

Donors, implementing agencies and DFI/PDB cooperation

The case of Germany:
BMZ, GIZ, KfW and DEG

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The views expressed in this paper are those of the authors.

This study is part of a series of analyses covering 8 European case studies (France, Germany, Italy, the Netherlands, Spain, United Kingdom, the European Bank for Reconstruction and Development - EBRD and the European Investment Bank - EIB) as well as a synthesis report.

OVERVIEW AND GENERAL APPROACH TO COORDINATION

In Germany, the Federal Ministry for Economic Cooperation and Development (BMZ) leads in coordinating the government's bilateral development policy priorities and positions. These are then operationalised and carried out in the form of distinct interventions by implementing agencies. Since a number of key reforms in the first decade of the 2000s, two main agencies have been involved in implementing Germany's financial and technical cooperation: the KfW Group (Kreditanstalt für Wiederaufbau Bankengruppe) and Gesellschaft für Internationale Zusammenarbeit (GIZ).¹ Within the KfW Group there are three main actors: the KfW Development Bank, as the German public development bank; the German Investment and Development Company (DEG, 'Deutsche Investitions- und Entwicklungsgesellschaft GmbH'), as the German development finance institution; and the KfW IPEX-Bank, focused on international projects and export finance. Although in a formal sense Germany maintains a sharp organisational distinction between financial and technical cooperation, the increasing focus on blended finance and current policy priorities have meant that in practice the lines between financial and technical cooperation instruments are increasingly blurred.



The government has mandated the KfW Development Bank and DEG to prepare and implement financial cooperation including loans, direct contributions and equity investments² “independently and on their own responsibility”.³ DEG was incorporated into the KfW Group in 2001, and saw its investment portfolio grow substantially during the subsequent two decades. The Federal Ministry for Economic Cooperation and Development (BMZ) chairs the DEG board and is consulted regarding appointments to the board of representatives of various actors, including the private sector and civil society.⁴

German development finance: Scope and coordination

In 2020, Germany’s official development assistance (ODA) budget amounted to 0.73% of its gross national income (GNI), and Germany was the second-largest bilateral provider of ODA after the United States. Germany is also an important provider of concessional loans and issuer of blended finance. The 2021 DAC Peer Review of Germany reports that in 2020, loans represented 23% of Germany’s gross bilateral ODA, almost all of which, however, were directed to middle-income countries. It also observes that BMZ, KfW and DEG mobilised an average of US \$720.9 million in private capital per year between 2017 and 2019. That capital was mobilised through a variety of instruments, including credit lines, special purpose vehicles, syndicated loans and others. BMZ and the Federal Ministry for Economic Affairs and Climate Action (BMWK) support the agencies’ efforts to set up new funds to encourage companies to invest in high-risk countries, in cooperation with the relevant ministries and with a central role reserved for the Ministry of Finance (BMF).⁵

Regarding financial cooperation, German activities are embedded in the European Financial Architecture for Development (EFAD). In the run-up to and during its 2020 EU Council Presidency, Germany actively supported efforts to further improve EFAD efficacy and increase

its coherence. Germany has also emerged as a strong proponent of the latest coordination efforts, named ‘Team Europe’. It is noteworthy that the Team Europe approach and associated initiatives have contributed to improved coordination between the German actors themselves, in particular in areas of high political salience, such as climate finance.⁵

German implementing agencies are also actively involved in technical exchanges and knowledge sharing at the European Union (EU) level by means of DEG’s membership in the Association of European Development Finance Institutions (EDFI) and GIZ’s membership in the Practitioners’ Network for European Development Cooperation. In particular, DEG-Invest has been an important driver of networking and cooperation between European development finance institutions (DFIs), including in the EDFI network, and it has favoured coordinated approaches.⁷



The Team Europe approach and associated initiatives have contributed to improved coordination between the German actors themselves.



1. The KfW IPEX-Bank is not covered in this analysis. Regarding technical cooperation, the focus here is on the largest agencies involved in German development cooperation. Other implementing agencies that are not covered in this analysis are the Physikalische Technische Bundesanstalt, the national meteorology institute, the federal institute for geoscience and natural resources, and the Chambers of Commerce Abroad.
 2. Guidelines for Bilateral Financial and Technical Cooperation with Cooperation Partners of German Development Cooperation, p. 12. <https://www.bmz.de/resource/blob/92794/7639a6b5542630243f506a36978faaa8/fz-tz-guidelines.pdf>
 3. Consultation with the German government becomes necessary in case of “deviations from the planned concept” (ibid. p. 13).
 4. Ibid.
 5. OECD Development Co-Operation Peer Reviews: Germany 2021. <https://doi.org/10.1787/bb32a97d-en>.
 6. Interview 1.
 7. Paiva-Silva, J. (2021). The Workings and Challenges of Development Finance Institutions: The Case of the Deutsche Investitions- und Entwicklungsgesellschaft (DEG). Working Paper CESA CSG 184/2021.



The German government's commitment to innovative development finance – specifically, bringing together blending mechanisms and impact investing – requires that its efforts to coordinate expand from various public entities to also include private actors.⁸ As different instruments require different degrees of coordination, the 2021 DAC Peer Review welcomes the German government's ongoing efforts towards joint procedural reform and integrated planning and allocation systems. Since it is impossible to coordinate in the absence of clear goals, such procedural reforms could create a means through which the government can articulate its substantive goals in consultation with the relevant actors, and in doing so, promote and monitor joint action.

Perceived challenges on a broader scale

According to the 2021 DAC Peer Review, the division of labour between BMZ and the implementing organisations and their respective roles are “clear, complementary and understood for the most part by their partner countries”.⁹ In addition, the review calls for a more coherent “whole of government approach” that transcends “ministerial silos”. Despite having a dedicated ministry for development cooperation, all ministries and development actors in Germany enjoy a high degree of autonomy – this autonomy being a key feature of the German constitution.¹⁰ As each ministry and the other associated actors have their own budgets, mandate and established forms and instruments of engagement, the German system is generally regarded as complex and not always well coordinated.¹¹

Although KfW's portfolio includes dedicated funds for technical cooperation and GIZ projects frequently include de facto financial cooperation functions, allocation processes in Germany's bilateral cooperation tend to separate decision-making on the financial cooperation and technical cooperation components. Shared decision-making processes are generally lacking, and effective

coordination depends largely on individual relationships between actors in the different institutions.¹² Recent procedural and policy reforms, the latter including the ‘BMZ 2030 process’ initiated under the former government, seek to strengthen BMZ's steering capacity and better integrate allocation processes.

Day-to-day cooperation between KfW and GIZ is characterised by each agency pursuing its own individual institutional interests. After failed attempts to merge the two institutions in the 2000s, a sense of competition has continued to prevail between these actors. Cooperation between GIZ and DEG is not hindered by such a legacy, since DEG is a smaller KfW subsidiary which does not directly compete with GIZ for funding.

The past two federal governments placed strong emphasis on promoting private investment, specifically in Africa, with key initiatives being the G20 Compact with Africa and BMZ's Marshall Plan with Africa. These provided impetus for various funding lines and initiatives set up by different federal ministries. Despite the considerable amount of public money that has been put into mobilising private capital, there is little evidence of effects, according to a recent DEval study.¹³ That same study also points out persistent coordination challenges, both between the public sector and private sector, and between different public sector actors.¹⁴ In partial recognition that this vast landscape of funding mechanisms is challenging for the intended beneficiaries to comprehend, the government has sought to facilitate the use of the various funding lines by the intended recipients, including through the launch of the Agency for Business and Economic Development.¹⁵

Another challenge is the relatively centralised decision-making and limited degree of decentralisation of ministerial oversight to ensure more effective upward accountability. Only one-tenth of BMZ's staff is posted in German embassies

8. König, A.-N., C. Club, A. Apampa (2020). Innovative Development Finance Toolbox. KfW, p. 6.

9. OECD Development Co-Operation Peer Reviews: Germany 2021, p. 70. <https://doi.org/10.1787/bb32a97d-en>

10. For a detailed discussion of this aspect, see https://www.idos-research.de/uploads/media/DP_13.2016.pdf

11. OECD (2021), p. 22.

12. Interview 1.

13. Evaluierungssynthese Zusammenarbeit mit der Privatwirtschaft, p. 30. DEval_2021_Zusammenarbeit_mit_der_Privatwirtschaft_Synthese_web.pdf

14. Ibid., p. 30.

15. <https://wirtschaft-entwicklung.de/en/>



to work on development policy, compared to 87% of staff working on development at the French Ministry for Europe and Foreign Affairs.¹⁶ The DAC Peer Review thus recommends a greater delegation of authority to partner countries and a rethinking of the division of labour between headquarters and the embassies and local offices.¹⁷ Furthermore, one interviewee suggested that the in-country preparation of bilateral country strategies ('Regierungsverhandlungen') could be better integrated with the introduction of headquarters-led global cooperation initiatives ('Globalvorhaben'). When looking at these processes, it is important to note that they have not, as yet, mainstreamed the role and involvement of the private sector.

The DAC Peer Review further notes that the German embassies, GIZ and the KfW Group all have their own parallel structures and processes in place for monitoring and evaluation, thus raising transaction costs.¹⁸ One example is that DEG-Invest reports data on private sector mobilisation through its climate-relevant activities; yet, it does not present such data on mobilisation for activities pursuing other primary objectives – which represents a data gap.¹⁹ A look at the GIZ and KfW project databases reveals parallel listings of projects by the two organisations without necessarily crediting or even mentioning the role of the other.²⁰

In some partner countries, GIZ and KfW have made efforts to combine office space in the form of 'German cooperation offices', which facilitates their representational involvement.²¹ One such joint office was opened in Nairobi on 12 July 2022 and also represents DEG-Invest.²² Compared to GIZ and KfW, which are large organisations, DEG-Invest is modest in size, with 650 employees worldwide, divided between the headquarters in Cologne and 20 other locations. With two exceptions, however, all are in middle- and high-income countries. Further investment in establishing German cooperation offices could help strengthen DEG's presence in Germany's partner countries.



Countries, GIZ and KfW have made efforts to combine office space in the form of 'German cooperation offices', which facilitates their representational involvement.²¹



Research suggests that DEG's present mandate, aims and operational requirements discourage engagement in contexts characterised by weak state capacity.²³ The emphasis of the mandate on profitability of investments has led to changes in DEG's investment portfolio, including a declining focus on African states. DEG regards itself primarily as a bank, and actors within the bank make decisions based on risks and returns – not necessarily considering impact. The political dimension of the bank's work, on one hand, and the banking dimension, on the other, have up to now remained largely separate within the institution. However, the different dimensions are starting to approach one another, in line with a trend towards pursuit of more impactful investment (in accordance with political objectives).

To illustrate coordination efforts within the German system of development finance, the section below takes a closer look at climate finance and investments in young businesses in Africa. The brief discussion complements the preceding overall analysis, and informs the lessons learnt, which are presented at the end.

16. OECD (2021), p. 78.

17. Ibid.

18. Ibid., p. 26.

19. OECD (2021), p. 66.

20. For instance, both databases contain information on support to MSMEs in Senegal, with GIZ contributing €8 million (project number 2019.2350.7) and KfW contributing €19 million (project number: 45798). Neither database lists the involvement of the other institution.

21. König, A.-N., C. Club, A. Apampa (2020). Innovative Development Finance Toolbox. KfW.

22. https://twitter.com/bodo_inmink/status/1547539878715572224

23. Paiva-Silva, J. (2021). The Workings and Challenges of Development Finance Institutions: The Case of the Deutsche Investitions- und Entwicklungsgesellschaft (DEG). Working Paper CESA CSG 184/2021.

CONCRETE COOPERATION EXAMPLES

German cooperation in the area of climate finance²⁴

As a signatory party to the Paris Agreement, Germany increased its total funding for climate change mitigation and adaptation measures. From 2005 to 2010, climate finance contributions from the German federal budget rose tenfold. In 2020, Germany provided a total of €5.1 billion, 85% of which was managed by BMZ.

In addition to public funding (grants), Germany provides public loans managed by KfW and DEG through a variety of finance mechanisms, with the aim of mobilising additional private finance. These led to another €2.55 billion in 2020 in the form of concessional loans. This figure is likely to be an underestimate, too, owing to the government's decision to report only private finance mobilised for climate change for areas in which DAC members have reached a consensus on shared reporting methodologies. Additional mobilisation of such private finance, for instance, as a result of capacity development support, are not part of Germany's reporting, as they are not included in the agreed DAC reporting methodology on private finance mobilised for climate action.

As most of Germany's climate finance is currently channelled through bilateral projects, coordination between BMZ, GIZ, KfW and DEG is essential for its success. In the area of renewable energies, cooperation between DEG and GIZ is well-advanced, yet this is mainly due to individual relationships rather than a formal structural framework to govern the relationship between the two institutions.

Investing in young businesses in Africa

A second example demonstrates that coordination can be promoted on a case-by-case basis in areas prioritised under German development policy. It concerns investment in young businesses. One of the Team Europe initiatives led by the European Commission in which BMZ is involved,²⁵ titled Invest in Young Businesses in Africa (IYBA), prompted the creation of a coordination group in which KfW, GIZ and DEG ensure coordination at the European level. While coordination between the three mostly works well, there is no structural framework in place that would organize this inter-agency coordination beyond this specific Team Europe initiative.

LESSONS LEARNT

While coherence to increase visibility and effectiveness ranks high on the political agenda, practice shows that considerable limits to intra-German cooperation remain. Regarding KfW and GIZ, closer cooperation is impeded by their shared history, coupled with the self-perception of both as being important individual players in the international development landscape. This results in parallel structures and may cause ineffective overlap of different activities.

The ongoing politicisation of development policy has brought a demand for increased policy steering. This has created a situation in which the banking community is challenged to engage more closely with policy debates surrounding climate change and achievement of the 2030 Agenda for Sustainable Development. A narrow view of success measured by risks and returns is increasingly being replaced by a that values both developmental and financial additionality.²⁶ On a case-by-case basis, topics with high salience on the political agenda are more likely to enjoy the benefits of coordination, such as the example of climate action discussed above. As a consequence, coordination may be taken forward on a rather ad hoc and reactionary basis, and in this form may not directly contribute to more systemic changes. ■

24. The analysis presented in this section is based on <https://www.bmz.de/de/entwicklungspolitik/klimawandel-und-entwicklung/klimafinanzierung>

25. For an overview of all Team Europe initiatives in which Germany is involved, see <https://europa.eu/capacity4dev/tei-jp-tracker/germany?tab=tei>

26. For a discussion of how this relates to current EU development policy debates, specifically Global Gateway, see Furness, M., Keijzer, N. (2022). Europe's Global Gateway: A New Geostrategic Framework for Development Policy? DIE. https://www.idos-research.de/uploads/media/BP_1.2022.pdf



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