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DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

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Working Party on Aid Effectiveness and Donor Practices

AID TYING AND GERMAN TECHNICAL COOPERATION

Changes in reporting to the DAC

21 October 2004 - OECD, Room 4

This Room document is provided by the German delegation concerning the 21 October 2004 meeting of the Working Party on Aid Effectiveness and Donor Practices agenda item no. 6 "Reporting on the Tying Status of Technical Co-operation."

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Aid tying and German technical cooperation

Changes in reporting to the DAC

Present situation

The general international perception (DAC, EU, other bilateral donors) is that German technical cooperation is tied. This is because it is channelled directly by the German government (BMZ) to the GTZ, which is a company under private law, and is then delivered directly to the developing country concerned. Up until now, the DAC has classified German technical cooperation as tied aid, partially because in its reporting to the DAC the BMZ has given no indication of the degree to which the goods and services supplied under technical cooperation are untied.

German technical cooperation could be regarded and reported as untied aid if the German federal government or a federal agency were to adopt the following approach:

- to issue an open international invitation for tenders for the goods and services to be delivered
- to issue a local invitation for tenders and procure the goods and services locally (local procurement)
- to deliver the goods and services by means of a financial contribution to the partner's budget.

Procurement under German technical cooperation

A more precise breakdown of the costs of the GTZ's public-benefit activities in 2001/2002 reveals that around 77% of direct costs in each case are accounted for by external procurement, including local procurement (i.e. in the developing country concerned). This external procurement normally takes place by means of invitation to tender conducted in accordance with German procurement law, European procurement law or – in the case

of local procurement – a combination of German law and the procurement law of the developing country concerned.

According to the GTZ, around 48% of project costs were accrued in the developing countries concerned, averaged over the two-year period 2001/2002. The figure breaks down as follows:

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|--|------|
| - national staff in the developing country | 9% |
| - goods procured in the developing country | 8% |
| - financial contributions | 17% |
| - other costs | 14%. |

This means that, looked at in relation to the aspect of untying, almost half of the costs of technical cooperation goods and services have the development impact (local procurement) generally attributed to untied aid in the international debate.

The status of the GTZ in the German system of development cooperation

In the European debate on public procurement, the GTZ is regarded as part of German development administration; whilst in organisational terms it is a private company, it is financially dependent on the German government for the public-benefit aspects of its operations. The EU Commission therefore classifies the awarding of contracts to the GTZ by the BMZ or the German government as "in-house" awarding and thus compatible with EU law on public procurement.

Those items of technical cooperation that are locally procured could, if reporting were broken down into direct costs, be reported as untied if the DAC were prepared to regard the GTZ as part of German development policy administration.

Conclusions: Future reporting of German technical cooperation to the DAC

In future reporting to the DAC, the BMZ will report as untied aid those costs of technical cooperation projects accrued in the developing country concerned (local procurement).



COMITÉ D'AIDE AU DÉVELOPPEMENT / DEVELOPMENT ASSISTANCE COMMITTEE

Le Président
The Chairman

RM(04)099

14 September 2004

Mr. Eduard Westreicher
Counsellor
Permanent Delegation of Germany to the OECD
9, rue Maspéro
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France

Dear Eduard,

Thank you for this paper, which I have shared with the Secretariat.

I welcome the evidence that you provide of the variety of sourcing that takes place under German Technical Assistance programmes. I am confident that this must be helping your programmes enhance value for money, and they show the scope that exists for intelligent procurement under these programmes, for Germany and no doubt for other DAC members.

You are right that in monitoring the Recommendation on Untying, the DAC classify GTZ TC as tied aid, as no indication of its tying status is provided in the reporting. The Secretariat applies the convention that unless reported as untied, such aid is scored as tied. Of course, Germany, like other DAC members, is under no compulsion to report the tying status of its TC since the decision to exclude TC from tying status reporting from 1996 onwards.

TC provided by GTZ is counted as ODA. If Germany were to start reporting the tying status of its TC, either on a project basis or on an annual ex-post basis, we would be able to base the assessment on better data. In this connection I can confirm that TC provided after fully open invitation is scored as untied, that local procurement is also by convention so classified, and the budget support would also score as untied, provided that no strings are attached in terms of purchase of goods or services from the donor. Please note, though, that procurement under EU procurement rules is not classified as untied, since procurement is not open to all countries.



Your paper raises by implication a wider issue. When it was decided to exclude TC from the coverage of statistics on untying, WP-STAT suggested that the former Working Party on Financial Aspects should review this decision. A review was started, but was put on hold during the discussions on the Recommendation. It may be that the time is ripe to review this in the light of the efforts that several members are making to untie TC or to increase local or third-country sourcing.

If you are content, I suggest that your email and paper and this reply are circulated to all DAC members, with a view to (i) discussion in WP-EFF in October on the policy uses to which full information on tying status of all aid could be put, to be followed by (ii) discussion in WP-STAT, as part of its current investigation of all reporting modalities, on whether members consider it opportune to once again report the tying status of their TC programmes.

Yours sincerely

Richard Manning

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