

Enhanced Aid Effectiveness:
Focusing German Development Cooperation on the
Millennium Development Goals
Implementing the Paris Declaration on Aid Effectiveness

220 - MDG Task Force

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Introductory Remark

Germany has made a commitment to orient its development policy to the *Millennium Declaration* and to contribute to achieving the *Millennium Development Goals (MDGs)*. The *High-Level Forum on Aid Effectiveness in Paris* in March 2005 confirmed that this commitment is inextricably linked to the endeavour of enhancing the effectiveness of development cooperation. This is a central ambition for German development cooperation for the next few years.

This BMZ-Spezial contains a summary of a *BMZ strategy paper* which points out why, and how, the instruments and procedures of German development policy are being developed further with a view to making as effective a contribution

as possible to the achievement of the MDGs and responding to the agreements contained in the Paris Declaration on Aid Effectiveness of March 2005, which were derived from that goal.

This BMZ-Spezial also contains a *BMZ Plan of Operation*, which translates the BMZ strategy paper and the 12 indicators of the Paris Declaration on Aid Effectiveness into concrete, obligatory and time-bound actions to be implemented in the German development cooperation system. The Plan of Operation will be updated annually and further refined over the medium term. It reflects Germany's firm commitment to actively help to make the international aid system work better.

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► Goals of German development cooperation – poverty reduction as an overarching task

The Millennium Declaration formulates the future challenges facing the international community in four fields of action for international cooperation: (1.) peace, security and disarmament, (2.) development and poverty eradication, (3.) protecting our common environment, and (4.) human rights, democracy and good governance.

The *MDGs* define, on a global scale, development results to be achieved by 2015 in the areas of poverty reduction and environmental protection. However, they make no statement about how to achieve them. The paths leading to these results may vary a great deal from one country to the next, in line with the specific situation on the ground. This means that the MDGs do not limit partners' and donors' programs to the areas explicitly mentioned in MDGs 1-7. Progress in the other areas of action covered by the Millennium Declaration is indispensable to achieving the goals. Without peace and security, without democracy and good governance, without gender equality, without reliable equal rights for all with a view to political participation and access to resources, infrastructure and public services, it will not be possible to achieve development that facilitates decent living conditions.

As early as in spring 2001, the German government was one of the first donors to publish a strategy for implementing the Millennium Declaration – its *Program of Action 2015* (AP 2015). It confirms that *poverty reduction is a cross-cutting task for all policy fields and an overarching task of German development policy.*

An „overarching task“ for German development policy means that as a matter of principle, all development activities should make a direct or indirect contribution towards poverty reduction in developing countries. Development activities in those areas of action of the Millennium Declaration that are not primarily related to sustainable development and poverty reduction and are legitimate areas in their own right (such as democratization, human rights, conflict prevention) should also help improve the general environment for sustainable poverty reduction.

The differing problems in the vast variety of countries where German bilateral development cooperation is active require differing approaches to implementing the MDG agenda: in our *cooperation with more advanced countries*, a particular focus is on shaping global structures, whereas cooperation with poor countries that have good governance concentrates very much on the implementation of strategies for poverty reduction and sustainable development. And in „difficult“ partner countries with weak government structures, there is often a need to first engage in long-term capacity building to put in place a basis for pro-poor policies.

In order to successfully implement the Millennium Declaration and the MDGs, German development cooperation refers to three principles for guidance (in addition to poverty reduction). They have also informed the international process of consensus building which has led to the adoption of the Millennium Declaration and of the MDGs as well as the Paris Declaration: *partnership / shared responsibility, results orientation*, and the *imperative of coherence*.

► Partnership / shared responsibility

Aligning development cooperation with partners' national poverty reduction strategies

The BMZ and its implementing agencies must *consistently align* the planning and implementation of their *support activities with partners' poverty reduction and sustainability strategies and policies*.

In many countries, *national poverty reduction strategies* are still characterized by marked deficits. The deficits do not only relate to quality in terms of substance but also to the drafting procedures and subsequent implementation. Above all, the strategies fail to thoroughly analyze structural causes of poverty, set clear priorities, specify activities and budget for them, provide for appropriate participation by parliaments and civil societies, and embed processes at the local level. This is why German development policy, together with other donors, provides special advisory services and assistance (wherever necessary and possible) to support *partner governments in drawing up policies*. These policies can then serve as a binding frame of reference for donors. The goal is to enable developing countries to take on their responsibility for policy development themselves. German development cooperation agencies have a vast range of experience on which to draw so as to advise partners on developing, implementing and monitoring their national strategies and to enhance quality both in terms of process and substance.

German support in the area of capacity development comprises mainly *training and advisory activities*, increasingly within the scope of joint capacity development programs. They address players in various areas and at various levels: from the central government, to regional, district and municipal authorities, to civil society organizations and private enterprises.

The *private sector* plays a decisive role for achieving the MDGs. It is the engine of the growth process, the momentum of which relies both on the inclusion of the productive

potential of the poor and on the development of modern, competitive enterprises. Creating income and jobs on a lasting basis, financing pro-poor government policies and reducing countries' dependence on aid is only possible on the basis of private sector-based growth. An essential issue in this regard is the design of national tax systems. German development cooperation will continuously expand its cooperation with the private sector, which it already stepped up a great deal in the past few years.

Cooperation with other donors

The partnership principle requires German development organizations to *redefine their role and modify the way they operate*. In future, German development cooperation will increasingly work with other donors as it plans and implements its activities, in other words, it will integrate even more into multilateral and bilateral cooperation.

German development policy strongly supports international efforts for a *division of labor and complementarity*, especially within the scope of the EU. This includes participating in joint financing efforts of various donors, delegating responsibility for implementation to another donor where that makes sense, but also increasingly taking on strategic/political tasks in sector programs and in multi-sector strategies.

A clear profile of German development cooperation is a fundamental prerequisite for positioning ourselves in the new international context. The *specific strengths of German development cooperation* can be identified based on its regional and country-specific activities, taking into account the scope, duration and experience of German development cooperation in a given partner country, as well as the priorities and interests of the partners and the strengths and interests of other donors. Comparative advantages must not only be viewed from a sector perspective. Instruments, methods and approaches must also be taken into account. For example, in many countries official German development cooperation is

characterized by participatory approaches and by links between the policy level and the implementation level (multi-level approach). In a number of countries, it is also characterized by cooperation with nongovernmental players.

Our efforts to integrate and to sharpen our profile in an efficient partnership force us to focus our activities. This is why we are continuing the process of *concentrating on fewer countries and choosing priority areas*. This also serves the purpose of strategically orienting German development cooperation to the Millennium Declaration and to the MDGs. However, we will retain a certain measure of flexibility in order to accommodate new political challenges.

► Results orientation / efficiency

In the context of the international efforts for enhanced effectiveness and efficiency of development cooperation, partners and donors must *gear* their policies, strategies and implementation activities consistently *towards development results*. This is also indispensable with a view to accountability. Moreover, all players must *optimize their procedures* in order to use available resources as efficiently as possible.

German development cooperation is ready to tackle these international challenges. It will refine its procedures accordingly and harmonize them with partner countries and with other donors. To this end, it must

- integrate the MDGs and the prerequisites for their achievement (such as human rights and good governance) into its goals and planning procedures, and
- gear its procedures and instruments for planning, implementation, monitoring and evaluation, and reporting consistently towards development results.

Goals and planning procedures

In 2004, the BMZ introduced a management by objectives (MBO) process. It constitutes

the Ministry's central management tool for making headway on innovations and translating changed priorities into practice. This is why the commitments and activities arising from the Millennium Declaration, from the MDGs and from important international agreements, especially from the Paris Declaration on Aid Effectiveness, are being incorporated into the MBO process.

New *policy and strategy papers* must include substantive links to the MDGs. *Country strategies* and *priority area strategy papers* must be derived from national poverty reduction policies and strategies and must describe the chains of cause and effect through which German development cooperation will contribute towards the achievement of the MDGs.

A special challenge arises from the fact that bilateral contributions must increasingly be aligned with partners' planning and budget cycles, rather than vice versa. Thus, program commitments and multi-year commitments will be playing an increasing role. The planning and appraisal procedures of German development cooperation will be oriented to a greater degree to the joint program-formation and evaluation processes in the cooperation countries.

Instruments for analyzing development results

Monitoring the MDGs is the task of national governments and multilateral organizations. One important task of development cooperation is to *support partner countries as they develop, or expand, statistical capacity and monitoring systems*. This also means that analyses of development results must be designed in a participatory manner. Responsibility must increasingly pass on to the partners, not only with regard to planning but also with regard to assessing donor contributions.

While indicators have been established to measure MDG achievement, the international debate and the experience of German development cooperation have shown that the indicators are only partly satisfactory as regards their

informative value and measurability (not least in view of data availability). This means that they must be made more precise so they can really function as a yardstick for global poverty reduction. The first contributions towards *improving indicators and MDG monitoring* have already been drawn up. The implementing agencies should share their expertise in further areas, thus contributing towards optimizing the international frame of reference for poverty reduction through a joint effort of partners and donors.

All implementing organizations in the German development cooperation system have now put in place a basis for assessing the development results of their activities. This basis must be developed further with a view to the MDGs and to the international commitments on partnership, harmonization and results orientation.

The BMZ, the implementing agencies and external advisors are currently drawing up a practicable model for MDG-oriented results analysis in German development cooperation. Simultaneously, players seek to harmonize the German system for results analysis, so as to adapt it to new international challenges and to facilitate *coordinated monitoring and summary reporting*.

► Coherence / MDG 8

With its Program of Action 2015, the German government has underlined its determination to work across ministries to achieve change that is conducive to development. The Program thus constitutes a vital resource that can be referred to when calling on other ministries to pursue coherent policies.

At the international level, the German government will continue to be a strong advocate for the realization of the goals of a global development partnership mentioned in MDG 8 – Doha round, higher and improved ODA, complemented by innovative financing instru-

ments and action to ensure debt sustainability. In the area of trade, the BMZ has been calling for the elimination of industrialized countries' market-distorting subsidies, for instance in the case of cotton production. The BMZ supports the incorporation of the development goals of the Cotonou Agreement into the economic partnership agreements between the EU and ACP states, with a view to fostering the smooth, gradual integration of ACP countries into the world economy, thus creating a basis for sustainable development and poverty reduction supported by the private sector. In the area of conflict prevention, the BMZ plays an important role in the interministerial group on civilian crisis management. As regards ODA, the German government has supported the EU-wide step-by-step plan for achievement of the 0.7% target by 2015. In support of financial system development, German development cooperation has been combining activities for the creation of central banks, banking supervisory authorities, etc., with efforts to open the financial sector and foster financial services for the poor. The German government also supports the dissemination of information and communication technology (ICT) in developing countries because the importance of ICT for the achievement of the MDGs is constantly growing as globalization advances.

► Further action

The directives and implementation activities outlined in this paper and in the attached Plan of Operation constitute binding requirements for official development cooperation. In addition, the implementing agencies will use this implementation strategy – which applies to all official development cooperation – as a basis for defining their own specific activities. At the end of 2006, the BMZ and the implementing organizations will review the extent to which they have complied with the requirements. In 2007, the MDG orientation of official development cooperation will be evaluated.

Plan of Operation 2005-2006:

**MDG orientation of German development cooperation
Implementation of the Paris Declaration on Aid Effectiveness**

Plan of Operation 2005-2006
MDG orientation of German development cooperation
Implementation of the Paris Declaration on Aid Effectiveness

Goals ¹	German development cooperation activities ²	Time frame
1. Ownership		
1.1 Partner countries have operational development strategies that have clear strategic priorities <i>Paris Declaration, Indicator 1; MDG Strategy Paper</i>	1.1.1 Support partner countries in further developing, with a focus on MDGs, their PRSPs and/or national development strategies/Joint Assistance Strategies (JASs) and/or sector strategies in the priority areas that have been agreed. Identify specific examples where German development cooperation is already providing support or will provide support in the future. 1.1.2 Identify good practices. How can German development cooperation put its experience to better use for partners' strategy development? (e.g., more systematic provision of input to sector policy dialogues on the basis of our sector knowledge gained on the ground)	June 2006 June 2006
2. Alignment		
2.1 Partner countries have procurement and public financial management systems that adhere to broadly accepted good practices or partner countries have launched relevant reforms <i>Paris Declaration, Indicator 2</i>	2.1.1 Expand the participation of our development cooperation in the development of partner countries' capacity-building strategies in cooperation with other donors (especially in the areas of strategic planning, budget planning, public procurement and finance, statistics, monitoring, analysis of and managing for development results), and participate in implementing these strategies. Identify countries where such participation makes sense or, if applicable, should be intensified.	March 2006
2.2 Aid flows are aligned on partner countries' national priorities and reported on partners' national budgets <i>Paris Declaration, Indicator 3</i>	2.2.1 Financial Cooperation (FC): fully reported 2.2.2 Technical Cooperation (TC): elaborate a proposal for improved integration of development cooperation funds into partner countries' official budgets	December 2005 December 2005
2.3 Support for capacity building is provided through coordinated programs consistent with partners' development strategies <i>Paris Declaration, Indicator 4; EU Declaration, target 1; MDG Strategy Paper</i>	2.3.1 TC (as well as "TC in the broad sense" and FC) must be embedded in partner countries' program-based approaches . Identify current status (in how many instances have activities already been embedded?). See 3.1.1.-3.1.4 for further activities.	March 2006
2.4 Use of partner countries' public financial management and procurement systems <i>Paris Declaration, Indicator 5</i>	2.4.1. Identify share of development cooperation that relies on partners' public financial management and procurement systems . Use this as a basis to identify necessary actions with a view to fulfilling the Paris Declaration and achieving the agreed targets.	March 2006
2.5 No new parallel implementation structures/project implementation units (PIUs) <i>Paris Declaration, Indicator 6; EU Declaration, target 3</i>	2.5.1 On the basis of the OECD/DAC definition of parallel PIUs, identify number of PIUs in German development cooperation (including "TC in the broad sense"). 2.5.2 Based on this figure, identify (if necessary) actions required in German development cooperation to avoid new parallel implementation structures and, based on that, formulate further needs for action for the achievement of the Paris targets.	December 2005 March 2006

¹ The goals have been derived from the **Paris Declaration**, from the complementary **Paris EU Declaration**, and from the BMZ's **Paper on MDG Implementation**. At the time that this Plan of Operation was completed, no final agreement had been reached yet among the signatories of the Paris Declaration about targets and assessment criteria. They will be incorporated in the 2006-2007 Plan of Operation.

² **Responsibilities for implementing the activities have been clearly assigned within the German development cooperation system.**

2.6	Aid is more predictable for partner countries, disbursements released according to agreed schedules in annual or multi-year frameworks Paris Declaration, Indicator 7; MDG Strategy Paper	2.6.1 Expand our multi-year commitments to two years in general, to three years if possible. Identify current status, use this as a basis for defining targets for the coming years. 2.6.2 Explore whether it would make sense to draw up disbursement schedules.	December 2005 March 2006
2.7	Untying of aid Paris Declaration, Indicator 8	2.7.1 With regard to the untying activities adopted in the DAC, there are currently no more implementation measures that need to be undertaken in Germany's development co-operation system. Participate in international debate.	
2.8	Development cooperation aligned with national priorities MDG Strategy Paper	2.8.1 Country strategies and priority area strategy papers are based on partner countries' PRSPs/national development strategies. They are drawn up together with partner countries in a participatory process. 2.8.2 If specific reasons are given (partner countries have detailed sector strategy or Joint Assistance Strategy), the obligation to elaborate a country strategy or priority area strategy can be waived if BMZ Division 220 agrees. Take a look at other donors' practices.	starting now March 2006
3.	Harmonization		
3.1	Aid is provided through program-based approaches Paris Declaration, Indicator 9; MDG Strategy Paper	3.1.1 Increase allocations for joint programs/program-based approaches including program-oriented joint financing, cf. 2.3.1. 3.1.2 Revise guidelines on FC/TC, regulations, procedures, manuals and strategic basis for program-based development cooperation. 3.1.3 Explore the potential for continuous increases in program-based approaches in general and program-oriented joint financing in particular in line with the comparative advantages of German development cooperation, based on practical sector and project experience. 3.1.4 In future, reasons must be given if any activities are launched outside the scope of program-based approaches. Draw up a brief catalog of reasons.	starting now March 2006 September 2006 December 2005
3.2	Reduce the number of uncoordinated missions; increase the number of joint missions and analyses with other donors Paris Declaration, Indicator 10; EU Declaration, target 4; MDG Strategy Paper	3.2.1 Plan and carry out joint analyses and missions with other donors: clarify how we can work towards progress systematically. 3.2.2 Enhance the coordination and combination of our implementing agencies' missions: further develop joint "development cooperation offices" on the ground; clarify how we can work towards progress systematically. 3.2.3 Silent partnerships/delegated cooperation: review experience gained to date; what can be done in order to establish this approach more firmly in German development cooperation? Derive realistic targets.	March 2006 March 2006 June 2006
4.	Managing for Results		
4.1	Partner countries have transparent and monitorable performance assessment frameworks to assess development progress against national development strategies and national sector programs Paris Declaration, Indicator 11; MDG Strategy Paper	4.1.1 Together with other donors and partner countries, develop strategies on how to support the development of performance assessment frameworks .	June 2006

³ In line with the OECD/DAC definition drawn up for measuring progress

4.2	Enhance the efficiency and the profile of German development cooperation MDG Strategy Paper	4.2.1 Continue the process of concentrating activities on fewer countries and priority areas (further reduce the number of our priority areas in partner countries; reduce the number of areas of cooperation within a given priority area). Lay down a "road map." 4.2.2 Analogous to the process of forming a profile in sub-Saharan Africa, identify comparative advantages and openings for sharpening the profile of German development cooperation in the other regions where development cooperation is active.	March 2006 September 2006
4.3	Improve programming and the analysis of development results of country-related German development cooperation MDG Strategy Paper	4.3.1 Based on selected case studies, test the definition of monitorable indicators with demonstrable links to MDGs to measure results in a given priority area. 4.3.2 Explore and implement openings for carrying out joint results analyses with partners and donors	March 2006 starting now
4.4	German development cooperation is capable of describing its contribution to the achievement of the MDGs MDG Strategy Paper	4.4.1 Develop an approach for German development cooperation for MDG-oriented results analysis and reporting , taking into account the current international debate. 4.4.2 Identify practical steps to make implementing agencies' instruments for results analysis more compatible .	December 2005 March 2006
4.5	Increase the poverty and MDG relevance of German development cooperation MDG Strategy Paper	4.5.1 Take account of poverty and MDG relevance as activities are planned, managed and evaluated.	starting now
4.6	Optimize MDGs as an international frame of reference for poverty reduction MDG Implementation Paper	4.6.1 Support international efforts to make MDG indicators more precise .	as of 2005: water as of 2005: environment Dec. 2006: gender
5.	Mutual Accountability		
5.1	Mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in the Paris Declaration Paris Declaration, Indicator 12 MDG Strategy Paper	5.1.1 Participate in the development of a suitable monitoring mechanism and support the development of implementation plans in partner countries; clarify suitable approaches and targets. 5.1.2 Update the Plan of Operation, monitor implementation. 5.1.3 Evaluate MDG orientation of official development cooperation.	March 2006 annually 2007



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