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Research Report

Scope and structure of German official development assistance: trends and implications for the BMZ and other ministries

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Scope and Structure of German Official Development Assistance: Trends and Implications for the BMZ and Other Ministries

Summary

The structure of German Official Development Assistance (ODA) is in a state of transition. Germany's growing international role, the increasing importance of climate issues as well as the refugee crisis are contributing greatly to a significant increase in German ODA, which has more than doubled since 2012 and amounted to around EUR 22 billion in 2017. The coalition agreement between the CDU/CSU and the SPD in 2018 has prioritised ODA-eligible expenditures and views development policy as a priority area. Significant changes can also be seen with regard to the scope and pattern of ODA expenditures:

The budget of the Federal Ministry for Economic Cooperation and Development (BMZ) and its share of the federal budget have increased due to an upvaluation of development cooperation (DC). At the same time, the BMZ's portion in Germany's overall ODA fell from 73 per cent in 1995 to 33 per cent in 2016. Nonetheless, projections for 2017 based on the second government draft for the 2018 budget indicate a trend reversal. Projection for 2017: BMZ 37 per cent, with KfW market funds 45 per cent; Federal Foreign Office (AA) 14 per cent; Projection for 2018: BMZ 49 per cent, with KfW market funds 53 per cent; AA 13 per cent.

ODA-eligible contributions of other federal ministries have increased significantly. Both the ODA-eligible portion of the EU budget and the development policy contributions of the federal states have doubled since 1995. Market funds mobilised via the KfW as well as the eligible expenditures for refugees in Germany have been particularly important at times.

The following interpretations can be drawn based on those trends:

Largely positive interpretation from a development policy perspective: Development cooperation has become more important in recent years and is no longer a comparatively small area of activity that relates exclusively to the BMZ. New challenges have resulted from other ministries having a much stronger interest in maintaining and using resources for development cooperation. Germany's ODA contributions have thus risen overall and the BMZ's share of the budget has increased.

Largely critical interpretation from a development policy perspective: The distribution of funds among a larger number of actors is making it difficult to pursue a coherent development policy approach, and other policy areas are not primarily aimed at development policy objectives due to their tasks and interests. The current situation implies a loss of importance for the BMZ and thus the original development policy area.

Due to a rise in ODA contributions and the growing importance of a wide variety of development policy actors in Germany, there is now an increased need for greater coordination. The following is therefore recommended:

- conduct systematic development policy reviews of all ODA projects of all ministries
- more intensively coordinate Germany's ODA contributions through the BMZ in a steering group
- concentrate ODA funds more towards the BMZ, which is the specialised department in development policy.

Introduction

ODA is a measure defined by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) (Box 1).

Box 1: What is Official Development Assistance (ODA)?

The OECD Development Committee defines ODA as those financial flows which meet all of the following conditions:

- (1) They go to countries of the DAC list of ODA recipients, or to recognised multilateral institutions.
- (2) They are provided by official agencies or by their executive agencies (i.e. ministries and public institutions at the state, sub-state and local level and extending arms of government).
- (3) They are administered with the promotion of the economic development and welfare of developing countries as its main objective.
- (4) They are concessional in character (i.e. they are either grants of soft loans, including a grant element to ensure that the loans are more favourably priced than those on the market).

ODA is reported on a calendar year basis.

Source: BMZ & OECD

Trends in ODA contributions of federal ministries

In the mid-1990s, the BMZ budget accounted for around 1.7 per cent of the federal budget. Its share has since grown and amounts to 2.8 per cent in the government draft for the 2018 budget. Development policy is increasingly becoming a central area of activity for international policy and, as such, is being given the appropriate financial resources. Contributing to this are the growing insight into global interdependency and the need to actively shape globalisation and/or limit its negative effects.

The importance of a ministry's policy area also reflects its influence, which is based on several pillars. These include the significance of its task, the support of the Federal Chancellor and Parliament, the value given to it by the public, legal and/or international commitments, and, finally, the financial resources available to it.

The ODA-eligible contributions of the federal ministries (excluding the BMZ) have increased continuously over the past decades from EUR 300 million (1995) to EUR 2 billion (2015). The share of these ministries to Germany's overall ODA amounted to 6 per cent in 1995 and around 13 per cent in 2015. In other words, there has been a considerable increase in funds in absolute terms and in relation to the responsible specialised department (BMZ).

With regard to their ODA dynamics over the past 20 years, the different ministries with ODA-eligible contributions can be divided into three categories:

- Relatively strong increase: AA, Federal Ministry of Finance (BMF), Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), Federal Government Commission for Culture and the Media

(BKM), and Federal Ministry of Education and Research (BMBF).

- Moderate increase: Federal Ministry of Food and Agriculture (BMEL), Federal Ministry of Labour and Social Affairs (BMAS), Federal Ministry of Justice and Consumer Protection (BMJV), and Federal Ministry of Defence (BMVg).
- Minor changes: Federal Ministry of Health (BMG), Federal Ministry for Economic Affairs and Energy (BMWi), Federal Ministry of the Interior (BMI), Federal Ministry for Family Affairs, Senior Citizens, Women, Youth (BMFSFJ), and Federal Ministry of Transport and Digital Infrastructure (BMVI).

Trends in other ODA contributions

The following ODA contributions are provided under the political responsibility of the BMZ:

- 1) Section 23 of the national budget (37.4 per cent of total ODA 2015);
- 2) Eligible portion in the EU budget (9.7 per cent of total ODA 2015);
- 3) KfW market funds and DEG contributions (net, i.e. taking into account repayment, 16.6 per cent of total ODA 2015); and
- 4) Debt relief (0.4 per cent of total ODA 2015).

Overall, this represents (net) 65.1 per cent of total ODA, i.e. significantly more than the ODA share that can be explicitly attributed to the direct influence of the BMZ.

Germany's ODA-eligible share of the EU budget has more than doubled since 1995 and amounted to around EUR 1,560 million in 2015, mainly as a result of the continuous increase in the general EU budget. ODA contributions of the federal states have more than doubled between 1995 and 2015 and now amount to approximately EUR 880 million, whereas the ODA share of the federal states has remained roughly the same. These contributions consist mainly of the cost of university places in Germany for students from developing countries.

Debt relief has played a different role over time: It has been falling steadily since 2009 and in 2015 amounted to only 0.4 per cent of total ODA.

The German Investment Corporation (DEG) offers financing for companies and financial institutions in the form of long-term loans and investments. Market funds are raised by the KfW on the capital market, which are then made available on behalf of the German government to German development cooperation partner countries at favourable conditions. The main financing instruments are development loans based on a mixture of budget funds and KfW funds on the one hand and promotional loans on the other hand, the latter of which are loans on near-market conditions for which no budgetary resources are used. Although KfW market funds were very

small until 2009, they have risen massively since 2010, and their share of the total ODA was 24 per cent (gross) in 2015. The reform of the OECD eligibility rules for loans will significantly reduce the KfW's market share of German ODA as of 2018.

Expenditures on refugees may be counted as ODA for a period of up to 12 months of the refugee's stay in the host country. While these were relatively low at EUR 66 million (0.6 per cent of total ODA) in 2010, they increased fortyfold (EUR 2.7 billion or 16.8 per cent of total ODA) in 2015 due to the high influx of refugees and in 2016 amounted to EUR 5.9 billion (26.3 per cent of total ODA). As such, this has also enabled Germany to reach the 0.7 per cent target for the first time in 2016. The significant decline in the number of incoming refugees in the meantime will also be reflected in the ODA proportion.

Analysis of recent developments

DAC's policy of crediting the costs of university places in donor countries can be criticised in two respects: its calculatory nature and the fact that the resulting capacity building in the partner countries is very limited. Criticism can also be levelled at the fact that debt relief is counted as ODA given in spite of many of these are "phantom debts": debts that exist on paper but can no longer be financed due to a high level of debt, accrued interest on defaulted loans, or "illegitimate debts" (e.g. in the case of the former dictator Mobutu in the Democratic Republic of Congo).

Due to the importance of market funds for Germany's overall ODA, the changes in how they can be counted has implications. The core element of the ODA reform to development loans is the transition from a "cash flow logic" to a "grant equivalent logic" (Box 2). Beginning in 2018, development loans are no longer being included in the ODA statistics with their gross cash flows (cash flow method) but rather in the amount of their grant element (grant equivalent method). In return, there will be no deduction for repayments. Overall, the German ODA approach is benefiting from the reform, with "losses" in the first years after the ODA reform offset by long-term "profits" beginning in around 2023. The positive long-term effect of the ODA reform can be attributed to the fact that loans as of 2018 (grant element logic) will create a long-term positive net ODA, whereas loans until 2017 (grant equivalent logic) were ODA-neutral overall given that repayments were deducted from the ODA.

As the overall influx of refugees is declining, ODA-eligible refugee expenditures are expected to decline significantly, and absent any other growth, Germany is expected to again fall below the 0.7 per cent target. DAC's policy of recognising refugee expenditures as ODA has been the subject of controversial discussions in recent years, since the expenditure is neither a financial transfer to developing countries nor does it have a direct development purpose.

Box 2: Redefinition of ODA-eligible loans

ODA-eligible loans must be offered at a reduced rate (concessionary). Previously, the full amount paid out was counted as ODA (cash-flow method), and the loan repayment was deducted from the donor country's ODA. Following an ODA revision in 2014, only the loan's grant element counts as ODA since 2018. This is the part of the loan amount that corresponds to a grant in economic terms (grant equivalent method), whereby the higher the grant element of a loan, the higher the amount that can be counted as ODA. This is intended to provide an incentive to grant loans on the most favourable terms possible. The minimum rates for the grant element have been redefined and divided by country group. For example, loans to the least developed countries (LDCs) or other low-income countries (LICs) must have a grant element of at least 45 per cent. In contrast, the minimum grant elements for middle-income countries (LMICs and UMICs) are only 15 per cent and 10 per cent respectively. In addition, a graduated discount rate according to country groups was introduced and is used to calculate the grant element. This serves as a reference value for the interest rate actually agreed upon for a loan. The further this interest rate is away from the discount rate, the higher the grant element, i.e. the ODA-eligible portion of the loan. A loan to an LDC/LIC is counted to a greater extent as ODA than a loan with the same conditions to an LMIC or UMIC. The aim here is to create an incentive for donor countries to increase the proportion of ODA funds to LDCs/LICs.

Source: Development Initiatives (2017)

There is currently no systematic, overarching coordination of ODA ministries. Coordinating all contributions would make sense in order to strategically align Germany's ODA contribution on the basis of development policy criteria. The "Technical Cooperation and ODA Transparency" steering group at the State Secretary level, which was established in 2010, should be revived with a broader mandate under the leadership of the BMZ as "ODA Coordinator". It should include all areas that contribute to ODA, in particular financial cooperation. The Federal Chancellery could explicitly assign this role to the BMZ, e.g. by means of an organisational decree, and the steering group should be expanded into a coordinating and voting body at the State Secretary level in which all 14 ODA ministries should participate. This body could meet annually. Below this level, coordination meetings should take place approximately every two months at the department head level, where all important ODA ministries (BMZ, AA, BMU, BMBF, BKM and BMEL) would attend. A development policy review of the ODA projects of the 14 ministries, modelled after the BMZ/BMU, is indispensable.

Strategic implications

The structural changes to German development cooperation should become a greater part of political and public debate. Which shifts are desirable and which ones less so? Should ODA funds on ministries' level be more efficiently pooled or should they be used on a decentralised basis? In particular, the aim should be to better understand the opportunities, challenges and possible risks of the structural changes so that

the federal government and Bundestag can further improve Germany's development cooperation.

The changes that have taken place to date can be interpreted in very different ways.

Firstly, the shifts in German ODA could be viewed as largely positive. This includes the fact that development policy is no longer regarded as a comparatively small area of activity of the BMZ alone. New regional and global challenges have motivated other ministries to increase their interest in receiving and using resources for development cooperation. This heightened interest can also be understood as an indication that various policy areas taking on new international responsibility.

Secondly, the shifts in German ODA that are taking place could be viewed as largely negative. The distribution of

funds among a larger number of actors is making it difficult to pursue a coherent development policy approach. One could argue that, due to their tasks and interests, other ministries are not primarily committed to development policy goals, norms and standards (such as those developed in the framework of the DAC) but to other objectives. Other policy objectives may well be legitimate, but the use of ODA funds should primarily go towards development policy purposes. Overall, such an interpretation could assume that other policy areas have been significantly more successful in raising ODA funds and that the current situation therefore means a relative loss of importance for the BMZ and thus the original development policy area.

In any event, there is an increased need for coordination due to the rise in ODA contributions and the growing importance of very diverse development policy actors in Germany.

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