Enhancing Effectiveness

Fourth High Level Forum on Aid Effectiveness
Busan, 29 November – 1 December 2011
Dear readers,

Visible changes are afoot in development cooperation: the economic and political upheavals taking place throughout the world have reshaped the development landscape, and new public and private actors have entered the stage. The host country of the Fourth High Level Forum on Aid Effectiveness (HLF 4), which will take place in Busan from 29 November to 1 December 2011, is an impressive example, in my view: with a combination of good governance, smart investment and increased country ownership, the Republic of Korea, having been dependent on external assistance well into the 1950s, has now emerged as a new donor country.

With the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008), the international community has adopted a set of principles which represent a major step forward towards making international development aid more effective. These principles – ownership, alignment, harmonisation, managing for results and mutual accountability – are the expression of an important international consensus. In Busan, we must now take further and more concrete steps towards greater aid effectiveness and include the new donors and cooperation partners in this process. The private sector in particular, which plays a crucial role as our partner in shaping development worldwide, must be involved to a far greater extent.

Improving the effectiveness of development cooperation is one of the stated priorities of the Federal Ministry for Economic Cooperation and Development (BMZ). The success of our work is judged not so much by the resources deployed but, first and foremost, by the results achieved. Over the last two years, the BMZ has created the conditions that are needed to make German development policy more effective. With the merger of the organisations responsible for delivering German technical cooperation, for example, we have proved that we are taking our commitments seriously. Further steps are now following, such as the establishment of a service point for civic and community engagement.

This brochure, which consists of a set of topic sheets, provides an overview of our contributions to greater aid effectiveness. It highlights topics which we believe to be crucial for enhanced effectiveness: a stronger focus on results, better division of labour, and more intensive cooperation with the private sector.

I wish you a stimulating and enjoyable read, and look forward to the discussions and dialogue before and during the summit in Busan.

Dirk Niebel
Increasing Effectiveness through Transparency and Evidence: Monitoring and Evaluation of the Paris Declaration

THE CHALLENGE

The aid effectiveness agenda is a complex international reform process involving numerous stakeholders. Have lessons been learned? Was sufficient transparency achieved in initiatives? Was an adequate level of accountability maintained? Evaluating whether development cooperation among key actors has become more effective in compliance with the Paris and Accra principles is no easy task.

THE SOLUTION – MONITORING AND EVALUATION

In the Paris Declaration (2005), it was therefore agreed that regular monitoring of progress in implementing the international reform process would take place in the partner countries and that an evaluation would determine to what extent the targets to be met by 2010 had been achieved. This two-step approach provides the basis (evidence) for agreeing promising strategies for the future at HLF 4 in Busan. The first phase of the evaluation process was completed in 2008. The second phase was conducted in 2010/2011.

The outcomes

Main conclusions:
The Evaluation confirms the relevance of the outcomes and principles defined in the Paris Declaration. However, implementing them is taking longer than expected, so policy-makers must give more continuous support and a more robust commitment to this process. Furthermore, the Evaluation states that in future, a clearer distinction must be made between emerging economies, stable low-income countries, and fragile states. The importance of better coordination and donor division of labour in the partner countries is increasing as more and more new donors, global programmes and funds enter the frame. The partner countries must therefore be given greater support for their own development efforts and their management of international development cooperation (capacity development).

Implementation of the aid effectiveness agenda:
Successes and delays in implementation appear to balance each other out. On a positive note, the monitoring found that many partner countries have now adopted their own national development strategies. Many countries are also reforming their public financial management and procurement systems. The donor countries now accept the partner countries’ lead role, but are still experiencing problems coordinating and aligning their procedures. The Evaluation also criticises donors’ risk aversion and the over-centralisation of decision-making. Not surprisingly, only limited efficiency gains have been achieved.

On the other hand, the management of development cooperation has noticeably improved overall. It is increasingly aligned with partner countries’ priorities and more projects are being administered by the partner countries themselves, using country systems. However, none of the much-debated new instruments (such as budget support) automatically produces better development impacts: these depend, instead, on a situation-specific mix. According to the Evaluation, the greatest progress has been achieved in the quality of relations between donor and partner countries.
Impact on partner country development:
Overall, some progress has been achieved as a result of the aid effectiveness agenda, but not in all sectors. For the health sector – a key sector for the attainment of the Millennium Development Goals – the Evaluation describes the improvements and impacts resulting from the reforms as “indirect but clear”. However, it found little progress on commitments to reduce poverty among the poorest and most disadvantaged groups, especially women and girls.

The next steps:
The Evaluation Report calls for more high level political engagement and support, especially as the target year for the attainment of the Millennium Development Goals (2015) is fast approaching. It also calls for the aid effectiveness agenda to be refocused on implementation in the partner countries, with a greater emphasis on transparency, mutual accountability and shared risk management.

Relevance to German development cooperation:
Partner countries are urged to take full ownership and leadership for further reforms in their own countries, to strengthen their capacities for implementation, and above all, to intensify actions to combat poverty and corruption. Donor governments in particular are urged to drive the reforms, become less risk-averse, and intensify peer pressure on less innovative and less reform-minded donors.


FURTHER INFORMATION:
Dedicated web site of the 2011 Survey on Monitoring the Paris Declaration: http://www.oecd.org/site/0,3407,en_21571361_39494699_1_1_1_1,00.html. The final Evaluation Report and associated documents relating to the evaluation of the Paris Declaration, as well as four policy briefs published to date, are available at: http://www.oecd.org/document/60/0,3343,en_21571361_34047972_38242748_1_1_1_1,00.html
Analyse, Evaluate and Improve – MOPAN Assesses Multilateral Organisations’ Performance

THE CHALLENGE

Multilateral organisations – such as the United Nations (UN) with its numerous sub-organisations, or the World Bank and the regional development banks – can and should aim to operate more efficiently and effectively. This means speeding up internal processes, simplifying procedures, avoiding unnecessary bureaucracy, and focusing more strongly on results. But which steps should be taken to achieve this goal? This question must be answered correctly if reforms are to produce the desired improvements.

THE SOLUTION – MOPAN

This is precisely the task which the Multilateral Organisation Performance Assessment Network (MOPAN) has set itself. MOPAN was founded in 2002 and currently consists of 16 bilateral donors, including Germany, with a common interest in assessing and improving the organisational effectiveness of the major multilateral organisations. For almost a decade, the network has assessed the strategies and performance of up to six multilateral organisations each year. In 2011, MOPAN is being managed by Germany, which is leading the Secretariat on a rotational basis this year.

MOPAN ASSESSMENTS 2003 – 2011

- FAO – Food and Agriculture Organization of the United Nations
- IFAD – International Fund for Agricultural Development
- ILO – International Labour Organization
- UNAIDS – Joint United Nations Programme on HIV/AIDS
- UNDP – United Nations Development Programme
- UNFPA – United Nations Population Fund
- UNHCR – UN Refugee Agency
- UNICEF – United Nations Children’s Fund
- UNRWA – United Nations Relief and Works Agency for Palestine Refugees in the Near East
- WHO – World Health Organization
- World Bank
- ADB – Asian Development Bank
- AfDB – African Development Bank
- IDB – Inter-American Development Bank
- European Commission
HOW IT WORKS

Each assessment consists of several steps. In order to evaluate the international organisations’ working methods, MOPAN carries out detailed perception-based surveys in the 16 member countries and, above all, in 10 or so partner countries. It also reviews the organisations’ key strategy documents, the aim being to assess strategic and operational effectiveness, relations with partner countries, and knowledge management. The indicators defined in the Paris Declaration serve as a basis for this process.

The great advantage of MOPAN’s approach compared with individual donor assessments is that the surveys are based on the perceptions of numerous donors as well as the partner countries and therefore provide a broader overview. Every assessment identifies the organisation’s strengths and weaknesses, but does not rank the organisations, largely because their highly diverse mandates and structures make any comparison difficult. In order to fully capture the organisations’ specific characteristics, the indicators may have to be adapted in some cases. Humanitarian assistance organisations, which were assessed for the first time in 2011, are a good example: their work differs considerably from the “classic” development organisations.

What happens to the reports?

The results published in the reports are discussed and analysed with great interest by the organisations themselves. Above all, however, they increasingly serve as a basis for MOPAN members’ positions on the need for reforms of the international organisations, as well as for decisions on the allocation of funding. MOPAN thus provides the basis for targeted reform policies within these organisations.

FURTHER INFORMATION: www.mopanonline.org
THE CHALLENGE

Well-functioning health systems are essential to improve conditions for the poor. In recognition of its key role, investments in this sector have tripled over the last 10 years. More and more donors are committing to this sector: notable examples of important new actors are the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) and the GAVI Alliance (formerly the Global Alliance for Vaccines and Immunisation – GAVI). Coordinating all these new donors and integrating them into countries’ health strategies requires new conceptual approaches by partners and donors alike.

THE SOLUTION: AN INNOVATIVE APPROACH – THE INTERNATIONAL HEALTH PARTNERSHIP (IHP+)

As a response to this situation, the United Kingdom, Norway and Germany launched the International Health Partnership (IHP+) in September 2007. This initiative, which supports the attainment of the health-related Millennium Development Goals (MDGs), aims to improve the way in which donors, developing country partners and international agencies work together to deliver on health. The unique feature of IHP+ is the equal representation of all three partner groups. It also involves selected representatives of civil society at management and working level.

IHP+ MEMBER COUNTRIES

As at May 2011, Chad, El Salvador and Sudan have joined the initiative since then.

→ http://www.internationalhealthpartnership.net/en/partners
IHP+ currently has 52 members, comprising 13 bilateral donors (known as development partners), 27 partner countries and 12 international organisations working on health, including the World Health Organization (WHO), the World Bank, the United Nations Population Fund (UNFPA), and the private Bill & Melinda Gates Foundation. The involvement of this Foundation attests to the success of efforts to encourage major private bodies to commit to the IHP+. Organisations without established office structures in the partner countries, such as the GFATM, are also involved in consultations at the local level through IHP+.

**THE IHP+: PRINCIPLES AND PRACTICE**

A stakeholder agreement, known as the IHP+ Global Compact, forms the basis for the programme. It provides a set of principles and actions to which all partners must commit. IHP+ members pledge to work together efficiently, for example through improved consultation processes and division of labour, and to involve all the major initiatives of relevance to health. Coordination of country-level processes is also to be improved while building on the existing national systems in the health sector. Cooperation among the partners at the country level is governed by Country Compacts which are aligned with national health plans, policies and budgets. The members also cooperate on the development of new instruments.

**THE JOINT ASSESSMENT OF NATIONAL STRATEGIES (JANS) AND ITS IMPACTS**

JANS is a new instrument devised by the IHP+ in 2008/2009. It involves developing countries and their partners, civil society and other stakeholders in a shared approach to assess the strengths and weaknesses of national strategies. It is a key element of the IHP+ and determines its approach. A team comprising experts from the country concerned and other independent experts assesses the partner country’s national strategy and evaluates its quality, relevance and feasibility. JANS thus provides a good basis for decisions on funding contributions from the various development partners. Ideally, it should mean that there is no longer a need for a large number of audit visits by individual donors, which take up a great deal of time and are a drain on partners’ resources.

To date, five countries have completed formal joint assessments. Non-members of IHP+ are also utilising the mechanism to support the development of their health strategies. As JANS is still in its pilot phase, it is too early for a conclusive assessment of its usefulness, but experts are confident that JANS offers substantial potential to make health project planning and implementation more effective in future. However, the preparation of reports under the JANS procedure involves additional coordination, and this extra effort is only worthwhile if the procedure is used as the basis for future decision-making. It is also important to ensure that all the key donors implement their projects within the framework of the national health plan.

**GERMANY’S COMMITMENT**

Germany is currently involved in IHP+ processes in Nepal, Cambodia, Kenya, Viet Nam, Rwanda, Pakistan and Cameroon. On the basis of the JANS, for example, a Joint Financing Agreement was signed in Nepal by the Nepalese government and seven development partners. At the international level, BMZ is a regular participant in the global steering group. At HLF 4 in Busan, Germany will be calling for the continuation of the IHP+ to 2015 and will strive to encourage other stakeholders to join the initiative by persuading them of the shared usefulness of the JANS approach.
Involving New Donors – The Benefits of South-South Cooperation

**THE CHALLENGE**

For the past 10 years, South-South trade has been growing at a much faster rate than trade between industrialised nations and emerging economies/developing countries (North-South trade). There has also been an upsurge in other forms of South-South cooperation. South-South development cooperation (SSDC) has become more intensive at the same time, accounting for a growing share of global development activities. These “new” donors – many of whom have been engaged in South-South development cooperation for several decades – define their role in different terms compared with the Western countries. They are far more likely to see cooperation as an expression of South-South solidarity, albeit combined with other interests, such as trade and security issues. A precise definition of South-South cooperation does not exist. This makes it difficult to distinguish between development partnerships and those which are purely economic in nature.

**THE BENEFITS OF SOUTH-SOUTH COOPERATION**

Nonetheless, this growth in South-South cooperation is welcomed by donor and partner countries alike. The Accra Agenda for Action (2008) identifies the potential of South-South cooperation to make aid more effective. From a German perspective, too, it offers new opportunities for development cooperation. The benefits are obvious: the cooperation between countries of the Global South and their neighbours is particularly intensive, this cooperation being facilitated by their geographical and cultural proximity. Often, donors and beneficiaries speak the same language and have a good understanding of regional frameworks and political sensitivities. Their technical solutions, methods and work processes also tend to be similar and can therefore be adapted more quickly.

For example, Brazilian researchers monitoring logging activities in the Amazon forest have been sharing their know-how with neighbouring countries for many years. The proximity of these countries facilitates intensive and, above all, rapid exchange. Accessing the expertise and technologies developed within the region is also far more cost-effective. South-South cooperation has another advantage as well: this form of cooperation meets with a much higher level of acceptance than traditional North-South relations.

**SOUTH-SOUTH AND TRIANGULAR COOPERATION**

These advantages can be combined with the experience and benefits of “classic” forms of development cooperation. From a German perspective, “joining up” North-South and South-South cooperation in a “triangular” relationship is becoming especially important. These triangular relationships facilitate shared
learning and the exchange of know-how, build bridges between stakeholders, and facilitate a partnership on equal terms.

Germany has an interest in working with various emerging economies as a means of contributing to increased financial and human resource mobilisation for development for the benefit of third countries. Suitable partners for this process are, for example, emerging economies which themselves benefited from external assistance for some time. The partner country can thus share its positive experience and best practice with other countries in a straightforward, cost-effective and convincing manner. The new donor, in turn, gains experience with development principles such as ownership, alignment, harmonisation and accountability. In practice, however, the impetus for triangular cooperation can come from any of the three participating countries: the less developed country, the emerging economy or the industrialised nation such as Germany.

Germany, after Japan, is the second largest “traditional” donor engaged in triangular cooperation. In parallel to this instrument, Germany also supports South-South cooperation. For example, the German government provides support for South-South exchange among regional organisations in the Global South, such as the Amazon Cooperation Treaty Organization (ACTO), the Association of Southeast Asian Nations (ASEAN) and the Central African Forest Commission (COMIFAC). It also supports thematic dialogue and horizontal learning networks in the Global South, such as the Alliance for Financial Inclusion (AFI) and the Managing Global Governance (MGG) programme (Boxes).

**Examples of triangular cooperation involving Germany**

- Germany is engaged in a triangular cooperation initiative with Brazil, in which Germany and Brazil contribute to institutional development for quality management in Mozambique.
- An initiative involving Mexico focuses on the replication and adaptation of successful bilateral experiences in German-Mexican development cooperation in the environmental management sector for countries such as the Dominican Republic, Ecuador and Guatemala.
- In Chile, successful approaches adopted in bilateral cooperation with Germany were replicated in third countries (examples are consumer protection in El Salvador and social housing in Paraguay).
- Thai-German trilateral cooperation supports regional cross-border cooperation with Thailand’s neighbours (Lao People’s Democratic Republic, Cambodia, Viet Nam). The identified sectors of cooperation include vocational education and rural development.

**Managing Global Governance (MGG)**

This programme gives promising young professionals from government, research and political institutions in the Global South the opportunity to spend six months in Germany, where they undergo an advanced training programme focusing on global challenges, strategies and stakeholders. The programme enables participants to gain a better understanding of the complex political architecture in place at global level, form alliances and strategic networks, and intensify dialogue. It also aims to strengthen the capacities of young professionals to shape globalisation processes and engage in cooperation.

Germany and emerging economies utilise the MGG network, which consists of 60 participating institutions, as a forum for sharing advice, organising joint projects and workshops for the exchange of experience, and, increasingly, as a platform for knowledge exchange.
THE CHALLENGE

Knowledge means having the power to understand situations and facilitate change. However, individuals’ knowledge must be enhanced by organisations’ capacities and the opportunities for effective individual responsibility that society affords. This is the basic prerequisite for development. Countries and societies must develop and expand their capacities across all sectors (capacity development). However, many developing countries face a shortage of skilled labour and well-functioning governmental and civil society structures and regulations. They do not have enough schools, universities and hospitals. Public and private training, education and healthcare services are often inadequate, and there is a lack of awareness of effective methods by which to harness knowledge and experience and apply them to useful effect. The public authorities’ performance is poor, associations do not fulfil their proper functions, and basic principles of governance exist only on paper.

THE SOLUTION – STRENGTHENING COUNTRY OWNERSHIP

Development cooperation does not just mean financing development actions and infrastructure, deploying advisors or delivering training courses. Successful emerging economies which have achieved development progress have invested for decades in education and in building well-functioning institutions and processes. Germany therefore provides continuous support for capacity development in the partner countries, focusing not just on individuals but also covering the collective capacities of organisations, enterprises and society as a whole.

If a country wishes to develop its capacities, it must pursue this process on a broad basis and also involve civil society. It is important to include all forms of capacity – technical, functional, normative, and social. For capacity development to be effective, the partner countries must create the right conditions for this process. Development cooperation is most successful when partners and donors are equally committed to capacity development.

Malawi – successful reforms improve health

In Malawi’s rural regions, the health sector has very limited capacities. It faces a severe shortage of skilled workers, inadequate equipment and drugs in health facilities, and inefficient management of health services. There is an urgent need for health sector reform and better training for health workers.

Working closely with the Government of Malawi and other donors, German development cooperation is therefore investing in basic and advanced professional training and providing advisory services to various tiers of administration. The success or failure
of efforts to improve healthcare is determined by the extent to which human and material resources are managed efficiently. Frequent redeployments of staff, outmigration and a shortage of drugs make it very difficult to provide a reliable system of basic healthcare in rural regions.

The investment in capacity development is paying off. Today, 74 per cent of all health facilities are able to provide basic healthcare, compared with just 15 per cent in 2006. Numerous health centres now hold a stock of essential drugs. The number of children being immunised against measles during the first year of life has increased by 8 per cent to 88 per cent. The number of births attended by skilled health personnel has also increased: from 38 per cent to 58 per cent of all births.

Ecuador – new markets for smallholder farmers

58 per cent of Ecuador’s rural population lives in poverty. One obstacle standing in the way of increased income generation is that the quality and production volumes of agricultural goods do not meet the requirements of customers in the domestic and international markets.

German development cooperation is opening up access to new markets for these farmers by investing in capacity development along the entire value chain. Smallholder farmers are learning to grow and process cacao, coffee, fruit, milk and timber profitably and in compliance with environmental standards. However, it is not enough to focus solely on one particular aspect. The capacities and expertise of cooperatives, national enterprises, associations and government agencies also need to be improved, with a focus not only on building technical product knowledge but also on optimising processes, reforming legal frameworks, and introducing more efficient techniques.

The results are very promising. The government support focuses on compliance with international sustainability rules, greatly benefiting the smallholder farmers. Around 20,000 rural families are achieving income increases averaging around 25 per cent. The business community is involved in 40 partnerships and is contributing 2.5 million euros to the support measures.

India – health insurance for the poorest of the poor

Poor Indians cannot simply visit the doctor or a health clinic. These services are not yet available across the board, and in those facilities which do exist, the treatment is expensive and therefore out of reach of the poor. Health insurance is also unaffordable for the poor.

In order to enable the poorest groups in Indian society to access healthcare services, a scheme has been established to provide them with health insurance, with municipalities and central government covering their contributions. Upon enrolment, families are issued with a smart card. As the first step, appropriate administrative structures are being established, with government agencies, private insurers, health service providers, aid organisations, donors and civil society all working together closely in an intensive learning process which is supported by German development cooperation. New technology is being introduced and adapted to the public’s needs, and training is being provided for users. This increases trust and confidence among all stakeholders.

This broad-scale participation by all stakeholders is bearing fruit: so far, around 70 million people have enrolled in the scheme, which now has more than 6,000 participating hospitals, and more than 850,000 additional treatments have been carried out.
Business – a Driver of Development

THE CHALLENGE

Social welfare depends first and foremost on a prosperous economy. Coupled with good governance, an economic upturn can make a major contribution to reducing poverty and hunger, as developments in Brazil, China, Ghana, India, Indonesia and Viet Nam show. However, the political and institutional parameters in many partner countries of German development cooperation hamper investment and entrepreneurial initiative. The regulatory frameworks are not conducive to economic activity; know-how, skilled workers and infrastructure are in short supply; and access to financial services is poor.

THE SOLUTION – PRIVATE SECTOR ENGAGEMENT

International development must become more receptive to private sector concepts and mechanisms. It must learn from them and utilise them in order to achieve sustainable development results. Effective measures to reduce poverty must help to create economic momentum and encourage entrepreneurial initiative in the partner countries. German development cooperation therefore aims to improve the business and investment climate and the competitiveness of local economies in partner countries. To that end, it supports the dialogue between the private sector and government, improves access to financial services, and promotes corporate social responsibility and inclusive business models, for example. Given that 2015 is the target year for the attainment of the Millennium Development Goals, it is becoming apparent that official development assistance alone cannot achieve these goals. More intensive private sector engagement is required. German development cooperation is therefore entering into partnerships with the private sector and, with the aid of innovative financing mechanisms, is leveraging private funding for development.

At HLF 4, it is important to progress these efforts and agree a set of principles for more effective partnerships with the private sector. The German government intends to scale up local and international private sector involvement in development initiatives and work with the private sector to improve the parameters for entrepreneurial engagement in the partner countries. This will help to reduce the developing countries’ long-term financing needs, as growth in the formal sector is the only way to increase revenues from taxes and contributions.

Southeast Europe – European Fund promotes investment

Private individuals and small and medium-sized enterprises (SMEs) in Southeast Europe generally find it extremely difficult to access long-term credit. The funds are simply not available. There is private capital in the international capital markets, but it is rarely invested in Southeast Europe: the perceived high level of risk acts as a deterrent. In order to address this situation, a number of donor countries and development banks have set up the European Fund for Southeast Europe (EFSE). The Fund operates...
through intermediaries, providing loans through local banks and partner institutions. EFSE's investment structure allows it to be replenished with funds from various donor agencies as well as by private investors. To encourage an inflow of private capital, EFSE utilises a tiered risk-sharing structure, with the first-loss tranche consisting of the public funds provided by donor agencies. EFSE has served approximately 270,000 borrowers – a quarter of them private households – with a total amount of €760 million. This investment has created 280,000 new jobs.

**West Africa – Cotton made in Africa**

More than 20 million people in West Africa depend on cotton cultivation for their livelihood. Due to falling prices on the world market, however, many African smallholder farmers can no longer operate competitively. As a result, their incomes are decreasing, cotton growing is become unprofitable, and farmland is being turned over to extensive agriculture. Cotton made in Africa (CmiA), an initiative of the Aid for Trade Foundation, was launched in 2005 in response to this situation. Its founders include international companies such as the Otto Group and REWE, African cotton producers and German development agencies. The initiative aims to introduce environmental and social standards into cotton growing and assists smallholder farmers to achieve higher incomes – not with higher cotton prices but by training farmers to use improved cultivation techniques. CmiA also supports education and health projects. Around 140,000 smallholder farmers now benefit from the initiative and have increased their yields by as much as 40 per cent per hectare. Another plus point is that farmers no longer have to wait months for payment, but receive their money straight away. The initiative places strong emphasis on reducing the use of pesticides, which brings cotton cultivation into compliance with environmental standards, improves soil fertility in the cotton fields and improves workers’ health. Participating companies are thus supplied with high-quality cotton and can advertise their products using the ‘Cotton made in Africa’ logo.
THE CHALLENGE

Developing countries receive much more support nowadays than 10 years ago, and this support is also more diverse. Donor countries are increasingly disbursing their development resources via special funds for specific sectors and thematic priorities, such as HIV/AIDS, instead of providing them through one channel. Furthermore, new donor countries have entered the frame and in some cases have developed new forms of cooperation: China and Brazil are just two examples. The number of foundations, companies and non-governmental organisations (NGOs) involved in development activities is also steadily increasing. While this trend is generally positive, it also has a downside: more donor organisations and their concentration in countries and sectors which are perceived to be particularly attractive, combined with increasingly complex forms of cooperation, are creating new opportunities but can sometimes lead to administrative overstretch in the developing countries. Instead of channelling their energies into implementing their development strategies, the administrations in the partner countries have to invest considerable effort in achieving compliance with donors’ requirements. Coordinating development cooperation thus entails a far greater effort on the part of partners and donors alike. Developing countries with weak governance structures may be overwhelmed by these management and organisational tasks, resulting in a decrease in aid effectiveness.

THE SOLUTION – DIVISION OF LABOUR: LESS IS MORE

The aim is to reduce the administrative burden associated with donor contributions on the partners’ side and achieve more impact. Division of labour is one way to achieve this. The EU is setting a good example: under the German EU Council Presidency in 2007, it adopted an EU Code of Conduct on Complementarity and Division of Labour in Development Policy. Complementarity means that instead of conflicting with each other, the various policies and actions of the member states enhance each other within a coherent overall framework. The Code sets out 11 Guiding Principles which aim to achieve coherence of development actions, identify responsibilities and expedite procedures. In future, EU donors will aim to focus their active involvement in a partner country on a maximum of three sectors. Malawi is a good example: here, Germany has agreed to concentrate on the areas of basic education, health and decentralisation. Furthermore, rather than engaging in development cooperation with all the developing countries, the German government focuses its development activities on just 50 of these countries. Numerous promising new approaches have now been initiated worldwide. Implementing division of labour is still at an early stage, but offers substantial potential.
**Rwanda – a self-confident partner organises donor actions**

Thanks to its rigorous reform policies, conditions for successful development cooperation with Rwanda have greatly improved over the last 15 years, making Rwanda far more attractive to public and private donors. However, the interest from donors was beginning to overstretch the country’s still weak governance structures.

The Rwanda government has therefore sought to introduce more systematic donor division of labour in recent years. Starting in 2009, this African country has undertaken a comparative analysis and evaluation of donors’ various aid modalities and encouraged donors to assess their own comparative advantage, both individually and on a mutual basis. Based on the findings, the Rwandan government then developed a plan to maximise donor division of labour, which has been endorsed by the 15 main donors and 16 UN organisations. This is already achieving some positive impacts, notably in the ‘overcrowded’ health sector. At Rwanda’s request, for example, Germany is ending its involvement in the health sector and, instead, is investing more in vocational training and decentralisation.

**South Sudan – EU joint programming supports new start**

South Sudan only recently gained its independence, becoming the world’s youngest country in July 2011. Many years of civil war have left South Sudan with only limited governance and administrative capacities. In order to ensure that the country’s fragile governance structures are not paralysed by a sudden and uncoordinated influx of assistance from public and private donors and development agencies, the European Commission and the EU member states have decided to operate as a single donor in South Sudan.

Development cooperation between the EU and South Sudan is being coordinated within the framework of EU joint programming and is aligned with the Development Plan 2011–2013 adopted by the Government of South Sudan (GoSS). An EU country strategy for development cooperation with the Republic of South Sudan, to be finalised by the end of 2011, will define the contributions from the EU member states and the European Commission, based on the greatest possible division of labour. German support focuses primarily on administrative reform, decentralisation and the urban water supply.

South Sudan is a good example of the particular challenges and responsibilities facing governments and public and private development partners in fragile and post-conflict countries.

**Division of labour among the development banks – the Mutual Reliance Initiative**

The EU Code of Conduct on more division of labour and cooperation make good sense, but its practical implementation is not quite so straightforward. This is largely due to the sometimes substantial variations in the development agencies’ roles, structures and working methods. This applies to the development banks as well.

The Mutual Reliance Initiative (MRI) is an attempt to identify pragmatic and effective solutions. Rather than making laborious efforts to harmonise their different procedures, France’s Agence Française de Développement (AFD), the European Investment Bank (EIB) and Germany’s KfW Entwicklungsbank (KfW) are pursuing a different approach.

In the co-financing of development projects, one of these three financing institutions assumes responsibility as lead financier, and project implementation tasks are delegated to it, based on minimum standards previously established by all three banks. This offers great advantages for the partner countries, which now only have to deal with one single bank and achieve compliance with one set of criteria, not three. This reduces transaction costs and speeds up the project implementation process.

This approach brings benefits for donors and banks as well. The intensive discussion processes have substantially increased transparency and mutual trust. Besides facilitating coordination and division of labour, this also greatly enhances the development policy quality of projects and programmes.
Managing for Results – Achieving and Measuring Impacts

THE CHALLENGE

Development cooperation does not always create the right incentives. Subsidies and concessionary loans are provided and projects and programmes devised and agreed with the aim of addressing challenges and identifying solutions to specific problems. But how much progress is a country making along the development pathway, and is development cooperation with that country successful or not? Which actions are achieving good results, and why? And are donors’ contributions being channelled into the right programmes? Accounting for results is not a straightforward process for partners or donors. There is often a lack of reliable statistical data and robust monitoring and evaluation (M&E) systems, as well as a lack of incentive to utilise statistical data or M&E results as the basis for decision-making.

THE SOLUTION – MANAGING FOR RESULTS

“Managing for results” is a key prerequisite for improving the living standards of the poor with only limited resources. So how can the partner countries’ policies and programmes and donor support be focused more strongly on effectiveness and results? This question will once again be at the top of the agenda at HLF 4 in Busan. The key issue, in this context, is to what extent international donors can make greater use of partner countries’ management systems and strengthen relevant partner country institutions. The weaknesses of the current M&E approaches must also be addressed. These are often geared too strongly towards measuring input (e.g. project funds) and output (e.g. number of trainers trained), rather than quantifying the impacts achieved (e.g. improved job prospects and hence higher incomes).

Brazil – Amazon Fund to protect the forest and climate

The continued high level of deforestation in the Amazon destroys biodiversity, causes social conflicts and produces substantial greenhouse gas emissions. The Brazilian government has therefore set itself the goal of reducing the rate of Amazon deforestation by 80 per cent by 2020. As one of the measures adopted to achieve this target, it has established the Amazon
Fund, which aims to protect the Amazon rainforest and help combat climate change. The Fund is currently the world’s foremost financial compensation mechanism for deforestation avoided under REDD (Reducing Emissions from Deforestation and Forest Degradation). Performance on avoiding deforestation and thus reducing emissions is measured using internationally recognised monitoring methods. After reaching record levels in 2004, Amazon deforestation decreased up to 2010. The Amazon Fund has thus received initial compensation payments.

The Fund uses the resources to finance activities aimed at strengthening systems to monitor and control deforestation, clarify property rights and promote the sustainable management of natural resources and reforestation by local communities. To date, 17 projects have been approved, with a total funding volume of almost 100 million euros. The Fund is managed by the Brazilian Development Bank (BNDES). With long-term commitments to the fund since 2010, Germany has contributed substantial resources and management consultancy, hoping to encourage other donors to follow suit. The advisory services provided by Germany for the establishment of an impact monitoring system are a key element of technical cooperation with the Amazon Fund. This is a new experience for this institution, and is contributing to impact verification and more effective future projects.

Zambia – monitoring facilitates more accurate planning

Despite the growth being achieved in the Zambian economy, this is failing to deliver benefits to large sections of the population. The Zambian government is therefore stepping up its investment in poverty reduction. To ensure that its limited resources are deployed effectively, better linkage is required between planning and budget processes and the data obtained from M&E systems. Furthermore, Zambia lacks systems for socioeconomic project assessment based on data collected from previous projects and analyses. German development cooperation is therefore providing support to the relevant departments in the Ministry of Finance and National Planning, the aim being to improve the relevant planning and budget processes, facilitate the collection of more reliable data, and produce analyses to support the decision-making process. Germany is also advising the Zambian government on the development of indicators to monitor the impact of its poverty reduction programmes and improve the quality of the information passed on to Parliament and civil society. Germany is also providing budget support.

Zambia has now introduced M&E methodologies in all sectors. The data are generated at all tiers of governance and are collated at the national level. The publication of budget data has increased budget discipline. Zambia is also taking greater account of the linkages and feedback between budget and planning processes.

Bangladesh – data make all the difference

Bangladesh is making substantial progress on health care. Child mortality and maternal mortality are decreasing, and the birth rate is falling. More people are being immunised. On the other hand, the monitoring capacities of the Ministry of Health and Family Welfare are limited, with health sector monitoring being insufficiently results-oriented. Ministerial employees often lack access to robust and verifiable data about the results of their programmes, which are essential for responsible policy- and decision-making. German development cooperation is therefore assisting the Ministry’s Monitoring and Evaluation (M&E) Unit to set up a data management information system (DMIS). Eight million datasets have already been entered into the system.

Thanks to the DMIS, the data basis has improved, greatly enhancing evidence-based and effective policy- and decision-making. Epidemiological data, for example, provide the basis for more targeted regional distribution of pharmaceutical products. The Ministry’s long-term aim is to establish even more reliable, informative and comprehensive databases. The project forms part of a large-scale sector programme launched by the government of Bangladesh in conjunction with numerous donors. The international donor support also includes additional performance-based payments to Bangladesh for achieving compliance with specific health indicators.
Effective Development Cooperation: A Contribution to Sustainable Development Results

**THE CHALLENGE**

Development cooperation must become more effective. However, the international debate about this topic, conducted within the framework of the aid effectiveness agenda, has so far focused mainly on the design and delivery of aid. But no matter how effective it is, development cooperation – i.e. external support for the partner countries – is only one of many factors influencing a country’s development. Democracy, economic growth and environmental sustainability all play an important role and depend on dimensions which development cooperation can only influence to a limited extent. Furthermore, in almost all the partner countries, new sources of funding and forms of cooperation have gained in significance in recent years, such as the assistance provided by “new” donors (e.g. China), foreign direct investment, trade revenues or migrants’ remittances. In order to achieve lasting improvements in the general public’s living conditions, development cooperation must be mainstreamed in national policies and take account of these diverse forms of cooperation and potential sources of funding.

**THE SOLUTION – FOCUS ON SUSTAINABLE DEVELOPMENT**

In order to improve aid effectiveness, it is necessary to consider its contribution to development effectiveness, alongside other relevant factors. A precise definition of development effectiveness does not yet exist. Development cooperation should have more of a catalysing effect and should focus on those key sectors in which it can initiate, facilitate and expedite structural reforms and processes. However, this is not possible without partner country ownership. Crucial factors here include the establishment of democratic structures by strengthening the role of parliaments, and the promotion of civil society participation. The welfare of ordinary citizens stands and falls, however, with a country’s economic development. Framework legislation and guidelines must be formulated in such a way that they strengthen enterprises and encourage investment, and thus facilitate the utilisation of a country’s full potential. Innovative financing instruments, which leverage public and private financing to enable the partner countries to achieve their development goals, also have a key role to play here.

**Montenegro – financial control improves the use of financial resources**

In Montenegro, public funds are often not deployed efficiently and in compliance with the law. This jeopardises financial stability and creates mistrust between citizens and the state. Public spending must therefore be monitored more closely – by Parliament and an independent audit institution, similar to Germany’s Federal Audit Office. Germany is supporting this process. With expertise from Germany, Montenegro’s parliamentarians formulated and adopted a new law on independent financial control, which entered into force in 2004. Germany has provided support for the new audit institution since the same year. The audit institution has already carried out 39 audits, revealing and putting an end to numerous irregularities. Parliament’s performance in exercising its control functions has also improved. The audit institution’s reports are published on the Internet, which increases public trust and confidence.
Ghana – Reforms boost tax revenue

Ghana’s tax revenues are inadequate, partly because it does not utilise its tax potential to the full. In order to modernise Ghana’s tax policy and help to make its budget process more efficient and transparent, Germany is supporting Ghana’s integration of its tax authorities, which have so far operated independently of each other, and its efforts to form a single unified tax administration. The newly established Tax Policy Unit has framed various items of legislation which have already helped to boost tax revenues, for example by increasing royalties from gold mining. The tax ratio is steadily increasing and more taxpayers have been registered. Transparency and accountability in public finances have also increased as a result of Germany’s assistance to Ghana’s audit institution.

Southeast Europe – Fund promotes energy efficiency and renewable energies

The substantial potential for energy efficiency and renewable energies in Southeast Europe is currently going untapped. In order to address this situation, the Green for Growth Fund, Southeast Europe (GGF) was established by the European Investment Bank (EIB) and KfW Entwicklungsbank in 2009, with support from BMZ and the European Commission. It is the first structured energy efficiency and renewable energy fund in the region. Local banks provide low-interest loans from the Fund to municipalities, businesses and households to invest in energy efficiency measures or renewable energy projects. The Fund has an innovative structure: the public funds are the first tranche to absorb any losses, providing a risk cushion that enables private investors to participate in the Fund and also making it a more attractive investment prospect. With 50 million euros of public funding, an additional 100 million euros have already been leveraged for the Fund from international financial institutions, with the prospect of a further 250 million euros being generated over the long term to fund many more projects. The CO₂ emissions reduction potential is at least 20 per cent.

Blending – an innovative funding instrument from the EU

There is a shortfall in the funds needed for major investment to combat poverty and address global challenges such as climate change. Donors and partners have limited financial capacities, while private investors generally regard the risks as too high. New financing instruments are therefore required. The EU leads the way here with its blending facilities. These are based on a smart combination of grants and loans from EU budgets, capital from the development banks, and partner countries’ own contributions, generating massive financial leverage. To date, a total of 520 million euros from the EU budget has leveraged 10 billion euros for low-interest loans from development banks. This approach substantially increases the resources available to our partner countries to implement their development projects and programmes. For example, the facility has enabled Namibia to expand its use of renewable energies. But it is not just about funding: the know-how available from the development banks is also pooled and utilised to better effect through a division of labour. In this way, aid is aligned more strongly to partners’ needs, with better coordination and greater efficiency.
Better Development Results: Rome – Paris – Accra – Busan

"More money does not necessarily mean more development! It depends on how the resources are used. We want to measure our performance in terms of the quality and results of cooperation. To that end, we are stepping up our efforts to improve our aid effectiveness. This is a shared task within the development partnership, and donor countries also have a key role to play here."

— State Secretary Hans-Jürgen Beerfleitz during the general debate at the Fourth United Nations Conference on the Least Developed Countries (LDC-IV), Istanbul, May 2011

The Fourth High Level Forum on Aid Effectiveness (High Level Forum / HLF 4) will take place in Busan in the Republic of Korea from 29 November to 1 December 2011. The High Level Forum is one of the most important events on this year’s international development policy calendar. Representatives of governments, national and international development agencies, civil society organisations and the private sector will come together to discuss how the effectiveness and efficiency of development cooperation can be enhanced.

This brochure offers an overview of the debate about the aid effectiveness agenda currently under way at the international level and outlines Germany’s priorities for Busan. The individual topic sheets identify the challenges, describe potential solutions and provide numerous practical examples of the progress already achieved. They provide merely a snapshot of the relevant debates.

At the Second High Level Forum on Aid Effectiveness (HLF 2) in March 2005, politicians from developing, emerging and industrialised countries adopted the Paris Declaration on Aid Effectiveness, setting out five core principles as the basis for making aid more effective. The Paris Declaration is born out of decades of experience and is intended to support the attainment of the Millennium Development Goals (MDGs).

### The effectiveness agenda: timeline

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### The Paris Declaration: the five principles

1. **Ownership** (partner countries)
   - partners determine the agenda

2. **Alignment** (donor-partner)
   - alignment with partners’ agenda
   - use of partners’ systems

3. **Harmonisation** (donor-donor)
   - joint measures
   - simplification of processes
   - information exchange

4. Managing for results

5. Mutual Accountability
**Principle 1: Ownership**
Partner countries exercise effective leadership over their development policies and strategies and coordinate development actions.

**Principle 2: Alignment**
Donors base their overall support on partner countries’ national development strategies, institutions and procedures.

**Principle 3: Harmonisation**
Donors’ actions are more harmonised, transparent and collectively effective.

**Principle 4: Managing for Results**
Developing countries and donors focus on producing and measuring results.

**Principle 5: Mutual Accountability**
Donors and partners are accountable for development results.

Three years later, HLF 3 adopted the Accra Agenda for Action, which enhances the five Paris principles by identifying key factors for accelerating and deepening implementation of aid effectiveness. They include respect for human rights, gender equality, environmental sustainability and good governance. The Accra Agenda for Action also addresses the particular challenges arising in development activities in fragile states.

The Accra Agenda for Action sets the following priorities for the aid effectiveness agenda:

- Strengthening country ownership of development, also engaging with civil society and the private sector.
- Strengthening and using partner countries’ systems to a greater extent.
- Improving the division of labour among donors within partner countries and at international level.
- Improving the predictability of aid flows.
- Donors and partner countries firmly commit to greater transparency and mutual accountability.

The Paris Declaration and the Accra Agenda for Action are key documents driving the global reform of development cooperation. Both these documents have already served as the catalyst for the dynamic reform and restructuring processes undertaken by many of the donors organised within the OECD Development Assistance Committee (DAC), whose implementation is also subject to intensive scrutiny within the framework of the DAC peer reviews.

**WHERE ARE WE TODAY?**

Since 2005, numerous processes have been initiated at international level – mainly within the DAC framework and in the Working Party on Aid Effectiveness, which monitors progress on the effectiveness agenda – to implement the commitments arising under the Paris Declaration and the Accra Agenda for Action. Achieving verifiable progress at country level is essential in this context. Implementation of the effectiveness agenda is therefore monitored in two phases: firstly, by means of quantitative monitoring against the 12 Indicators of Progress defined in the Paris Declaration, and secondly, through qualitative broad-based evaluation of the effectiveness and impacts of reforms initiated by the Paris Declaration (Topic Sheet “Increasing Effectiveness through Transparency and Evidence: Monitoring and Evaluation of the Paris Declaration”).
At European level, the European Commission is moving forward with the coordination of European development cooperation. In 2007, the EU adopted a Code of Conduct which commits the EU member states to enhance the division of labour in development cooperation. After HLF 3 in Accra, the EU adopted an Operational Framework in 2009, with the aim of further enhancing aid effectiveness. The European Commission’s aspiration to be a driving force in the coordination of European development cooperation is also reflected in the plans for joint programming of development activities in the partner countries (Topic Sheet “Division of Labour – Donor Complementarity”).

Germany has also signed the Paris Declaration. This has created new challenges for German development cooperation, both in terms of its strategic focus and its procedures and mechanisms, which must be aligned more closely with the requirements of the aid effectiveness agenda. In March 2009, the German Plan of Operations for Implementing the Paris Declaration of 2005 and the Accra Agenda for Action of 2008 to Increase Aid Effectiveness was therefore adopted to facilitate this process. Since then, German development cooperation has implemented reforms in a number of areas. Two of the most sweeping reforms are the merger of the three implementing organisations for technical cooperation, and the further concentration of German development cooperation on specific priority areas and partner countries (reduced from more than 120 partner countries in the late 1990s to 50 today). Overall, the Plan of Operations has initiated a number of measures leading to stronger alignment with partners’ priorities and increasing their ownership of development planning and financial management. At the same time, numerous activities have supported and enhanced the coordination and division of labour with other donors. Internal procedures have also been simplified.

At international level, Germany is actively engaged, not only within the OECD and EU frameworks but also in initiatives such as the International Health Partnership (Topic Sheet IHP+) and the Multilateral Organisation Performance Assessment Network (MOPAN), a network of bilateral donor countries with a common interest in regularly assessing the effectiveness of the major multilateral organisations they fund (Topic Sheet MOPAN).

In short, implementation of the Paris Declaration is well under way, both in Germany and at international level. The Federal Ministry for Economic Cooperation and Development (BMZ) intends to make an even greater contribution to progressing the aid effectiveness agenda in future and is therefore fully engaged in the process for HLF 4 in Busan.
**GERMANY’S ACTIVITIES IN PREPARATION FOR HLF 4 IN BUSAN**

From Germany’s perspective, HLF 4 in Busan is not only one of the most important events on this year’s international development policy calendar. At HLF 4, which will take place from 29 November to 1 December 2011 and will build on the three previous forums, representatives of partner and donor country governments, development organisations, civil society and the private sector will come together to review progress and discuss how to move the effectiveness agenda forward. As one of the key objectives of HLF 4, it is essential to start by reviewing progress on the implementation of the political commitments undertaken in the Paris Declaration (2005) and the Accra Agenda for Action (2008). Delegates must also decide how the aid effectiveness agenda can be aligned more strongly towards the attainment of the Millennium Development Goals (MDGs). In Busan, the task of increasing aid effectiveness must also be placed in the wider context of development effectiveness. The attainment of development goals depends on a variety of factors, with development cooperation playing a more or less important role according to context. Other policy fields, through their actions or omissions in Germany and the wider world, have a direct or indirect bearing on the achievability of development goals. The debate at Paris, Accra and Busan is therefore relevant to them as well (policy coherence). Development cooperation itself can deliver more effective results if reform efforts are undertaken, so it is essential to ensure that key development reforms continue until 2015 and contribute to the attainment of the MDGs. Furthermore, key stakeholders of relevance to the broader development agenda must be involved to a greater extent in the debate and implementation in the partner countries. They include, in particular, the “new donors”, civil society and the private sector (Topic sheets “Effective Development Cooperation: A Contribution to Sustainable Development Results” and “Involving New Donors”). Here, the international framework has altered dramatically over the past decade, partly due to the rise of the emerging economies. In particular, the Busan Declaration – the HLF 4 outcome document – is expected to generate fresh impetus and lead to further international agreements. In preparation for HLF 4, Germany is intensifying its engagement in the following three thematic areas:

**Results orientation:** A stronger focus on desired and attainable development results will be one of the key themes at HLF 4. Development projects and programmes must therefore focus more strongly on effectiveness from the planning stage onwards. To ensure that results can be measured at local level as well, it is also important to strengthen partner countries’ systems and capacities. Managing for results is intended to assist partners to exercise country ownership to a greater extent and take control of their own development processes (Topic Sheets “Managing for Results”).

**Division of labour:** More and more international donors are entering the arena; at the same time, the average size of projects and programmes is decreasing, which increases the burden on partner countries. This applies particularly to development cooperation with low-income countries and fragile states, whose governance structures rarely have the capacity to coordinate and implement a large number of projects. So in Busan, donor division of labour must be moved forward towards more complementarity (Topic Sheets “Division of Labour”).

**Private sector engagement in the developing countries:** Germany’s view is that enterprises and the private sector as a whole can make a substantial contribution to partner country development. The aim of this new type of partnership is to harness private sector know-how, entrepreneurial thinking and capital to a greater extent to increase development effectiveness (Topic Sheets “Business – A Driver of Development”).

In addition, Germany continues to invest considerable efforts in supporting partner country ownership in the broadest sense, starting with the development of these countries’ own capacities (capacity development) (Topic Sheets “Building Capacities”).
Aid effectiveness agenda

Development results  MDGs  Sustainable development

   Emphasis on achieving results

   Measuring impact

Division of labour  Diversity  Coordination

   Complementarity  New actors  Private sector

Ownership

   Democratic accountability

Capacity development  Country systems

South-South cooperation

International partnerships

   Innovative analytical tools

   Monitoring and evaluation

Transparency  Predictability


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Federal Minister for Economic Cooperation and Development

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State Secretary of the Federal Ministry for Economic Cooperation and Development