

GTZ Letter to Management

Executive Summary

A team comprising Nimal Fernando of AsDB, Craig Churchill of ILO, and Alexia Latortue and Eric Duflos of CGAP conducted a Donor Peer Review of GTZ in Eschborn from 14 to 18 July, 2003. The review is part of a 17-agency initiative launched by Development Ministers, head of agencies, and CGAP to concretely tackle aid effectiveness by using microfinance as a test case.

The Peer Review team focused on the internal procedures, practices and processes of GTZ to identify the success factors and constraints that influence the effectiveness of the agency's microfinance operations. The Financial Systems Development (FSD) Section provided the team with an orientation to GTZ and organized meetings with 66 people throughout the agency, including consultation with country departments, field-level staff and external partners. The team briefed Managing Director Eisenblätter, and several department heads and staff on its initial findings on 18 July 2003.

The team found the review timely, considering the current re-organization taking place at GTZ, which includes management by objectives, increased focus on impact and evaluation, and cross-fertilization through the creation of horizontal priority areas. The team was impressed by the strengths of GTZ in financial systems development and hopes that this letter to management will enrich the internal discussions and provide ideas of how GTZ can further increase its effectiveness in microfinance. This letter outlines GTZ's strengths and challenges, and presents specific recommendations. A matrix at the end of the letter provides a summary of the key findings and recommendations.

The peer review team makes five concrete recommendations to management to enable GTZ to improve its microfinance operations. The team hopes these recommendations will also prove helpful for enhancing GTZ's overall effectiveness.

1. ***Sharpen focus on core competencies.*** GTZ should concentrate its operations on micro and rural finance, and continue working at the micro, meso and macro levels.
2. ***Balance business acquisition with quality.*** GTZ needs to protect its brand name while it seeks to diversify its client base by screening new program proposals and by re-affirming the importance of technical ability within the organization.
3. ***Redefine the role of the FSD Section.*** Management should explicitly task the FSD section to provide adequate backstopping during project implementation. The FSD section needs to increase its quality assurance function, build on its strengths in knowledge management, and establish closer links with the rest of GTZ.
4. ***Maintain technical expertise in-house.*** Considering its high level of technical expertise, GTZ should use outsourced expertise prudently, push for performance based incentives for technical staff, and make full use of the potential of the regional sector networks.
5. ***Build strategic alliances.*** GTZ should seek additional strategic cooperation with multilateral and bilateral agencies, capitalize on the synergy with KfW, and enhance relations with German stakeholders.

Background

Early in 2002, Development Ministers, heads of agencies, and CGAP launched an initiative to improve aid effectiveness, using microfinance as a test case. As a first step, 17 bilateral and multilateral development assistance agencies volunteered to participate in a series of Donor Peer Reviews. These Peer Reviews are not evaluations or detailed portfolio reviews, but rather focus on each agency's internal procedures, processes, practices and systems to identify success factors and constraints to good practices in microfinance.

The short but intensive reviews result in concrete recommendations for each agency. The recommendations should lead to commitments by senior management to specific changes that improve the effectiveness of microfinance operations. It is expected that the analysis and recommendations may also apply to other areas of development assistance pursued by each agency.

A Peer Review team including Nimal Fernando, Lead Rural Finance Specialist of the Asian Development Bank (AsDB), Craig Churchill, Senior Microfinance Expert of the International Labor Organization (ILO), and Alexia Latortue and Eric Duflos, Microfinance Specialists of the Consultative Group to Assist the Poor (CGAP) visited Gesellschaft für Technische Zusammenarbeit (GTZ) headquarters from 14 to 18 July, 2003. The peer review team interviewed 66 people from a wide range of departments and units:

Bundesministerium für wirtschaftliche Zusammenarbeit (BMZ)	2
Senior Management and Corporate Strategy	10
Country Departments	10
Field Project Staff	16
GTZ Offices Abroad	7
Technical Sections	16
External Partners of GTZ	5
<i>Total number of people interviewed</i>	<i>66</i>

The team presented its initial findings and recommendations to Dr. Eisenblätter, Managing Director of GTZ, and several department heads and staff on 18 July.

Follow-up to the Peer Reviews is envisioned both at the agency-specific level and across all agencies participating in the exercise. The review team and CGAP are available to discuss the recommendations contained in this letter in more detail and to support their implementation. The team's findings for GTZ will also be combined with those from other agencies reviewed in a synthesis report. A synthesis report already exists for agencies reviewed in 2002. Overall results and issues for agencies to tackle jointly will be discussed in various fora involving technical staff and senior management. A meeting of Ministers and agency heads participating in the Peer Reviews will be organized upon completion of all the reviews on 13 February, 2004 in Paris to share experiences and reforms made as a result of the exercise and to build on agencies' comparative advantages.

This letter to management outlines GTZ's strengths and challenges with respect to applying good practices in microfinance. It then presents a number of specific recommendations for change. Finally, a matrix summarizes the key findings and recommendations according to six analytical areas. The team hopes these recommendations will also prove helpful for enhancing GTZ's overall effectiveness.

GTZ's Culture

GTZ, like all organizations, operates within a contextual environment, influenced by past experiences, national culture, and historical patterns of behavior and interaction. This context in turn affects decision making, communications and ultimately operations. The peer review team noted some contextual characteristics of GTZ's culture that provide a useful framework against which to consider the analysis of the review team. Certain characteristics may also pose some tradeoffs in terms of improving the effectiveness of GTZ's microfinance operations.

- **Consulting firm vs. technical cooperation vs. political priorities.** Several organizational cultures seem to co-exist within GTZ, with a consulting firm mentality focusing on profit making, a technical cooperation agency focusing on quality, and an implementing arm of BMZ influenced by political priorities. These three cultures can create clashes when it comes to allocating staff time and selecting programs.
- **Collaboration vs. competition** Although GTZ places a high value on collaboration with other agencies, there is a lot of internal competition for resources among different sections, putting pressure on staff to “market” their sector and reducing opportunities for linkages among programmes.
- **Innovation vs. proliferation.** GTZ prides itself on being innovative, for example in pioneering the bank-linkage model. But this interest in new ideas means that the agency sometimes prefers to launch new initiatives rather than focusing on its areas of competency.

GTZ Strengths

German development cooperation is exceptionally well suited to support financial systems development. Core BMZ documents clearly articulate that a social market economy requires a well-functioning financial system, and that such a system is a critical condition for social change. The recognized need to integrate social considerations into the provision of market-based financial services is manifested in Germany's long history of financial systems development for low-income people at home and abroad. BMZ's implementing agencies, GTZ and KfW, can draw on a rich base of human and institutional capital (Raiffeisen, savings bank, etc.) to support a diversity of institutional models including cooperatives, commercial banks, and savings banks.

Against this favorable backdrop, the peer review team identified the following strengths at GTZ that are directly relevant to its microfinance operations:

- **Clear Financial Systems Development Strategy.** The BMZ Financial Systems Development strategy adopted by GTZ provides a comprehensive analysis of the financial systems development (FSD) approach and is in line with internationally accepted good practices. The systems approach to microfinance takes into account the micro, meso and macro levels of the sector. It is well reflected in numerous GTZ programmes, with Uganda as one striking example.
- **Excellent financial sector expertise.** The cadre of in-house technical specialists is a major source of GTZ's comparative advantage in microfinance. GTZ's staff specialized in FSD share a common vision of their work, and possess top academic credentials backed by solid field experience. FSD staff rotate in and out of the field, which reflects the high value GTZ places on ground-level, hands-on experience. The investment in staff is further reflected in GTZ's

commitment to training. Experience shows a strong correlation between the level of agencies technical expertise and the quality of their operations.

- **Widespread understanding of microfinance.** GTZ staff demonstrate a clear understanding of the meaning and role of microfinance, and understand basic concepts of good practices such as the need to work with institutions, the advantages of integrating microfinance within a financial sector approach, and the pillars of sustainability. Compared with other cooperation agencies, the level of general knowledge in microfinance is among the highest.
- **Strong demand orientation.** GTZ's decentralized structure, with decision-making authority resting at the field level, enables staff to respond quickly and flexibly to local demands. GTZ favors participatory approaches through stakeholder workshops, sector surveys at the program design stage, and participatory evaluations (e-val). High levels of investment in understanding local demand allows GTZ to remain pragmatic rather than dogmatic, and to adapt approaches to each context. GTZ also defines performance indicators jointly with partners. This highly demand-oriented way of working, coupled with an ability to commit on a long-term basis (6-10 years), enables GTZ to achieve lasting change.
- **Active technical exchange at field level.** The regional technical networks, made of international experts from the field, enable GTZ to capitalize on its expertise, exchange knowledge between countries, keep technical staff close to field-related issues, and strengthen team spirit. Regional sector networks hold regular meetings, create new training tools, conduct cross evaluations, exchange information, and publish newsletters. Technical specialists in the field particularly value these networks as a way to think through strategies and problems and to have an accessible sounding board for issues that arise. They contribute to the high quality of GTZ's current and new initiatives.
- **Commitment to cooperate with other development assistance agencies.** GTZ's commitment to collaboration is incorporated in key documents and operations. Of all the agencies reviewed to date, GTZ appears to be one of the most collaborative agencies, which is a key condition for donor aid effectiveness and efficiency. The team noted some examples of active cooperation on microfinance operations with AsDB, DANIDA, the EC, IFC, ILO, UNHCR, UNDP and WB.
- **Leading brand name.** GTZ is highly recognized in the microfinance field by other development cooperation agencies and technical specialists. More specifically, it has an excellent reputation for its FSD approach and is considered a leader in the areas of savings and support to the regulatory framework. Such recognition is partly related to the overall reputation of the German financial sector.

GTZ Challenges

Notwithstanding its clear strengths and leadership role in microfinance, GTZ faces some challenges that affect the effectiveness of its microfinance operations.

- **Over-ambitious FSD section agenda.** GTZ does not have sufficient human and financial resources to implement all the elements of the ambitious FSD strategy. It is doubtful that GTZ can work effectively on all the products presented in the document "Prepared for the 21st Century" without spreading its technical capacity thin and compromising quality. Moreover, it

is uncertain whether GTZ has a comparative advantage in areas such as capital market development and bank privatization.

- **Budget constraints compromise quality.** With decreasing resources available from BMZ, GTZ has been forced to use its existing resources carefully and look for additional funding sources. There is a lot of pressure to obtain contracts through GTZ International Services. Some indication already exists that quality is at times compromised in favor of winning new business. Accepting to implement poorly designed projects that are extremely difficult to turn around may damage GTZ's brand name. Budget restrictions have also pushed GTZ programs to outsource expertise, while less expensive, sub-contracting does not enable GTZ to retain knowledge internally, nor to ensure the same level of technical quality as with its own staff.
- **Colleagues perceive the FSD section as isolated.** The very clarity of the FSD comprehensive approach means that it does not encourage linkages with other sectors and the newly introduced 14 horizontal priority areas. FSD is not always seen as relevant to GTZ's overarching objective of poverty reduction. Financial services is only one part of the Economic Reform and Development of the Market System (WIRAM) priority area. There is a risk that it would lose significance or become invisible within WIRAM and other priority areas. The perception by some staff from other priority areas such as crisis prevention, water and rural development is that FSD is highly technical. As a result, they may not call upon FSD specialists when their programs include a credit component.
- **Insufficient support role of FSD staff outside of program design and evaluation.** Due to declining resources, management requires the technical sections to focus program support on the design and evaluation phases, at the expense of backstopping during implementation. The best technical experts in the field indicated they would like more time with specialists in Eschborn to discuss technical issues, keep up-to-date on GTZ policy issues, and learn of latest developments in the global industry. The lack of interaction during project implementation also means that Eschborn-based staff are not always aware of the most recent innovations on the ground to feed them into new project designs.
- **Limited accountability from the field.** Decentralization has delegated the bulk of monitoring and evaluation responsibilities to the field. Field project managers choose their Project Performance Review (PPR) teams and draft their own terms of reference, creating issues of accountability, and preventing GTZ from assuring objective quality control of its programs. Sporadic external evaluations and relatively light monitoring do not consistently ensure the highest standards.
- **Uneasy cooperation with KfW.** Cooperation with KfW, especially at the field level, is sub-optimal. Neither institution takes full advantage of their complementary instruments and know-how. In one country for example, GTZ is co-managing a project with DANIDA, but has limited cooperation with KfW. This issue raises challenges about the overall efficiency of German development cooperation in microfinance.
- **Unresolved human resources issues.** GTZ faces three key human resource challenges. The recent trend of increased sub-contracting of project implementation poses risks of loss of knowledge and erosion of core staff's technical skills as they become removed from operational work. Also, top specialists may find GTZ a less attractive place to work if administration and marketing skills are valued more than technical skills. Secondly, while it will soon be put in

place, GTZ currently does not yet implement an incentive system (neither non-financial nor financial) to motivate staff and reward outstanding performance. Lastly, national staff do not seem well integrated in GTZ's formal and informal professional networks though they make up the majority of all GTZ professional staff. For example, it appears that national staff rarely participate in the sector networks or other learning fora.

- **Lengthy project development processes.** Several staff interviewed mentioned that projects take too much time to be approved and start, though the new AURA system could reduce project preparation processes. Sector strategy papers can take up to two years to be completed. Long delays between project design and start of implementation can cause significant problems as the support requirements from partners and country condition may change significantly during long time lapses. While they could sometimes be related to external causes, such as the need to coordinate with BMZ, such delays are incompatible with the professional, private sector, business-like approach that GTZ espouses.

Recommendations

Based on its analysis, the peer review team makes the following five recommendations to management:

1. ***Sharpen focus on core competencies.*** GTZ should concentrate its FSD operations on micro and rural finance and continue innovative work at the micro, meso and macro levels.
 - **Concentrate on the three levels of microfinance.** Microfinance is complex and GTZ is better positioned than most donors to work on the sector comprehensively. It should support micro (institutions), meso (networks and professional organizations) and macro operations (policy and regulatory). GTZ might not have the human resources to effectively engage in capital market development nor privatization of commercial banks, and could let more experienced international financial institutions (IFIs) take on these activities.
 - **Continue to ground policy work in retail experience.** Many donors are getting involved in policy work at the expense of supporting retail level financial institutions. GTZ should resist the temptation to move upstream like other donors. It should continue to ground its policy work in retail experience to remain relevant in its policy level operations.
 - **Expand work on savings, regulatory frameworks and rural finance.** GTZ should build on its successful track record to step up work on these areas. It can draw on the experience of German banks and cooperatives in savings mobilization and in helping to create appropriate regulatory frameworks for the financial sector. All three areas are of high relevance to poor people and to the global microfinance industry.
2. ***Balance business acquisition with quality.*** As it diversifies its client base, top management should send clear signals that GTZ will protect its brand name by ensuring that it is only involved in quality projects.
 - **GTZ needs to protect its brand name** by requiring the FSD section to cautiously screen new GTZ and International Services program proposals in microfinance and by refusing to implement other agencies' poorly designed projects, even for a significant fee. By selecting

high potential programs, the FSD section will ensure that GTZ does not tarnish its reputation.

- **Top management should send strong signals** that GTZ will not trade the quality of its operations for additional business. While maintaining high standards might make GTZ services more expensive than some other alternatives, it will ultimately benefit its microfinance operations and impact on poverty reduction. In the long-run its ability to continuously bring in new business will be enhanced. Management should therefore reward technical expertise and not only marketing ability.
3. **Redefine the role of the FSD Section.** Management should explicitly task the FSD section to provide adequate backstopping during project implementation. The FSD section needs to increase its quality assurance function, build on its strengths in knowledge management and establish closer links with the rest of GTZ
- **Include backstopping function in the mandate of the FSD Section.** Management should re-consider the FSD section's mandate and priorities so that they can provide backstopping during implementation. Microfinance typically requires more technical input, including backstopping, than many other development sectors. It is also a relatively young field that is evolving rapidly. Based on this revised mandate, FSD section staff would call technical staff in the field from time to time, increase interaction with sector networks, continue to organize annual technical workshops, and become more of a sparring partner and sounding board to colleagues in the field. This revised mandate would require streamlining of current tasks and perhaps additional resources.
 - **Increase quality assurance.** While regular contact with project staff will serve as an important early warning system, the FSD section should be involved in drafting the PPR TORs and composing the PPR mission teams. This new mandate would ensure the objectivity and credibility of PPRs, which is vitally important since GTZ does not conduct systematic external evaluations. To increase quality of outputs, the technical section should develop FSD-specific performance and impact indicators. Currently indicators exist at the micro level and GTZ might be well positioned to innovate in the area of meso and macro level indicators. For retail-level operations, GTZ could require its partners to take part in the MIX market to increase their transparency and to report in the Micro Banking Bulletin to compare their performance with other institutions.
 - **Build on knowledge management foundations.** Considering its significant experience, the FSD section should do more to position GTZ as a leader in the market, by increasing experience and knowledge sharing externally and internally.
 - Externally, GTZ could exchange more with other donors through the focal persons, disseminate its publications more widely, and publicize its websites.
 - Internally, within the context of decentralization, innovation occurs in the field every day. GTZ needs to capitalize on the knowledge originated by the networks, integrate national staff, and systematically document lessons learned and products developed.
 - **Establish closer links with the rest of GTZ.** To ensure that FSD does not become more isolated, it should reach out to colleagues beyond FSD and provide technical advice to priority areas. Specifically, the FSD section should:

- Build bridges within WIRAM and with other priority areas, country departments, and field offices through better communication. While keeping a “financial systems development approach”, FSD should show that finance not only fosters economic development, but also promotes access to education, health care, housing improvements, and women’s empowerment, thus contributing to poverty reduction and the Millennium Development Goals. The FSD section should use jargon-free language for non-microfinance specialists and organize events such as brown bags to explain their work.
 - Provide technical advice to priority areas. The FSD section should find out which priority areas have financial components, and provide technical advice on these components in an accessible and understandable way. Incentives should be put in place for other sections to systematically involve the FSD section in the design and evaluation of credit components.
4. ***Maintain technical expertise in-house.*** Considering its high level of technical expertise, GTZ should use outsourced expertise prudently, push for performance-based incentives for technical staff and make full use of the regional sector networks.
- **GTZ needs to use outsourced expertise prudently** to avoid eroding its significant comparative advantage of a strong group of FSD experts in-house. GTZ should develop criteria to determine when programs should be managed by GTZ staff rather than outsourced. These criteria should not only focus on the political sensitivity of programs but also on whether they are innovative and can help deepen GTZ’s core capabilities. Also, GTZ should be careful not to outsource all its micro-level work, where it has a comparative advantage. Because sub-contracting will no doubt remain an important business strategy, GTZ should consider developing a network of certified core consultants who regularly work with the agency. These consultants, who could include former staff, would have the benefit of knowing GTZ well and could be fully integrated in all knowledge management activities.
 - GTZ should develop **incentives to retain and motivate technical staff.** These incentives should include rewards for good support to the field. While financial incentives are necessary, non-financial incentives should also be considered. Non-financial incentives include training opportunities, mention in agency journals and official recognition during sector meetings. As already planned, opportunities to take sabbaticals for special field research could also be offered to consistently well performing staff.
 - FSD should **make full use of the sector networks** by engaging the networks in project designs, preparation of new project phases and evaluations. FSD should also further involve the network in project designs, dissemination of key messages and external marketing of FSD. By creating a mutually re-enforcing feed back loop, the FSD section should also learn about success stories and field experiences through increased interaction with the networks, that could be used to feed into new programs.

5. **Build strategic alliances.** GTZ should seek partnerships with other agencies pro-actively, capitalize on the synergy with KfW, and enhance relations with other German stakeholders.

- **Seek partnerships with other agencies pro-actively.** GTZ should continue to build strategic partnerships with other agencies on different types of funding modalities (co-financing, parallel funding, delegation of funds). Such partnerships would ensure that GTZ could continue to work comprehensively on all levels of the financial sector, even in the face of larger WIRAM projects where the financial sector component might be smaller. Alliances with agencies that have limited technical expertise would offer a win-win situation to all parties. GTZ could identify and approach such agencies and develop memorandum of understanding with them to standardize funding agreements. To attract the interest of other agencies, GTZ could document and disseminate its numerous successes in in-country donor collaboration and expand joint project management.
- **Capitalize on the synergy with KfW.** There is a huge opportunity in FSD work within the German development cooperation system. GTZ and KfW should have a natural strategic alliance based on mutual trust, complementary instruments, and understanding of each other's work processes and procedures. A staff exchange program could help build the trust needed for successful partnership. KfW staff could gain increased opportunities for work in the field through the program, and GTZ staff could gain experience with a bank. Closer operational cooperation should be sought by conducting joint appraisals and sector and country strategies, and designing and implementing joint programs. Based on their complementary instruments, GTZ and KfW could intervene at different stages of the maturity of partner institutions. For example, GTZ could support MFIs at their initial stages with grants and technical support while KfW could come in with support in the form of loans and capital at a later stage. In countries where the microfinance sector is well developed, KfW could support the growth of licensed MFI while GTZ works on policy issues. These areas of cooperation could be piloted first and institutionalized if they prove successful.
- **Explore cooperation with German private companies.** Based on its recent experiences with large German companies through the Private Public Partnerships (PPP), GTZ could explore cooperation with financial and non-financial companies present abroad to develop and co-fund microfinance operations. These partnerships would help GTZ identify promising partners and continue innovating in financial services delivery.

AID EFFECTIVENESS AND MICROFINANCE MATRIX – GTZ

		Analysis	Recommendations
1.	Strategic Clarity and Organizational Culture	<ul style="list-style-type: none"> • Clear BMZ Financial Systems Development Strategy in line with accepted good practices • Widespread understanding of microfinance • Over-ambitious FSD section agenda 	<ul style="list-style-type: none"> • Concentrate on the three levels of microfinance (micro, meso, and macro)
2.	Technical Expertise & Resources	<ul style="list-style-type: none"> • Excellent in-house financial sector expertise • Active technical exchange at field level • Leading brand name thanks to its technical expertise and Financial System Development approach, and innovation in savings and policy work • Trend in sub-contracting creates risks of loss of technical expertise • Lack of integration of national staff in sector networks 	<ul style="list-style-type: none"> • Balance business acquisition with quality by screening proposals selectively and by having top management send key messages on technical ability • Have FSD team involved in drafting PPR TORs and composing mission team • GTZ needs to use outsourced expertise prudently
3.	Organizational Structure and Flows	<ul style="list-style-type: none"> • Active technical exchange at field level through regional technical networks • Strong demand orientation with high level of decentralization and investments in understanding local contexts • FSD section is perceived as isolated • FSD Section's role outside of program design and evaluation is insufficient • Uneasy cooperation with KfW 	<ul style="list-style-type: none"> • Build on knowledge management foundations internally and externally • FSD to establish closer links with the rest of GTZ by building bridges with WIRAM and providing technical advice to priority areas • Capitalize on the synergy with KfW • Include backstopping function in the mandate of the FSD Section
4.	Instruments and Incentives	<ul style="list-style-type: none"> • Budget constraints compromise quality • Limited accountability from the field • Incentive system is still un-developed 	<ul style="list-style-type: none"> • GTZ should develop incentives to retain and motivate technical staff

		Analysis	Recommendations
5.	Program Cycle	<ul style="list-style-type: none"> Lengthy project development processes 	<ul style="list-style-type: none"> FSD team should develop microfinance specific performance and impact indicators Make full use of technical networks by engaging them further in project preparation and evaluation
6.	Future Microfinance Operations	<ul style="list-style-type: none"> Commitment to cooperate with other development assistance agencies 	<ul style="list-style-type: none"> Continue to ground policy work in retail experience Expand work on savings, regulatory frameworks and rural finance Seek partnerships with other cooperation agencies pro-actively based on its comparative advantage in the sector Explore cooperation with German private companies



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Reply to CGAP Letter to Management

Many thanks for your letter to management dated September 11, 2003. Your letter confirms the impression gained at the debriefing session on July 18 that the CGAP peer review has indeed made a major contribution towards GTZ Financial System Development (FSD). We are pleased that your overall assessment of our work in this area is very positive. The results and recommendations to which you refer are key issues for the further development of the topic of Financial System Development within the GTZ.

We agree with your observation that the GTZ's culture is unusually diverse. This diversity reflects the extraordinary complexity of our mandate and, based on this, the GTZ's ability to react appropriately to client expectations and tasks. The GTZ is indeed both a commercial service contractor and an organisation that provides high-level policy advisory services on behalf of the German Government. It advises target groups and partner organisations in developing countries and transition economies. However, it also advises the German Government on development-policy issues, then acts as an implementing institution on the Government's behalf and, subsequently, places commissions in the consulting sector. We consider this cultural diversity to be the motor which generates our flexibility. And this flexibility is indispensable if we are to manage the complexity of our mandate. For the GTZ, collaboration and competition, innovation and proliferation are therefore not contradictory elements, but challenges which alter in direct response to various situations.

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We would like to make the following comments on your specific recommendations:

1. Sharpen focus on core competencies:

We agree that our Financial System Development agenda is very ambitious. However, this is in response to requests made by our clients. The collapse of former socialist economies had a significant impact on the services provided by the GTZ. The service package provided by the GTZ in the 1980s was not suitable for supporting the establishment of completely new financial systems, particularly in countries with transition economies. We have successfully responded to changing demand. However, faced with limited resources and patterns of demand that are once again changing, we clearly recognise the need to reorientate our Financial System Development services anew.

Follow-up:

Based on our long-standing experience with the multi-level approach to Financial Systems Development the GTZ will continue to provide advisory services at the institutional level (micro). We will discuss with the German Ministry the precise scope of our activities in this area. Moreover the GTZ revised its FSD operations only recently and will focus its services in the future on the following four products: Pro-Poor Financial Sector Strategy, Microfinance, Rural Finance and SME Finance.

2. Balance business acquisition with quality:

We constantly review all GTZ areas of expertise and analyse the extent to which these - under market conditions - have a real competitive advantage. As a result of this analysis, GTZ International Services (IS) has fine-tuned its profile considerably in recent years. We believe, in particular in the case of GTZ International Services, that neither long nor short-term budget constraints must be allowed to affect quality, and that GTZ IS especially can only contribute to consolidating the brand name and increasing turnover through quality. So far, this belief has proven correct, as demonstrated by the welcome increase in GTZ IS commissions received.

GTZ IS works on a contract basis and is normally not mandated for programme design; nevertheless, we have succeeded in a number of cases in incorporating GTZ experience from projects from the German Government when implementing projects commissioned by other clients, helping improve quality considerably.

3. Redefine the role of the FSD Section:

To guarantee the efficient use of the GTZ's technical resources, a company-wide policy has been drawn up to concentrate the use of these resources on key strategic phases in the project cycle. To ensure that, at the same time, technical quality is not jeopardised in the implementation phase, a number of new mechanisms have been introduced. Key elements in this context include knowledge management - which facilitates the regular exchange of experience gathered by Head Office and field staff (for example, within the framework of regular technical conferences) – and the setting up of regional sector networks. These sector networks have recently gained increasing official recognition within GTZ and will serve as platforms for focused knowledge management and product development.

4. Maintain technical expertise in-house

Part of the GTZ's mandate, as defined in the General Agreement with the German Federal Ministry for Economic Cooperation and Development (BMZ), is to promote the consulting sector and to outsource orders that do not necessarily have to be conducted by the GTZ itself. However, as you rightly point out, the GTZ must take a number of precautions to avoid eroding its experience base:

Follow up:

- Reestablishment of technical working groups to exchange experience with the consulting sector
- Closer staff exchanges with the consulting sector
- Increased integration of components implemented by consulting firms into programmes led by the GTZ, to ensure the transfer of knowledge and experience.

5. Build strategic alliances

As you rightly observed, the GTZ is "one of the most collaborative agencies". However, we also agree that the synergies of German Development Cooperation can only be optimised by more intensive cooperation and coordination with KfW projects.

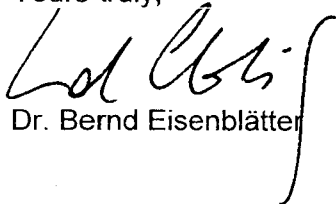
Follow up:

- Appointment of a contact person in the GTZ to coordinate activities in the financial sector with the KfW

- Conduct regular coordination meetings with staff from the KfW competence area WiRAM
- Conduct meetings with the KfW on setting up routine staff exchanges

Finally, we would once again like to congratulate you on the excellent CGAP Peer Review that you conducted in the GTZ. Within a short period of time, you gained an insight into our complex procedures and conducted a critical, fair, and highly expert assessment. All GTZ staff members whom you interviewed during the peer review were extremely impressed by both your technical expertise and "outstanding communication and interview skills". We would once again like to express our sincere gratitude. We are certain our continued cooperation will greatly benefit the GTZ, CGAP, and the development of microfinance itself in the context of the continued and successful pursuit of the Millennium Development Goals. We look forward to continuing our fruitful cooperation.

Yours truly,

A handwritten signature in black ink, appearing to read 'Bernd Eisenblätter', written in a cursive style. The signature is positioned above the printed name.

Dr. Bernd Eisenblätter