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Years | 1964–2014

German Development
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Germany should move from entitlement to performance-based aid

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The Current Column

of 20 January 2014

Germany should move from entitlement to performance-based aid

Bonn, 20 January 2014. Given the negative impact of fiscal austerity on European development budgets, the new German government deserves praise for its decision to increase its aid budget for the period 2013-2017 by a total of two billion Euro. The decision on how to spend the lion's share most probably apportioned to the Ministry for Economic Cooperation and Development (BMZ) will be one of the first major tasks of newly appointed minister Gerd Müller. It will be a first test for the minister's political ambitions of how he handles claims on the additional funds and what kind of relationship he will build with the *Bundestag* committee members who endorse the budget. The minister should use the upcoming budget negotiations as an opportunity to break with traditional entitlements and vested interests and to further develop a flexible and performance-based aid system.

Beyond the commitment to the large aid increase, further details are still open. Arithmetically, annual increases of 200 million Euro would be needed to fulfil the commitment by 2017. While the coalition agreement specifies a number of priority sectors, the important question of *how* the funds should be allocated across the various aid channels remains unanswered.

Measuring commitment to development

While difficult to predict, the increase will do little to achieve the commitment of 0.7% of GNP for official development assistance (ODA) which stood at a mere 0.37% in 2012.

The 0.7% target is widely recognized as having been instrumental in holding governments to account. At the same time, because of significant global changes, the role and relative influence of ODA in promoting development has changed profoundly. The OECD is currently debating a potential revision of the ODA concept which could fulfil a similar role in comparing countries on the financial inputs they provide for international development. While an ODA target would continue to play an important role, it should not overshadow or substitute for the need to compare countries and organisations on the actual contributions made to development results.

Instead of criticizing the ODA concept and its associated target from the perspective of a poor performer, a more promising approach for Germany would be to first improve performance under the existing system through further advances towards the ODA target and by managing its aid budget in a highly efficient and performance-oriented manner.

On that basis, it would be easier to convince other countries to support a new measure to compare countries' contributions to global development and to proactively influence its design.

From fixed quotas to optimal use

In terms of 'funding channels', the *Bundestag* has historically requested the BMZ to allocate roughly one third for multilateral and two thirds of its budget for bilateral, and channels. The *Bundestag* further earmarks funds for financial and technical cooperation as well as other channels, which is a rather strong hands-on role for parliament. The existing quota approach has in fact long been criticized for its lack of rationale other than preserving the status-quo, particularly for Germany's state-owned enterprises for financial and technical cooperation, KfW and GIZ.

What to do?

The minister needs to ensure that the budget increase leads to a genuine increase in Germany's contribution to international development. While the coalition should be commended for having taken important steps towards a more performance-based aid system, it will require significant political courage to continue down this path and a growing budget in a manner consistent with this principle. First and foremost, it requires an objective assessment of the relative strengths and weaknesses of *all* channels of German aid – and to orient the budget accordingly.

The previous Minister Dirk Niebel was never able to fully convince critics that his attempts to conduct multilateral assessments were aimed at establishing the basis for an unbiased assessment of all channels – rather than serving as a pretext to cut multilateral funding and to increase bilateral aid. Second, such assessments need to be guided by clear objectives and an overall strategy that provides direction and a basis for accountability. Third, releasing the aid system from its traditional entitlements will raise new and challenging questions on the linkages and division of labour between different aid channels. What tasks are best given to the United Nations, and where is GIZ better placed? To what extent should NGOs support German development policy? What is the optimal division of labour between KfW and the private sector? A sound understanding of the varying contributions of different global development actors will be crucial for a successful transformation to a performance-based aid system in Germany, and it is high time to face these questions.