in the drafting of priority area concepts and the preparation of government negotiations) • Transfer of part of the planning, monitoring and evaluation (PM&E) responsibility to the country offices (DED)* • Increase of the number of country offices in the last few years (KfW; currently 54 offices including offices run by local staff) • Transfer of PGF management to the country offices by appointment of PGF managers (KfW) <p>* DED considers PM&E as the primary responsibility of the partner countries and sees its own role in the support of the creation of related capacities where they do not exist.</p>

4.2 Systemic capacity

The evaluation pointed to a number of factors inherent in the German aid system and extending beyond the sphere of individual organisations that both support and complicate the implementation of the PD.

4.2.1 Factors supporting the implementation of the PD

Separate development cooperation ministry enjoying cabinet rank: With its representation in Cabinet and its own ministerial organisation, development cooperation is in a privileged position to bring its voice and experience to bear in the government's discussions and decision-making. According to several interlocutors in BMZ, this is a potential advantage in the implementation of the PD since further alignment with partner countries' priorities and strategies and enhanced harmonisation among donors may imply that other German interests (e.g. foreign policy or economic interests) are affected or the visibility of the German aid contributions is reduced. Under such circumstances, defending the aid effectiveness agenda pursued by the PD may be easier with development cooperation enjoying cabinet rank.

Considerable implementation capacity: The implementation capacity of the German aid system is high as interlocutors in all institutions interviewed pointed out. The Federal Government can count on numerous experienced organisations when it comes to the implementation of different types of development assistance (such as financial cooperation, technical cooperation, economic cooperation, training). German implementing agencies (such as GTZ, KfW and DED) have become attractive partners for delegated cooperation and silent partnerships with other donors who have dismantled part of their implementation capacity in recent years. In addition, Germany is a strong actor in technical cooperation and capacity building (mainly through GTZ and DED, but also through InWEnt and KfW), which can be an advantage when partner countries need longer-term support in areas such as sector programme management, public financial management or procurement.

Multi-level approach: German development cooperation often adopts a multi-level approach by engaging simultaneously at central and decentralised levels (e.g. through advisers in ministries assisting in policy formulation on the one hand and complementary projects or programmes supporting the implementation of the policies on the other hand). By this approach and by implementing projects and programmes at different (national, regional and local) levels, German aid organisations claim to be well rooted in the partner countries and to be in a good position to participate in policy and sector dialogue.

Wide-spread country representation: GTZ, KfW and DED are represented in a large number of partner countries through country offices. BMZ is represented in virtually all partner countries through the German embassies (although in many of them there are no development cooperation officers seconded from BMZ). This wide-spread country representation certainly makes it easier to engage directly in the dialogue with partners and other donors at the country level (though, as mentioned above, the intensity and quality of this engagement vary, depending on human resources capacity and the degree to which decision-making power is delegated to the field).

4.2.2 Factors complicating the implementation of the PD

Complicated co-responsibility of BMZ and Foreign Office: While at headquarters level BMZ is responsible for most of bilateral German ODA, in the partner countries strictly speaking the Foreign Office through its embassies has the final decision-making power and the BMZ officials seconded to the country level act under the authority of the ambassadors and theoretically can communicate with the BMZ only via the ambassador and the Foreign Office. While in practice a *modus operandi* has been found in most cases, the flow of information and the decision-making processes can become difficult as several BMZ interlocutors pointed out.⁷

⁷ One BMZ interlocutor, while acknowledging the advantage of BMZ enjoying cabinet rank, pointed to the coordination problems between BMZ and Foreign Office especially at country level (see below) resulting from the co-existence of both ministries. As for a possible solution he referred to the example of some other

Multi-organisational aid system: According to BMZ interlocutors, the coexistence of different implementing organisations, whose mandates overlap to some extent and which also pursue organisational self-interests, means that the German aid system is complex at both headquarters and partner country level. This state of affairs was said to reduce the efficiency of German aid (considerable transaction costs due to necessary but often complicated and difficult internal coordination among the different institutions) and its effectiveness (because of less than optimal harmonisation and coherence of the different instruments, projects and programmes). This view was also taken by the latest DAC Peer Review of Germany (OECD 2005) and confirmed by independent country programme evaluations (CPEs) commissioned by BMZ such as the CPEs conducted in Honduras and Bangladesh in 2006, which revealed inefficiencies in the coordination of German aid agencies. In addition, the complexity of the German aid system puts an additional burden on the partner countries and other donors. A different view is held by GTZ, according to which the multi-organisational structure of the German aid system has created advantages of specialisation and fostered professionalism.

Institutional separation of financial and technical cooperation: Several interlocutors mostly in BMZ but partly also in KfW considered this separation, which is also reflected in separate budget lines, to be a problem because it not only entails problems of coordination but also appears increasingly inadequate in view of the trend to more comprehensive forms of programme aid and the need for harmonisation among donors and intensive policy dialogue with the partner countries. Despite a number of efforts made in recent years to improve coordination between financial and technical cooperation, the latest DAC Peer Review of Germany characterised the distinction between financial and technical cooperation as "increasingly artificial in the current environment of more joined up development cooperation" (OECD 2005), and the coalition agreement of the present Federal Government (of 11.11.2005) calls for "a better linking of financial and technical cooperation". By contrast, GTZ maintains that the considerable implementation capacity of German bilateral aid results particularly from the institutional pluralism and the specialisation of different implementing organisations.

Specific delivery modalities in the area of bilateral technical cooperation: There is a tension between the PD's principles of alignment and harmonisation and the way a large part of German bilateral technical cooperation is agreed and implemented.

- On the one hand, the principle of alignment calls for using partner countries' own institutions and systems (paragraph 17 of the PD). More specifically, PD indicator 5b calls for donors using partner country procurement systems and indicator 8 calls for continued progress in untying aid (although technical cooperation is exempted from the 2002 DAC Consensus on Aid Untying). Under the principle of harmonisation donors commit "to implement, where feasible, common arrangements at country level for planning, funding (e.g. joint financial arrangements), disbursement ..." (paragraph 32 of the PD, operationalised by indicator 9 referring to the use of common arrangements or procedures).

donors (such as the Netherlands and some Scandinavian countries) where the aid administration is part of the ministries of foreign affairs, which, however, are headed not only by the foreign minister but also a development cooperation minister enjoying cabinet rank.

- On the other hand, the BMZ's budget, which is part of Germany's Federal Budget Law, confers the implementation of bilateral technical cooperation mainly to the GTZ. In addition, the Federal Government's Guidelines for Bilateral Financial and Technical Cooperation require the latter to be provided largely in the form of direct contributions (i.e. by the implementing agency and in kind). This explains why the government agreements between Germany and partner countries frequently provide for technical cooperation to be implemented directly by the GTZ in the form of in-kind contributions (e.g. experts recruited and sent by the GTZ). As a consequence, a considerable share of German bilateral technical cooperation is tied.⁸

Following the PD, particularly the aforementioned indicators 5b, 8 and 9, partner countries can call for the use of their procurement systems, for progress regarding aid untying and for common arrangements. The PD may increasingly lead partner countries to prefer donors (in this case Germany) to support capacity building by financial contributions to the budget or specific programmes (preferably in the form of common arrangements with other donors) from which subsequently technical cooperation components are financed after international invitations to tender to which GTZ can respond by offering its expertise. Alternatively, partner countries, while accepting in kind contributions by GTZ in the form of experts, are entitled to take part in the selection of those experts. In the context of the latest DAC Peer Review, BMZ declared its intention to further untie technical cooperation (without questioning the relevance and comparative advantage of direct contributions) (BMZ 2006, p. 9). Against this backdrop, GTZ's role as the frequently pre-determined provider of German technical cooperation might be questioned in the future.

GTZ argues that partner orientation is a matter of principle of its policy in that technical cooperation (as well as German bilateral development cooperation in general) responds only to demands expressed by the partner countries and aims to strengthen partners' capacities. In addition, GTZ maintains that it has acquired a wealth of experience and comparative advantages in a number of areas which can be used for the benefit of partner countries. Furthermore GTZ does not deny that technical cooperation can (and to some extent also does) take the form of financial contributions or contributions to pooled technical assistance. In addition GTZ uses the instruments of financial contracts and local grants where appropriate.

Apart from the fact that technical cooperation in the form of financial contributions has hitherto been the exception rather than the rule, the point made by various interlocutors (particularly in BMZ) and shared by the evaluation team, however, is that from GTZ's arguments irrespective of their validity it does not follow that the assignment and implementation of technical cooperation can only be organised in the way it has predominantly been so far.

⁸ According to BMZ, about 50 percent of German bilateral technical cooperation can be regarded as untied (local purchase of materials, financial contributions, recruitment of local staff), which means that the other 50 % are regarded as tied (BMZ 2006, p. 9).

Problems of representation at country level:⁹ The representation of the German aid system in the partner countries, while having improved, reportedly continues to suffer from several problems:

- There appears to be still a lack of harmonisation of the various German aid organisations which do not always speak with one voice, making it sometimes difficult for partner countries to deal with Germany as one donor.
- BMZ interlocutors pointed to the complicated hierarchical structures. Theoretically BMZ officials seconded to the embassies as development cooperation officers report to the ambassadors while the country directors of the implementing organisations report to their headquarters (and the latter to BMZ). Although in practice the interplay of the different German actors was said to be pragmatic, cooperative and constructive, there may be situations where it becomes difficult for BMZ to perform its political coordination function.
- The dividing lines between the responsibilities of the development cooperation officers at the embassies and the programme managers of the implementing organisations sometimes become blurred. Due to the limited staff capacity of the embassies and the increasing need for policy and sector dialogue with the partners and other donors, the development cooperation officers at the embassies often delegate their participation in such dialogue *de facto* to programme managers of the implementing organisations although the latter strictly speaking cannot act on behalf of the Federal Government.
- According to interlocutors in BMZ and KfW, there can be role conflicts when programme managers (mostly from GTZ) act simultaneously as advisors to the partner country's government (as part of capacity building), as priority area coordinators of German aid programmes and as chairs of donor harmonisation processes and sectoral policy dialogue with partner countries.

5 Incentives/disincentives to implement the PD

The evaluation identified a number of incentives and disincentives to implement the PD (listed in **Box 5**).

Box 5: Incentives and disincentives in the German aid system with regard to implementing the PD
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<i>Incentives</i>

- | |
|---|
| <ul style="list-style-type: none"> • Intrinsic motivation of staff (BMZ, DED, GTZ country offices, KfW, German embassies) • Organisational target agreements including aspects of the PD (BMZ, GTZ, KfW, InWEnt) • Individual performance targets including PD-relevant topics (BMZ, GTZ, KfW) • Synergies and learning through PD-induced closer cooperation between German aid agencies (DED) • BMZ commitment to the PD (reported by KfW as an incentive) |
|---|

⁹ In addition to the problems referred to above (lack of staff for fully engaging in the dialogue with other donors and the partners and insufficient delegation of authority to the development cooperation officers).

- Confirmation of the own institutional profile by the PD (DED, GTZ, and KfW regard their approaches such as alignment with local partners [DED], support to capacity development [GTZ] and partners' ownership as a basic principle [DED, GTZ, KfW] as congruent to, and confirmed by, the PD principles)

Disincentives

- Shortages of staff (BMZ, DED, German embassies)
- Bureaucratisation and additional workload resulting from PD implementation (rising transaction costs)
- Fast staff rotation (BMZ)
- Complexity of the German aid system (requiring sometimes cumbersome coordination)
- Interfering political priorities (such as pressure to disburse funds, overarching themes [e.g. the "big five"], G8-commitments)
- Call for visibility of German aid contributions (motivated for instance by the argument of accountability vis-à-vis German taxpayers and contrasting with certain PD modalities such as joint programme-based approaches)
- Institutional self-interests (e.g. BMZ's interest in defending its position as a ministry in its own right vis-à-vis the Foreign Office as a reason for BMZ to oppose delegating a greater part of its decision-making power and professional staff to the German embassies; sometimes lack of interest in common reporting and joint missions of German aid agencies)

6 Conclusions

The following conclusions, while derived from the German case, are relevant also for other donors to some degree since conceptual, institutional and systemic issues are involved which are of a more general interest.

6.1 Commitment

In order to sustain the high commitment to the PD in the German aid system, it will be important to achieve a better common understanding of the principles, modalities and indicators of the PD. Conceptual conflicts between some of the PD's principles as well as potential conflicts between internal and external accountability on the recipient and on the donor side need to be addressed. The discussion on a broader concept of ownership in the sense of “democratic ownership” needs to be taken further at national and international level in order to establish a common understanding of the concept and to address concerns that some actors on the donor and the recipient side might have too narrow an understanding of ownership as central government ownership only.

For the German PD implementation plan to retain its function as a key document, it needs to be updated and continuously monitored. Given the urgent need to reduce transaction costs of development cooperation, BMZ should consider to mandate German implementing agencies to act as silent partners on more occasions. Clear criteria need to be established at the international level as to the circumstances under which in kind contributions to PBAs should be considered appropriate. This decision should be strictly guided by the objective to support partner countries development strategies in the most effective way that is appropriate and feasible.

Dissemination and PD-related training should be regarded as a continuous task for three reasons:

- The "lifespan" of the PD implementation (2005-2010 and possibly beyond) involves a sizeable change of staff in many organisations with which dissemination and training have to keep pace.
- Since achieving some of the PD targets still requires a considerable way to go, the momentum regarding implementation needs to be maintained and hence dissemination and training (particularly as far as challenging areas are concerned).
- Experience from implementation should be fed back into dissemination and training with a view to deepening the common learning process of all actors involved.

6.2 Capacity

Institutional capacity: As for the problem of human resources and capacity of action at country level identified as a clear bottleneck, four aspects deserve attention: (i) the problem of high workload reported by some institutions, (ii) the need to better staff the country representations (i.e. in most cases the embassies), (iii) delegation of more decision-making power to the country representations, (iv) maintaining the momentum of PD implementation since only then transaction cost can be expected to decrease.

Systemic capacity: The systemic factors complicating the implementation of the PD need to be addressed since the PD agenda is ambitious in itself and a challenge for Germany as the 2006 Baseline Survey has shown. While it is probably overly optimistic to expect the problems to be solved within the time horizon of the PD (i.e. until 2010), the message resulting from this evaluation is clear: Putting the PD agenda into practice requires further reforms whose implementation offers the German aid system the chance not only to increase its own efficiency and effectiveness but also to contribute to enhanced aid effectiveness overall. In other words: the PD is not only a challenge but also a chance for reforming the German aid system.

6.3 Incentives/disincentives

The number of quite different incentives and disincentives revealed by the evaluation is remarkable in that it demonstrates how far the implementation of the PD agenda affects (or is affected by) the "nerves" of aid institutions and the aid system as a whole. Although it would appear very difficult to put precise weights to the individual incentives and disincentives, some are probably stronger than others.

Incentives: Intrinsic motivation has interestingly been said to be the strongest incentive to implement the PD because of two reasons:

- Interlocutors expressing this view believe that implementing the PD can actually contribute to increasing the effectiveness and impact of their work and thus their job satisfaction. If this finding can be generalised, intrinsic motivation is an asset that has to be maintained.
- Organisational target agreements and individual performance targets, while in theory providing a strong incentive, were reported to be still insufficiently translated into manageable and monitorable performance indicators. While efforts have already been undertaken to this end, it is still seen as a challenge. Yet it has to be kept in mind that the potential impact of individual performance targets is limited when institutions contract their staff under civil service agreements which to date have not offered much scope for monetary incentives.

Disincentives: The problem of high workload and increasing transaction costs has to be taken seriously. Here and in the case of some other disincentives such as the complex German aid system and the call for visibility of German aid contributions, it is exactly the stringent implementation of the PD that will contribute to overcoming the disincentives. To give just two examples:

- Harmonisation (of procedures or in the form of joint country analyses, evaluations etc.), perceived so far as a disincentive due to high initial transaction costs, will certainly make life easier for donors and partners, once achieved.
- Enhanced effectiveness of *joint* efforts of partners and donors, provided it is demonstrated by development progress, should be a more powerful argument for convincing parliaments and taxpayers than the visibility of *individual* projects and programmes. The key argument is that effectiveness of individual projects and programmes is no guarantee for overall development progress in partner countries and may well coincide with a deterioration of the socio-economic and political situation (known as the micro-macro-paradox).

Institutional self-interests can be strong disincentives. They should be discussed against the backdrop of the high commitment to the PD declared by all institutions interviewed and on the basis of sound factual evidence regarding the implications, costs and benefits (in terms of enhanced aid effectiveness) of changing existing structures and procedures.

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