



# ALLOCATION PATTERNS OF GERMAN DEVELOPMENT COOPERATION

*Executive Summary*

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# IMPRESSUM

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# EXECUTIVE SUMMARY

## Background, motivation and questions

**This allocation study provides development policy actors and the public with sound evidence on the allocation of bilateral German official development cooperation from budget funds of the Federal Ministry for Economic Cooperation and Development (BMZ).** For this purpose the study looks at patterns of allocation during the period from 2000 to 2020. In other words, it analyses which partner countries of German development cooperation received aid through which instruments, in which sectors and on what scale.

**The object of the study is to first of all enquire to what extent aid was successfully focussed geographically and thematically.** Concentrating resources in order to increase aid effectiveness has long been a goal of international reform efforts in the development policy field. Based on the assumption that too many partner countries and themes increase transaction costs, and thus make a donor organisation's aid less effective and efficient, the BMZ too has been striving to strengthen the focus of its portfolio for over two decades. Corresponding reforms took place under various governments in 2000, 2008, 2012, and most recently with the 'BMZ 2030' reform strategy.

**Secondly, the study also examines the criteria which the BMZ has used to allocate budget funds for bilateral official development cooperation and to select its partner countries.** Given that Germany is now the second largest bilateral donor after the USA, this question is highly relevant. Usually it is neediness, politico-institutional frameworks, and Germany's geopolitical and economic interests that are discussed as potentially significant factors. So far, however, there has been no study that examines the factors affecting bilateral official development cooperation from BMZ budget funds. This study closes that gap.

**Both questions are of strategic relevance to German development cooperation.** The first question addresses the extent to which German development cooperation has succeeded over the last two decades in reducing transaction costs, improving strategic management and improving the division of tasks within the international aid system, by concentrating funds geographically and thematically. The second question looks at the extent to which the allocation of official development cooperation funds is aligned with development policy criteria. It also asks to what extent allocation takes into account aspects of 'good' governance, which are of major importance for effective and value-based development policy.

## Data and method

**This study looks at commitments for bilateral official development cooperation from BMZ budget funds. Here it draws a distinction between allocation by instrument, and allocation by theme.** Allocation by instrument encompasses the funds for the budget items of Technical Cooperation (TC) and Financial Cooperation (FC). Allocation by theme encompasses the special initiatives (alongside International Climate and Environmental Protection, IKU) and the budget item 'crisis management and reconstruction, infrastructure' (KWI). The source of the funding affects the procedures for its allocation. In allocation by instrument, the budget item first of all determines the instrument (TC or FC). In the next step, the country that is to receive funding commitment is defined. Only in the final step are the priority areas of cooperation defined. In thematic allocation, on the other hand, the budget item determines the thematic focus. Only then are the funds allocated geographically across different instruments.

**Considering bilateral official development cooperation from budget funds exclusively thus enables a focussed analysis of the BMZ's processes of taking and implementing decisions.** Compared to other allocation decisions in the policy field of development cooperation, here the BMZ operates largely at its own discretion as the responsible ministry. Bilateral official development cooperation is thus especially suitable for analysing the extent to which decisions to reform development cooperation are subsequently reflected in allocation patterns. At the same time, it is necessary to bear in mind that the conclusions drawn from the analyses performed do not necessarily apply to official German development cooperation as a whole.

**The database used encompasses the funding pledges recorded in the BMZ's Management, Finance and Information System (MeMFIS). This system can be expanded by adding further modules.** For each commitment, MeMFIS contains information on the budget items. This enables a distinction to be made between allocation by instrument and thematic allocation. MeMFIS usually shows budget funds separately from market funds. With regard to the evaluation's focus of interest, it is also especially important that MeMFIS captures aid flows sooner than the Organisation for Economic Co-operation and Development's official Creditor Reporting System. It also does so within a relatively short period following the BMZ's internal planning processes.

**The analyses conducted in this study are based on multivariate inferential statistics.** The analysis of concentration is based on an examination of the allocation of budget funds for bilateral official development cooperation over time (2000-2020), disaggregated by recipients and themes. The Theil index, an aggregate measure of concentration, is also used. This measures the unequal distribution of commitments across countries or themes using a small number of metrics. The factors affecting the allocation of bilateral official development cooperation from budget funds are examined using regression analyses (dynamic panel model). To achieve this, possible factors are first made measurable by means of quantifiable indicators, such as per capita income or the level of democracy in a country. Statistical correlations between the indicators and allocation decisions are then used to identify factors that influence allocation decisions.

### Allocations patterns of bilateral official development cooperation

**The volume of bilateral German official development cooperation in general, and thematic allocation in particular, have increased significantly since the turn of the millennium.** Adjusted for inflation, commitments of bilateral German official development cooperation more than quadrupled between 2000 and 2020. Since the introduction of IKU in 2011, the special initiatives three years later and a strong increase in funding for the KWI budget item since 2016, thematic allocation has become increasingly important. Bilateral official development cooperation has increasingly been expanded to include cooperation with regional actors. This regionalisation took place against the backdrop of growing global interdependencies.

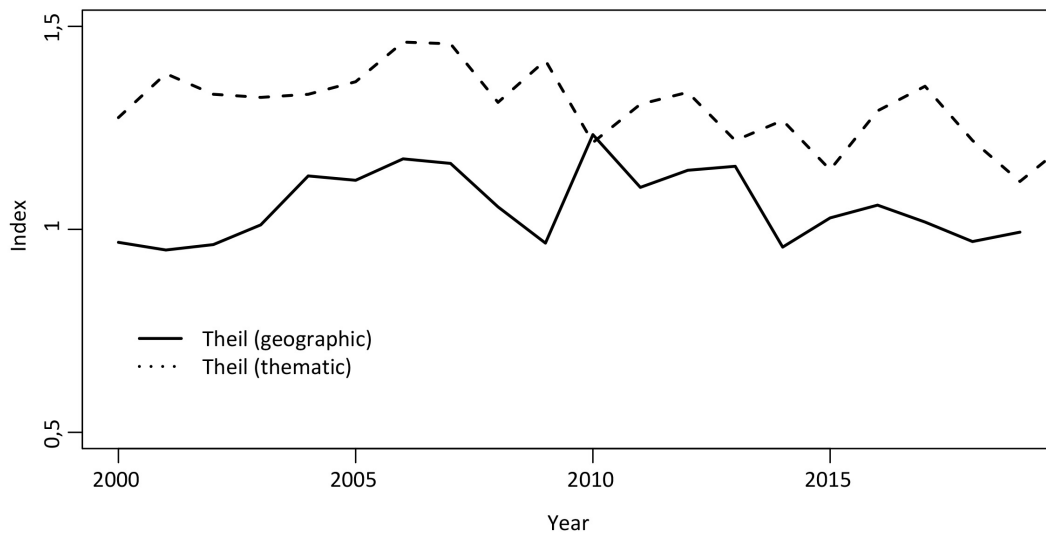
**The increasing share of thematic allocations was accompanied by a shift in regional focus.** The focal region of bilateral German official development cooperation from budget funds is sub-Saharan Africa. The 'Marshal Plan with Africa' and the 'Compact with Africa' have strategically supported this focus since 2017. Four of the current six reform partners are also sub-Saharan African states. The largest recipient countries of all regions in the period under review were Afghanistan, India, Jordan and Ethiopia. A significant increase in funding was recently recorded in the Near and Middle East. This is mainly due to the special initiatives and the KWI item.

**In terms of sectors, the main focal areas were 'energy', 'government and civil society', and 'water'.** While the share of commitments for the funding area 'water' decreased continuously, the funding area 'social infrastructure and services' (especially social protection, basic social services and creation of employment opportunities) recently recorded considerable increases.

### Geographic and thematic concentration

**With regard to geographical and thematic concentration, the present study identifies an implementation gap.** The allocation pattern proves to be largely stable, despite strategic redirection efforts since 2000. As an aggregate measure of uneven distribution, the Theil index does not show a stronger focus of commitments on fewer countries or fewer themes (Figure 1). Moreover, regardless of specific pledges, no trend towards a reduction in the number of partner countries can be observed between 2001 and 2019. Instead, development cooperation is spread across a large number of partner countries and thematic priorities.

## Abbildung 2 Trend in geographic and thematic concentration



*N.B.: The Theil index is an aggregate measure of unequal distribution. Higher values represent a more unequal distribution of commitments among countries or sectors. If, on the other hand, all countries or sectors receive the same number of commitments, the Theil index assumes the value 0.*

*Source: author's own graphic based on MeMFIS*

**One reason for the implementation gap is that there was no sustainable reduction in the number of partner countries.** Reforms in 2008 and 2012 had reduced the number of so-called A countries, which up until that point had increased, but the number of so-called B countries was increased in each case. The number of partner countries thus tended to increase between 2001 and 2019. With 60 partner countries in 2020, Germany now had a number similar to that in 2001 (69 partner countries), although still significantly fewer than the long-term mean. Based on the experience of the past 20 years, however, the future inclusion of further partner countries seems not unlikely. Sierra Leone was already added as a bilateral partner in 2021.

**Another possible explanation for the implementation gap is path dependency.** The creation of country divisions, the development of country and sector expertise, the assignment of development cooperation officers and the establishment of local offices are initially cost-intensive. However, the structures created then work increasingly efficiently, so that a shift in direction can lead to high transaction costs. Moreover, departing from established allocation patterns always carries the risk of jeopardising the established coordination with other donors. The possible disappointment caused by expectations created in partner countries, and the concern that results achieved might be undone, can also promote path dependency. In short, breaking path-dependent patterns is not easy, and is likely to meet with resistance from those who benefit from the status quo.

**One possible explanation, especially for the lack of geographical concentration, is that in the current decision-making processes, funds are allocated primarily to the instruments of TC or FC, and only secondarily to partner countries.** The relevant framework for bilateral official development cooperation is departmental budget 23 of the federal budget, with the targets for TC and FC set out there. The BMZ's framework plan, in which the geographical allocation of funds is determined in the form of country quotas, is an important instrument of political control. This then forms the basis for budget deliberations in parliament. Thus rather than any geographical allocation patterns, it is the distribution between the instruments of FC and TC that forms the starting point for the allocation of funds.

**That said, the prioritisation of content pursued in thematic allocation does not seem to be conducive to concentration either.** Firstly, the special initiatives in particular display a strong focus on regional recipients. Secondly, a comparatively high volume of funds allocated by theme has been flowing to B countries and countries without partner status, especially since 2016. The potential controlling influence that could be

achieved through the categorisation of partner countries is thus mainly being achieved in allocation by instrument. The greater flexibility of allocation through the special initiatives in particular seems to go hand in hand with a broader distribution of funds between potential partner countries. There has therefore been a tension between flexibility and geographic concentration over the last two decades.

**Similar to the geographical analysis, during the period under review it is not possible to discern any concentration of development cooperation in terms of development policy content.** It is not possible to observe either a concentration on fewer funding areas, or a stronger unequal distribution among them. Nor is there any discernible reduction in the average number of priority areas supported in a given year and partner country. Moreover, commitments outside of agreed priority areas remained stable.

**Given the reduction in the number of partner countries as part of the 'BMZ 2030' reform presented in 2020, processes of phasing out and donor coordination will become more important.** Bilateral official development cooperation with a significant number of former cooperation partners is to be wound up. To avoid potential negative consequences for target groups as well as loss of reputation, disengagement processes are therefore gaining in importance. The same applies to donor coordination, for example within the framework of the EU's joint programming (Ertl, 2021; Lücking et al., 2021).

**The clearer profile in the partnership model envisaged in the BMZ's latest reform strategy could be conducive to a specific form of concentration.** The new partnership model introduces a larger number of more specific categories of cooperation. One example is the 'global partners', for whom a thematic focus on 'climate and energy' and 'the environment' is emerging. The focus here is thus on global public goods. Promoting these is designed to generate global benefits for all socio-economic groups across generations. A similar thematic focus is reflected in the 'nexus and peace partnerships' and the 'reform and transformation partnerships'. Such an interweaving of partner status and thematic focus represents a concentration on *specific* themes in *specific* countries, without necessarily increasing the overall geographical or thematic concentration. Thus, despite the continued broad thematic focus of bilateral cooperation with five core areas, ten initiative areas and six quality criteria, a concentration within the partner categories is possible. It would seem sensible to review the implementation of the BMZ's new reform strategy (which may still be adjusted) from this perspective of concentration in the future.

**In light of the recent allocation patterns, the focus on the five core areas envisaged in the 'BMZ 2030' reform strategy entails a moderate need for adjustment.** In the recent past (2018-2020), four-fifths of commitments already flowed into the defined core area. In this respect, 'BMZ 2030' does not promise any fundamental change in the thematic focus of bilateral development cooperation. It rather promises a continuation of the comparatively stable allocation patterns of recent years.

### Determining factors

**The concentration debate is followed by the question of the criteria by which funds of bilateral German governmental cooperation should be allocated.** The question of the factors determining allocation concerns first of all the probability that a country will receive German ODA funds, and secondly the size of commitments among funding recipients.

**Compared to the analysis of geographic and thematic concentration efforts, the analysis of the factors determining the geographical distribution of bilateral development cooperation funds reaches more positive findings.** The findings support the interpretation that in the period under review, the BMZ based its allocation of budget funds on both the neediness and the form of government of potential recipient countries: Poorer countries, and more democratic countries, received more funds, all other things being equal. Moreover, the findings indicate that not only the form of government, but also governance was taken into account in the recent selection of bilateral partners. At the same time, there are indications that foreign trade interests and proximity to Germany influenced the allocation of funds during the period under study. Finally, German development cooperation commitments were path-dependent, and correlated with those of other donors.

**In the allocation of ODA, a country's neediness (as measured by per capita income, child mortality or the Human Development Index) played a substantial and significant role.** This alignment with needs also characterises the new partnership model. However, as Faust and Ziaja (2012) have already noted, the relationship is not a linear one. It is true that low- to middle-income countries receive significantly more frequent and substantially higher commitments than middle- to high-income countries. Countries with particularly low purchasing power-adjusted per capita income, on the other hand, are not favoured to the same extent over less needy countries.

**With regard to politico-institutional characteristics, there is a substantial correlation between allocation decisions and level of democracy.** The more that countries allow free participation and public competition based on free and fair elections, the higher the commitments they received between 2000 and 2019, all other things being equal. Such allocation practices align with a development dividend observed in democracies in the literature. The relevant research notes that more democratic systems are clearly superior to autocratic ones in terms of socio-economic performance. According to this, the need to win majorities in free political competition favours the participation of broad sections of the population in prosperity. This occurs for example through greater investment in public goods such as health and education. Moreover, democracies prove to be more willing to implement potentially wealth-enhancing economic reforms.

**Good governance in the sense of more effective government action appears to be gaining importance too.** First of all, there are no significant indications of a correlation between governance and allocation decisions for the period 2000 to 2019. On the one hand this is surprising, as development cooperation seems to be successful primarily where states are able to provide basic services (see *inter alia* Wencker and Verspohl 2019). On the other hand, it is often particularly needy societies that are characterised by a low level of 'good' governance. This outlines a classic area of tension in German and international development cooperation. Recently, however, good governance has become more important in the selection of bilateral partners. Better governed countries are *ceteris paribus* substantially more likely to be on the recently published list of bilateral partners. Comparative development research also diagnoses a growing importance of politico-institutional characteristics in resource allocation across donors.

**Besides considerations of need and conditionality, foreign trade interests and geographical proximity also played a role in the allocation of bilateral development cooperation.** All other things being equal, countries to which Germany exports more goods received higher commitments. Countries that are geographically closer to Germany also received higher commitments, and are significantly more likely to be on the recently published list of bilateral partners.

## Implications

**Resource allocation in official development cooperation faces trade-offs due to opportunity costs, and in some cases even conflicting goals.** This study focuses on two challenges that are particularly relevant to the allocation of official development cooperation resources, and that will also require complex decisions in the future: geographic and thematic concentration, and the factors determining allocation.

**Regarding the geographic and thematic concentration efforts of the last two decades, the analysis shows a sobering result.** Above all, efforts to concentrate development cooperation geographically did not achieve this goal, despite several attempts under different political constellations. In the future too, a tension between appropriate focussing and breadth of supply is to be expected. On the one hand, it is important to achieve an appropriate geographic and thematic focus. This, it is hoped, will deliver advantages for political control, and reduce transaction costs within both the German development cooperation system and partner-country systems. On the other hand, given its size and international importance, German development cooperation will strive to meet the geographic and thematic demand as well as the numerous international goals and targets agreed. In this context, the present analysis suggests that the objective of more focused German development cooperation, as formulated by various reform efforts since the turn of the millennium, will contend with a high degree of path dependency and the largely stable allocation patterns.

**Regarding the allocation of German official development cooperation based on both need and politico-institutional conditions, the findings of this study are clearly more positive.** Alignment with a country's

neediness and at the same time its politico-institutional characteristics, such as good governance and democracy, are core elements of value-based development cooperation. At the same time, however, there is a tension here in that poorly governed and authoritarian countries are usually particularly needy. It is important to strike a balance between these conflicting goals. In light of democratic regression on the one hand, and the empirically proven prosperity dividend of democracy and good governance on the other, it will become even more important in the future to consider politico-institutional factors when allocating bilateral aid.

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