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Corporate Strategy Evaluation – Cofinancing

Corporate Strategy Evaluation – Short Report
Conducted by external evaluators commissioned by GIZ

Publication details

As a federal enterprise, GIZ supports the German Government in achieving its objectives in the field of international cooperation for sustainable development.

The Evaluation Unit at GIZ reports directly to the Management Board and is separate from the company's operational business. This organisational structure underpins the unit's independence. The Evaluation Unit is mandated to generate evidence-based results and recommendations in order to facilitate decision-making and to provide credible proof and increase the transparency of results.

The evaluation was conducted and the evaluation report prepared by external evaluators commissioned by the Evaluation Unit. All opinions and assessments expressed in the report are those of the evaluators. GIZ has prepared a statement on the results and a management response to the recommendations.

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Abbreviations

BMZ	Federal Ministry for Economic Cooperation and Development
DG DEVCO	Directorate-General for International Cooperation and Development
EU	European Union
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
KAM	Key account manager

1 Statement

Against the backdrop of the steadily increasing number of cofinancing arrangements in the project portfolio of GIZ, the Management Board commissioned a corporate strategy evaluation of this subject under the leadership of Dr Beier. The evaluation focused on the assessment of cofinancing arrangements with respect to their development results. The evaluation examined the following aspects in particular: reducing donor fragmentation, scaling-up mechanisms and reducing transaction costs.

The timing of the evaluation was chosen such that the presentation of the results would coincide with the completion of the evaluation conducted at the same time by the European Commission (DG DEVCO) on delegated cooperation arrangements.

The priorities of the evaluation were likewise chosen to complement the DEVCO evaluation. In addition, a distinction was made in the evaluation between cofinancing with the EU and bilateral donors. This comparative approach enabled us to gain a differentiated view of the evaluation results. As other evaluations and studies have not systematically examined cofinancing arrangements in terms of their development results, this corporate strategy evaluation is exploratory in nature.

The evaluation was designed to provide evidence of development results on the one hand and to present exemplary innovations from particularly successful cofinancing arrangements on the other. Another core objective of the evaluation was to identify potential for continuously improving the design and implementation of cofinancing arrangements.

The evaluation was conducted by independent consultants (Syspons GmbH), and the results solely reflect the judgement of the consultants. GIZ agrees in principle with the results and consultants' recommendations but assesses the development results of cofinancing arrangements more positively in some cases. In particular the positive interdependencies and correlations between the three main areas examined – reducing donor fragmentation, scaling-up mechanisms and reducing transaction costs – are essential in GIZ's opinion in order to evaluate the overarching development results of cofinancing arrangements and to do this within the context of the Paris Declaration and the debate on aid effectiveness. For instance, a broader impact based on the various scaling-up mechanisms necessarily leads to a conceptual pooling of sectoral approaches, greater convergence and a dismantling of parallel structures. Some of these aspects are addressed in the report but, in GIZ's opinion, not adequately followed up on – especially in the management summary.

Given that the design of the evaluation did not provide for a counterfactual comparison between cofinancing projects and parallel implementation by multiple donors or other financing mechanisms, it was not possible to quantify the transaction costs. It was therefore not possible to gain a clear assessment of the reduction in transaction costs. In this respect, however, GIZ is of the opinion that the significant shift in transaction costs towards the implementing agencies is an important result of the evaluation. GIZ also feels that it is unfortunate that the results on transaction costs were not sufficiently contextualised. A theory-based consideration of the alternatives to the cofinancing arrangements analysed (e.g. bilateral project promotion by multiple donors) with respect to the potential impact on transaction costs would have been necessary for a definitive assessment of cofinancing arrangements.

In the context of Agenda 2030, cofinancing arrangements also offer a tried-and-tested means of expanding and enhancing multi-actor partnerships. Especially the involvement of the (local) private sector in this context offers additional potential for innovation, given its ability to draw on the established structure and the expertise and networks already available in the active project.

The management response indicates clearly which of the consultant's recommendations meet with GIZ approval and which measures will be adopted to further improve cofinancing arrangements.

2 Management summary

Purpose and benefit of the evaluation

By resolution of the Management Board of GIZ, the Evaluation Unit was commissioned to conduct a corporate strategy evaluation on cofinancing. In this regard, cofinancing arrangements were considered a learning area of special strategic significance for 2016. The Evaluation Unit firstly approached the object of evaluation through interviews with knowledge bearers at Head Office and in the field structure. Syspons provided substantial support with the implementation of the corporate strategy evaluation.

The corporate strategy evaluation documented changes in project implementation as a result of cofinancing. The evaluation focused on three core topics in this context: (1) scaling-up in cofinancing projects, (2) contribution of cofinancing arrangements to reducing donor fragmentation and (3) transaction costs in the field structure. At the same time, further evaluation issues were addressed with regard to steering models, innovation and risks related to the implementation of projects involving cofinancing.

In terms of methodology, the corporate strategy evaluation on cofinancing was based on a comparative analysis of offers and modification offers submitted to the German Federal Ministry for Economic Cooperation and Development (BMZ) and on more than 100 interviews with officers responsible for the commission in selected cofinanced projects, representatives of the cofinancing donors and national partner organisations as well as with economic cooperation officers. A further step in the data compilation process involved comparing for illustrative purposes the congruence of the target systems of three EU-cofinanced projects based on the (modification) offers made to BMZ and the Description of the Action submitted to the EU.

Summary of key results

With respect to the analysis of **changes to the target systems** through cofinancing arrangements, we can see that the increase in funds through cofinancing leads to conceptual changes. Conceptual changes are often made at the output level; in some cases the changes are also evident at the module objective level. However, the depth of change at the module objective level is frequently low, i.e. it remains essentially unchanged, but is supplemented by qualitative specifications. These are often evident at the output level, and then usually in the form of individual qualitative specifications at the level of module objectives. It is important to bear in mind that the conceptual changes identified in the analysis of documents cannot always be unequivocally attributed (from a methodological point of view) to cofinancing. The results on the congruence of the target systems indicate that half of the projects agree different (usually partially congruent) objectives with the cofinanciers. This generally means that the offers have different levels of detail or focus on different topics. From an evaluation perspective, differences in agreed objectives pose challenges for project steering.

The analysis of **scaling-up mechanisms** shows that cofinancing arrangements are often used to achieve broad impact and in particular to increase the (geographical) reach of project results. Cofinancing arrangements also enable vertical scaling-up and to a lesser extent functional scaling-up. As a rule, vertical and functional scaling up are implemented in combination with horizontal scaling-up rather than in isolation.

The results of the evaluation also show that many cofinanced projects can make a contribution towards **donor harmonisation in the partner countries** within the meaning of the Paris Declaration. Accordingly, cofinancing arrangements help to dismantle or prevent parallel structures in priority areas. At the same time, cofinancing arrangements are used to jointly address coordination, complementarity and coherence in the sector. These are, in many respects, central dimensions of donor harmonisation that can be addressed through cofinancing arrangements. The evaluation team wishes to emphasise that cofinancing-driven changes at sector level and in the donor landscape are highly context specific owing to the diversity of conditions in the partner countries. It is therefore not possible to make systematic generalisations about the impact of cofinancing arrangements. Nevertheless, it is clear from the corporate strategy evaluation that it is not possible to confirm all hypotheses concerning the reduction in donor fragmentation. Financing arrangements, for instance, do not have any systematic impact on the **reduction of interventions or donors** in the sector. At the same time, the experience gained in cofinanced projects with respect to the visibility of cofinanciers is varied, ranging from an increase in visibility to competition for visibility.

With respect to the **cost of implementing cofinancing arrangements**, the transaction costs incurred by cofinanced projects can be substantial. The (cooperative) **transaction costs** in particular, arising through interaction with the cofinanciers, increase the cost of financial management and reporting. As a result of a lack of standard processes at GIZ, the requirements of the cofinancier give rise to additional internal coordination costs. Numerous projects also report a substantial increase in costs at the start of cofinancing, although the added cost is nevertheless considered justified in most cases in view of the large increase in funds. It is possible to reduce transaction costs overall by seeking agreement early on and setting clear rules at the start of the cofinancing arrangement. National partners and cofinanciers alike report both cost savings and increased transaction costs. The two groups of actors express a balanced mix of critical and positive opinion.

Compared with donor organisations, transaction costs are more frequently reported in connection with EU cofinancing arrangements due to complex, formal requirements. Nevertheless, the **commercial-procedural risks** usually outweigh the development risks. At the same time, cofinancing arrangements can lead to the transfer of innovative approaches. In this respect, several examples of collaboration with the private sector became evident in the course of this corporate strategy evaluation.

*The main report (German version only) can be found online on GIZ web appearance:
<https://www.giz.de/de/downloads/giz2017-de-use-kofi-hauptbericht.pdf>*

3 Management response

Recommendation 1:

A dialogue and clarification process on cofinancing arrangements should be initiated within GIZ in order to provide orientation within the company with respect to the corporate and development policy aspects of cofinancing. This includes determining in which cases the active acquisition of cofinancing is desirable, advantageous from a corporate policy perspective and effective from a development perspective. This includes communication on any grounds that could preclude the implementation of cofinancing arrangements. Responsibilities should also be defined for the various steps in the process of acquiring and implementing cofinancing.

GIZ emphasises that the acquisition of cofinancing is generally desirable in view of the potential for achieving positive development results. The corresponding internal responsibilities are clearly defined. The experience gained and support services provided so far will be documented, prepared and made available to the officers responsible for the commission. This approach will be backed up by clearer communication on development results. In addition, the working group ('cofinancing round table') has been established as a forum for discussion and to formulate recommendations. At management level too, the latest developments and challenges arising from cofinancing have since become a regular item on the agenda of the management committee.

Recommendation 2:

Investigations undertaken within the framework of evaluations have revealed that there are hardly any benchmarks for judging the extent to which cofinancing will affect project target systems and scaling-up mechanisms or contribute to reducing donor fragmentation. If clearer statements are desired in future, we recommend that such expectations are defined and communicated.

The results of the evaluation with respect to the development results of cofinancing arrangements will be followed-up and communicated at different levels. Owing to the dependence on context factors, it is not possible to formulate generally applicable development expectations. Rather, GIZ acknowledges the importance of communicating the determinants of successful cofinancing arrangements as well as presenting possible development results.

Recommendation 3:

The contribution of cofinancing projects to the respective sector and donor coordination are highly dependent on context. In several cases, the presence of large-volume, cofinanced projects in the sector helps to prevent duplicate structures, which is beneficial from a development perspective, and to increase coherence and coordination. Lessons learned should be drawn upon and disseminated in order to raise awareness of and harness this potential, thereby enabling German development cooperation and international cooperation organisations to make a decisive contribution to reducing donor fragmentation.

GIZ concurs with the key result of the evaluation concerning the prevention of parallel structures through cofinancing arrangements. The corresponding results of the evaluation will be documented and prepared for

inclusion in the communication with officers responsible for the commission.

Recommendation 4:

Cofinancing arrangements lead to learning processes within GIZ projects and enable the adoption of the cofinancier's innovative approaches as well as the dissemination of innovative GIZ approaches. Several examples of good practice have already been implemented in cooperation with the private sector in this regard. In order to disseminate and leverage these lessons learned within GIZ, corresponding structures and exchange formats should be created.

From GIZ's point of view, an organisational structure with dedicated key account managers as direct contacts for cofinancing has proven successful. The evaluation also underscores the success of the structure already in place. Experience with acquisitions and implementation is continually and rigorously communicated by the KAM structure within the company. The KAM structure offers comprehensive advisory services for all established bilateral donors.

Recommendation 5:

With the key account managers, GIZ has created important contact and support structures for the implementation of cofinancing arrangements. However, the documented lessons learned and the reported need for project support show that the projects would like more assistance from GIZ Head Office throughout the process, from acquisition to completion. Many officers responsible for commissions are not yet fully aware of the KAM's tasks and support potential. We therefore recommend that steps are taken to communicate existing contact structures more effectively and possibly expand them in order to provide specific knowledge and experience on individual cofinanciers. There is a particular need to contact colleagues in various functions at Head Office who have experience in implementing cofinancing arrangements, e.g. on legal or commercial-procedural issues. It would appear to be crucial to support project managers when they are required to negotiate and coordinate with cofinanciers. Officers responsible for the commission should be aware that they have access at all times to a contact structure and that appropriate assistance is provided to the project with its specific challenges.

and

Recommendation 6:

Many officers responsible for commissions see room for improvement when it comes to knowledge management in connection with cofinancing arrangements. We therefore recommend that GIZ make more productive use of knowledge concerning the implementation of cofinancing arrangements and individual cofinanciers and that it promote dialogue between projects. To this end, projects of a pilot nature or projects with experience of specific cofinanciers that offer particular potential for innovation should be used as lighthouse initiatives in order to leverage learning effects for other projects.

Available knowledge and experience gained in implementing cofinancing arrangements will be systematically documented and analysed, and the corresponding insights will be made available to officers responsible for the commission through the KAM structure. Existing standards in particular, along with proven measures for reducing transaction costs incurred in the process of coordinating with Head Office on the one hand and the cofinancier on the other should be made available to officers responsible for the commission.

Recommendation 7:

In some cases, cofinancing can put great demands on project management. This partly depends on the requirements and expectations of the cofinancier, for instance, with respect to financial management or collaboration with private sector partners. Head Office should thus ensure that the requirements of cofinanced projects are taken into account during staff recruitment and training. The central role of the financial manager in particular has emerged as a success factor in cofinancing arrangements. Consequently, personnel managers should place special emphasis on finding suitable candidates for these functions.

GIZ acknowledges the increasing importance of financial managers for the successful implementation of cofinancing arrangements. Apart from attracting suitable new personnel, GIZ therefore also focuses on the continued training of existing staff. In order to satisfy in full the requirements of the cofinancier, targeted training programmes will be offered that also cover donor-specific features.

Recommendation 8:

Transaction costs can be lowered if GIZ and the cofinancier engage in joint planning and close coordination from the outset. Joint donor actions are one approach that should be examined more closely for this purpose. Repeated or prolonged collaboration (e.g. as part of a second funding phase) also leads to a reduction in transaction costs, as all processes have already been tried and tested, thus reducing coordination work. It is therefore recommended for cofinanced projects that expectations are clarified early on and that joint procedures are set with the cofinancier. Options for extending collaboration should be explored with BMZ and the cofinancier at the earliest possible opportunity. Liaison offices could compile a checklist as an aid for managing expectations. This could be provided for the project planning process in order to give the officer responsible for the commission cofinancier-specific advice as to which aspects should be negotiated from the outset. This would enable support to be provided to officers responsible for commissions who have so far only gained project management experience in BMZ projects, enabling them to anticipate potential costs more accurately and to take pre-emptive action.

The results of the evaluation show that joint planning with the cofinancier can lead to a reduction in transaction costs. However, due to the importance of context-related factors, the options for joint planning are limited, and GIZ would like to continue being able to cofinance ongoing projects. In order to keep transaction costs as low as possible, GIZ is open to joint project planning with cofinanciers and would like to harness the benefits of joint donor action, also with its own commissioning parties. In addition, through the targeted communication with officers responsible for the commission, the company wants to draw attention to cost-saving potentials through standardisation and lessons learned at the start of the acquisition process. Despite this savings potential, the coordination process will still continue to incur significant costs in future. From the perspective of GIZ, the priority should be to see these costs in relation to the long-term reduction in transaction costs. With this in mind, GIZ intends to adjust the future minimum thresholds for cofinancing arrangements.

Recommendation 9:

Financial management poses a central challenge and is a key cost driver in connection with cofinancing arrangements. As a result, we recommend that GIZ's Management Board prioritise this topic and introduce steps to lower costs. This would entail updating the financial management tools, as these are not sufficiently flexible to cope with the complex demands of cofinanciers at reasonable cost. In some cases, the financiers' demands diverge significantly from those of BMZ. The current challenges and specific needs of cofinanced projects should be documented in detail so that, in a second step, the IT systems can be adjusted and used to meet the needs of different donors. In order to document the status quo, the Management Board could assemble a working group comprising GIZ personnel with diverse professional backgrounds in order to draw up an inventory of lessons learned and develop proposals for procedural improvements.

GIZ acknowledges the need for a dedicated tool capable of addressing the complex requirements of cofinanced projects. In order to lower the cost of financial management and reporting, a new IT tool is under development that will be available starting in 2018. This measure is already being supported through intensive training and advisory services for financial managers in the field structure.

Recommendation 10:

With respect to reporting, the second-largest cost driver, we recommend that efforts be made where possible to introduce joint reporting for various donor organisations.

GIZ recognises the benefits of joint reporting for various donors, but emphasises that it, as implementing organisation, is not in a position to adjust and modify reporting structures and formats. Efforts are being made to standardise individual agreements (where possible and appropriate). It has already been possible to standardise processes with the EU, and this had led to a significant reduction in costs.

Recommendation 11:

In various interviews with cofinancing donors, mention was made of the internal costs of GIZ (administrative overheads), which are considered high. We therefore recommend that guidelines be developed for a transparent breakdown of costs for cofinanciers. These should indicate which costs can generally be borne by BMZ and which can be assumed by the respective cofinancier.

A detailed breakdown and description of the internal cost structure is already available.

Recommendation 12:

As one component of donor coordination, cofinancing arrangements also fall under the responsibility of BMZ's policy dialogue. Dialogue should thus be conducted with BMZ on the development policy benefits of cofinancing arrangements as well as the opportunities and challenges of their implementation. The experience gained in projects, as documented in the interviews, has underscored the important role of close and exceptionally well-coordinated collaboration with BMZ and the economic cooperation officers in the initiation and implementation of cofinancing arrangements. GIZ and BMZ should work hand in hand, particularly when it comes to coordination with cofinanciers and political partners. Cofinancing arrangements should be used more strategically to boost effectiveness both in the sector and for partners, and to enhance standing. As such, close collaboration with BMZ is particularly relevant wherever GIZ lacks sufficient political influence as an implementing organisation.

GIZ is engaged in ongoing dialogue with its commissioning parties. The results of the evaluation will be communicated in the corresponding dialogue forums and the arguments concerning the benefits for development policy conveyed to the commissioning parties. Wherever joint action with the cofinanciers appears appropriate, GIZ intends to promote this approach based on the positive conclusions of the evaluation. As cofinancing arrangements are often initiated outside Head Office and are diverse in nature, GIZ believes that flexibility regarding the acquisition and implementation of cofinancing arrangements is essential.

Recommendation 13:

Efforts should be made to intensify the existing process in the company for reflecting on how and where the synchronisation of processes, procedures and project terms between BMZ and cofinanciers can lead to a reduction in transaction costs. This reduces the need for coordination during projects. A precondition in this respect is active support of BMZ for cooperation with the cofinancier as well as flexibility on the part of all

actors involved in the design of the joint procedure and project terms. In the event that cooperation is of strategic relevance for German development cooperation and international cooperation, GIZ should endeavour to include this aspect in the corresponding policy dialogue between BMZ and the cofinancier.

GIZ acknowledges the fundamental benefits of synchronising processes, procedures and project terms, and is willing to pursue such efforts. GIZ will channel the corresponding results of the evaluation into dialogue with the commissioning parties.

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