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Soft Loans as an Instrument of Development Finance -  
A Comparative Analysis of Germany  
and the Netherlands

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## ABBREVIATIONS

AA	German Federal Foreign Office
AGE	Arbeitsgemeinschaft Entwicklungspolitik der Deutschen Wirtschaft
AöR	Anstalt öffentlichen Rechts
AWZ	German Parliamentary Committee for Economic Cooperation and Development
BaFin	German Federal Financial Supervisory Authority
BDI	Federation of German Industries
BMF	Ministry of Finance
BMWi	German Federal Ministry of the Economy and Technology
BMZ	German Federal Ministry for Economic Cooperation and Development
CDA	Dutch Christian Democratic Appeal
CRS	Creditor Reporting System
CSO	Civil Society Organization
CSU	Christian Social Union in Bavaria
DAC	Development Assistance Committee
DBV	The German Farmers' Association
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DEval	German Institute for Development Evaluation
DGB	Confederation of German Trade Unions
DGGF	Dutch Good Growth Fund
DIHK	Association of German Chambers of Commerce and Industry

ECA	Export Credit Agency
ECI	Export Credit Insurance
EU	European Union
FC	Financial Cooperation
FDI	Foreign Direct Investment
FDP	German Free Democratic Party
FMO	Netherlands Development Finance Company
GDP	Gross Domestic Product
GIZ	German Development Agency
GNI	Gross National Income
gtai	Germany Trade & Invest Agency
ICB	International Competitive Bidding
ICT	Information and Communication Technologies
IDA	International Development Association
IDF	Infrastructure Development Fund
ILO	International Labor Organization
IOB/IOV	Policy and Operations Evaluation Department of the Ministry of Foreign Affairs
IMC	Interministerial Committee
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau
KWG	German Banking Act
LCL	Less Concessional Loans

LDCs	Least Developed Countries
MDCs	More Developed Countries
MfA	Dutch Ministry of Foreign Affairs
MILIEV	Program for Environment and Economic Self-sufficiency
MoF	Ministry of Finance
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
ORET	Development Relevant Export Transaction Program
ORIO	Facility for Infrastructure Development
PBC	Parliamentary Budget Committee
PD	Paris Declaration on Aid Effectiveness
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSI	Private Sector Investment Program
PvdA	Dutch Labor Party
PWC	PricewaterhouseCoopers
SMEs	Small and Medium Enterprises
SPD	German Social Democratic Party
TNC	Transnational Corporation
TC	Technical Cooperation
ToR	Terms of Reference

VBI	German Association of Consulting Engineers
VNO-NCW	Confederation of Netherlands Industry and Employers
VVD	Dutch People's Party for Freedom and Democracy
WB	World Bank
WTO	World Trade Organization

# 1. Problem Statement and Aim of Study

Soft loans are a bilateral instrument for financing development. They have been a common instrument of many OECD countries in development finance over the last decades. They are characterized by the combination of concessional financing with procurement tied to the donor country. If soft loans are procurement tied to the donor country, they are also defined as tied aid credits (Fritz 2013: 28, 31).

So-called tied aid credits were originally established by OECD countries to support national exports against competing offers, which grounded in the expectation that foreign trade can be promoted as well as jobs at home may be protected (Holthus, Kebschull in Schweiger 2013: 1). In the 1980ies, the awareness raised that these credits extensively subsidized exports from OECD countries to developing countries (Fritz 2013: 2).

In order to prevent an export credit race between industrialized OECD countries, the international regulatory framework, the Arrangement on Officially Supported Export Credits (Helsinki Package) was introduced in 1991 as part of the OECD's export promotion framework which aims for the elimination of trade distortion practices. All OECD members agreed in an attempt to regulate the use of procurement tied mixed credit schemes which combine government grants, concessional government loans, and commercial loans (Schweiger, 2013: 1,10; Fritz 2013: 2).

Under the Arrangement, these tied aid credits are mainly used to finance commercially-non viable projects in public sectors such as transport, water and sanitation, education, health, social welfare or public safety. The resulting focus on the provision of '(soft) infrastructure projects' and thus on '(quasi) public goods' gives soft loans or tied aid credits their assumed development relevance (Fritz 2013: 2).

## 1.1. Between Export Promotion and Development Policy

Although the institutional roots of soft loans or tied aid credits are in the field of export promotion, by providing these credits, donor countries aim to contribute to economic development and social welfare in developing countries. As a result of the ODA definition of the DAC, export credits are not eligible for official development assistance, solely the concessional part of a soft loan or tied aid credit can be reported as ODA grant and contributes therefore to a donor's overall ODA performance.<sup>1</sup>

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<sup>1</sup> OECD/DAC, Homepage, [www.oecd.org/dac/stats/officialdevelopmentassistance/definitionandcoverage.htm](http://www.oecd.org/dac/stats/officialdevelopmentassistance/definitionandcoverage.htm)

Soft loans are not necessarily procurement tied, but they have typically been tied to goods and services procured from the donor country. This overall tendency has led to harsh critique by the civil society because their prevalent beliefs call for a development cooperation, which is truly aligned with the priorities of the recipient country and the development of local capacities (Ellmers 2011: 4f).<sup>2</sup>

In 2001, OECD donors thus agreed upon a formal consensus to 'Untie Official Development Assistance to the Least Developed Countries' (DAC High Level Meeting). This recommendation was amended in 2006 and expanded in 2008 to heavily indebted poor countries (HIPC).<sup>3</sup> The Paris Declaration (2005), which is a result of the High Level Forum-series starting in Rome (2003) that works on aid effectiveness, reinforced this agreement in its follow-up declaration in Accra (2008) and Busan (2009).

The term 'soft loan' has a very broad scope. A soft loan is generally defined as a credit upon financial terms (maturity, interest rate, and grace periods) that is more favorable than market terms for commercial credits. They are considered to be soft because the credit is granted at concessional terms, e.g. at lower interest rates (compared to market rates), with extended repayment periods or granting grace periods (Fritz 2013: 28, 31).

Due to the fact that soft loans or tied aid credits serve both export promotion and development policy, they are a hybrid instrument of external finance. Soft loans are supposed to support export endeavors for domestic companies, e.g. open new markets for countries and sectors in which financial market conditions are usually not affordable. On the other hand, soft loans facilities aim at making a contribution to the socioeconomic development in recipient countries. In sum, different priorities are addressed in and suggested as achievable with a single instrument (Fritz 2013: 2).

## **1.2. Different Actors, Interests and Power**

The characteristics of soft loans as a hybrid instrument are taken as the starting point of this diploma thesis' soft loan policy analysis in selected European countries. It is definitely not a clearly defined policy field, rather one could argue that two policy fields, export promotion and development policy, are intertwined with each other.

In these policy fields one can identify several stakeholders: governmental, private and non-governmental actors; different groups and fractions. Historically, all of them are provided with different resources; they pursue quite diverse interests in various boards, committees and alliances and represent a variety of political constituencies (Knoepfel et al. 2011: 19).

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<sup>2</sup> EURODAD, Homepage, <http://eurodad.org/4639/>

<sup>3</sup> OECD, Homepage, <http://www.oecd.org/dac/untied-aid/untyingaidtherighttochoose.htm>

Due to this institutional heterogeneity, a profound analysis not only requires a classical analysis along the policy cycle, but first and foremost a state-theoretical and institutional approach.

Representatives of a more state-theoretical model of policy analysis mainly regard the state as a 'legal object', a 'passive instrument' and/or even as a 'control room' (Downs 1967; Dunleavy 1986, 1991). In this case the state is seen as the executing agency of a social class (Offe 1972; Habermas 1973), a specific group (Crozier/ Friedberg 1977) or societal demands (Knoepfel et al. 2011: 26-28).

According to the (Neo-) Marxist political sociologists and state theorists *Nicos Poulantzas* (1938-1979) and *Bob Jessop* (1946\*), states cannot be fixed or statically defined; rather contradictions, movement and a strong relational interdependence between state and society are their very essence (Kelly 1999: 110).

Jessop argues that a thoroughly done analysis must necessarily relate to the political economy of the modern state and has to take the economic and political restructuring of the polity and respective policy fields into account. Therefore, so Jessop, the previously dominant but competing state-centered and governance-centered paradigms cannot grasp the distinctiveness of current national and international regimes (Jessop 2010: 61-65; 2004: 75).

Soft loan systems have been designed between the national export promotion as well as the national development policy. As a consequence, the main field of this analysis is the nation state. Nevertheless, internationalization is another important aspect, particularly the internationalization of capital, the promotion of which started in the 1970ies. This development has led to a growing number of transnational corporations (TNCs) and has dramatically increased the number of international capital transactions.<sup>4</sup>

Alternatively, so-called 'globalization' processes have influenced nation states and their governance modi. All these transnational processes transformed and changed the role of the state: Subnational and supranational regions became more important and changed the relations of territoriality and sovereignty as can be easily seen by the establishment of the European Union and other networks like G7, WTO, IMF, OECD or WB (Wissel 2007: 11-13).

Although this analysis' focus is on the nation state one has to take into account the internationalization of the state and the internationalization of regime relations as well.

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<sup>4</sup> UNCTAD, Homepage, <http://unctad.org/en/Pages/DIAE/Transnational-corporations-%28TNC%29.aspx>

### 1.3. Rethinking Soft Loan Policy

As an instrument of external finance soft loan policies are widely used in OECD countries, especially those who are strongly export-orientated or are former colonial powers; e.g. Denmark, Germany, the Netherlands, France, Spain or Austria.

Soft loans are mostly provided for selected recipient countries via intergovernmental agreements. Recently, some important recipient countries of soft loans have graduated from the programs, while in general donor countries have tried to reform their development finance instruments, including soft loans, with the aim of increasing the leverage of public ODA funds with private capital.

In particular, Germany and other major DAC donor countries have triggered a debate about their reporting practice and specifically about the OECD's definition of aid due to the fact that they reported large volumes of loans being counted as ODA although they did not meet any reasonable definition of ODA of being 'concessional in character', which is the basis of the OECD's definition of aid (Fritz 2013: 25-26).

Critical voices (e.g. Richard Manning, former DAC chairman) have repeatedly pointed out that current reporting practices of major OECD donor countries eroded the ODA-concept. In the light of the current discussions on Financing for Development in the context of the Post-2015 Development Agenda at UN level as well as the discussion on the future of ODA in the OECD/DAC, it seems topical to provide a more thorough analysis of soft loan policies in respective donor countries.

In addition, emerging economies, which are still recipient countries, have become donors themselves. New donors, such as China, India or Brazil, have not felt compelled to conform to OECD agreements or other traditional donors' norms until now.

Moreover, the debate for untying aid has been growing steadily within the last years. Though the 2012 DAC Report on 'Aid Untying' states that continued efforts in implementing the 2001 DAC recommendations on untying ODA at least helped to reduce the proportion of aid that is reported as tied within the last years, it is questionable in how far soft loan policies, which are de iure untied, are not de facto indirectly tied to goods and services procured from the donor country (OECD/DAC 2012a).

All these aspects have been conducive to national soft loan policies being now under scrutiny. In this diploma thesis I therefore aim to analyze soft loans and to critically discuss the development orientation of this instrument, in particular whether soft loans are appropriate to finance development.



This leads to the specification of this diploma thesis's main **research question**:

**What is the importance of development goals in the soft loan policies of selected European countries, in particular Germany and the Netherlands?**

The following **questions** will give guidance to this study:

- What is the role of export promotion in comparison to development goals in national soft loan policies?
- Which social forces shape the arrangement and design of soft loan policies within the respective state system?
- How far are development aspects institutionalized in the national soft loan policies?

This diploma thesis is part of an Austrian Research Foundation for International Development (ÖFSE) research project "Soft loans: an effective instrument of development finance?" headed by Dr. Werner Raza. The first part of the research was carried out by my colleagues Livia Fritz and Eva Schweiger and included the assessment of conceptual questions of the development orientation of tied aid credits (Fritz 2013, Schweiger 2013). The second part of the study includes the analysis of the national implementation of soft loan policies in selected European donor countries.

This diploma thesis will contribute to the second part of the research project by analyzing the soft loan policies of Germany and the Netherlands. The state-theoretical approach will be operationalized by methods of classical policy analysis (Knoepfel et al. 2011: 53-60).

## **1.4. Research Approach and Methods**

It is important to note that this diploma thesis forms part of a research project by the Austrian Research Foundation for International Development (ÖFSE). This framework (see section 1.3) considerably shaped not only this diploma thesis's research question(s) but also the research approach and partly the methodology used.

Due to the fact that soft loan policies are a topic for which not plenty of literature, in particular scientific studies, is available, it was relatively evident to apply a methodological approach which mainly follows the principles of qualitative research. In particular, I would like to

highlight the explorative, process-oriented and flexible character of qualitative research as main advantage for this study.

Siegfried Lamnek states that qualitative research generally allows following not standardized procedures. In particular, its process-oriented and open character will enable one to flexibly adapt the corresponding research process which leads to new and often unpredictable outcomes. In addition, the scientist underlines that the reflexivity of qualitative research postulates the reflected approach of the researcher as well as the adaption of her or his research instruments (Lamnek 2005: 26-27).

According to Uwe Flick, another social scientist, the epistemological principle of qualitative research is to gain an understanding of complex relationships rather than explaining by isolating one single relation (e.g. cause- and effect relationship). Moreover, a typical characteristic for qualitative research is that the topic examined as well as the topically oriented research question(s) are the point of reference for the selection and the assessment of methods. Qualitative research-, analysis- and interpretation procedures are therefore highly obliged to contextuality (Flick et al. 2008: 22-23).

Thus, in order to answer this diploma thesis's main research question, an applied as well as results-orientated approach including a mix of methods was chosen to gain and analyze information and corresponding data. From the very beginning, this approach seemed to be most appropriate to research the complex and politically sensitive topic of soft loan policies.

In concrete terms, my methodological approach mainly follows a non-standardized, qualitative approach which combines qualitative but also quantitative methods: literature review, desktop research, data analysis as well as expert interviews.

## **Literature review**

While undertaking a desktop research in order to prepare myself with an overview of national soft loan policies of selected OECD countries, the diploma theses from my colleagues, which include the assessment of conceptual questions of the development orientation of tied aid credits, served as a starting point for this study (Fritz 2013, Schweiger 2013).

In order to provide a comparative analysis of national soft loan policy systems from a development perspective, representative countries were chosen. Particular attention was therefore paid to OECD donor countries which are (1) important quantitative financiers (2) small, open and export-oriented economies and/or (3) traditionally front-runners in development policy.

Besides, apart from a study about soft loans in Austria (Bayer et. al. 1992), most authors (e.g. Jepma 1991, Ray 1995 and Petermann 2013) have focused their research interest on the complex of tied aid credits or more generally, on concessional finance in the private sector (e.g. DFIs 2013, Velde/Warner 2007) and/or at multilateral-level (e.g. European Think Tanks Group 2011).

This diploma thesis is thus primarily based on documents and information of national governments and corresponding ministries/agencies which are responsible for the programming and implementation of soft loan policies. Additionally, relevant OECD documents as well as expert interviews constitute the backbone of this thesis.

Moreover, state-theoretical literature was consulted in order to build a state-theoretical framework for the analysis of selected national soft loan systems. This literature was supplemented by classic policy analysis guidelines.

### **Expert interviews**

The aim of the interviews conducted for this diploma thesis was to gain information on the national soft loan systems of selected OECD donor countries, namely Germany and the Netherlands, including the institutional setting. Thus, interviews were held with employees from Ministries and their corresponding implementing agencies, NGOs, development experts and researchers.

Due to the fact that soft loans are a politically rather sensitive topic, it took some time in order to get in contact with the corresponding public authorities. Additionally, it was relatively difficult to find interview partners/experts in NGOs or at universities which strengthened the presumption that soft loans or more generally, concessional financing does not seem to be a topic of major concern. In general, the interview partners were selected on grounds of their expertise.

The interviews were conducted in September 2013 and included field trips to Germany (Bonn, Berlin and Frankfurt) and the Netherlands (The Hague, Nijmegen and Amsterdam).

All interview partners were informed about the aim and purpose of the research project. The interviews were based on a semi-structured guideline that ended in an open dialogue in order to leave room for new topics and aspects; discuss details or talk off record. Throughout the interview phase the interview guideline was continuously adapted, depending upon the interviewee (institution, position, expertise).

Almost two-thirds of all interview partners allowed recording; in cases in which recording was refused, a memo or a protocol of the conversation was immediately created after the

interview. In general, all recorded interviews were transcribed with the help of the software 'f4'.

In order to analyze the contents of the interviews, free interpretation was used. Although this technique is not a proper research method, it is widely used in practice due to its pragmatic approach. It has to be pointed out that free interpretation is vulnerable to selective perception; thus I tried to orientate myself to the qualitative content analysis (Mayring 2010) by paraphrasing and reducing material in order to extract categories to interpret the given material (Gläser/Laudel 2009: 44-45).

Due to the fact that applying a scientifically sound and highly elaborated method would have gone far beyond the scope of this diploma thesis, this approach seemed most appropriate and feasible in order to answer the research question(s).

### **Statistical data**

Statistical data was extracted from different sources. In both case studies, the DAC statistical databases were consulted in order to identify which projects were financed with corresponding funds. Due to the fact that the databases were designed for reporting and not for research purposes, the databases only provided limited information in order to illustrate the performance of national soft loan policies in more detail. In general, it was necessary to comprehend the architecture of the databases including the reporting rules as well as practices.

The data analysis and the preparation for own purposes was therefore partly very challenging, also because of the highly specific terminology and partly not transparent reporting architecture. It has to be mentioned that the KfW Development Bank as well as the Ministry for Economic Cooperation and Development (BMZ) were reluctant to provide any detailed information and referred to the publicly available databases from OECD/DAC.

Furthermore, data was extracted from the transparency portal from the KfW Development Bank, which became fully operational in January 2014 and mainly provides data about the bank's engagement in partner countries, relevant sectors, indicating the sources of funds from 2007 onwards. In addition, national budget frames, information from diverse annual reports and data provided by interview partners were taken into account. Moreover, evaluation reports provided relevant insights in order to analyze and interpret Dutch programs.

## 1.5. Structure of the Diploma Thesis

This diploma thesis consists of six chapters:

**Chapter 1** outlines the aim of the study, including a problem statement with reference to key terminology (soft loans, tied aid credits, etc.) and important concepts (ODA, PD). The chapter provides the main research question and relevant subquestions, which guide this study. Additionally, a more general introduction into the institutional set-up as well as the theoretical approach of research is provided. Finally, the chapter describes the research methods which are applied in this diploma thesis.

**Chapter 2** mainly refers to the ideas and concepts of *Nicos Poulantzas (1938-1979)* and *Bob Jessop (1946\*)* in order to build a state-theoretical framework. In concrete terms, this chapter describes Poulantzas's theory of the state as a social relation and as the condensation of a relationship of forces. By doing so, key concepts (e.g. relative autonomy of the state, structural selectivity, internal bourgeoisie) are introduced. Furthermore, this chapter refers to Jessop's strategic-relational approach, which is based on Poulantzas's theory. In conclusion, the soft loan policy field is illustrated from a state-theoretical perspective.

**Chapter 3** comprises the cases studies of Germany and the Netherlands. The focus of the first case study is on the implementation of Germany's Financial Cooperation and thus, on soft loans and more generally, on concessional financing. Due to the fact that the Dutch development cooperation has recently undergone far-reaching reforms, the Dutch case study does not only provide the analysis of the implementation of key programs but also an historical overview, which enables one to embed the changes from a development perspective in a wider framework.

**Chapter 4** provides a tabular overview of the case study results along 14 dimensions (e.g. program characteristics, institutional environment, objectives of the program, assessment of expected developmental impact, project approval, role of the partner country) in order to subsequently compare the implementation of both soft loan systems from a state-theoretical point of view in Chapter 5.

**Chapter 5** therefore gives priority to an analysis of the social forces that shape the arrangement and design of soft loan policies within the respective state system. By analyzing general priorities and specific activities of key stakeholders, an attempt is being made to address in how far development aspects are institutionalized in the national soft loan policies from a state-theoretical perspective. The diploma thesis is completed by **Chapter 6** with concluding remarks.



## 2. Building a State-Theoretical Framework

Various actors within the state have to be dealt with when analyzing soft loan policies of different countries. In particular, one has to discuss their positions, relations and power that interfere with social processes. This includes their power to influence different topics, short-term and long-term goals as well as institutional arrangements (Brand/ Heigl 2007: 171).

Thus, it seems necessary not only to address soft loan policies and their implementation, but first and foremost relevant actors, in particular corresponding implementation agencies, industry and their representative associations, NGOs and other social movements from a state-theoretical perspective.

In this context I will explicitly refer to the state-theoretical approach of *Nicos Poulantzas*, who defines the state as a 'social relation'. Poulantzas insists that there does not exist an 'inside' or 'outside' the state. He grasps the state as an institutional ensemble, as discursive and concrete policies, which is part of conflicts and power relations. This basic assumption is of high relevance and provides particular insights, even if his theory needs to be adapted and revised (Brand/ Heigl 2007: 171).

Poulantzas's state theoretical approach in combination with Bob Jessop's considerations about the 'strategic selectivity' of the state allows to conceptualize that soft loan policies and governance modi at national and international level are primarily a result of political struggle within the nation state, which are themselves influenced by certain international power relations.

In general terms, *Nicos Poulantzas* puts the social relations of production at the heart of political analysis and argues that the state, though relatively autonomous, functions to ensure the operation of capitalist society, and therefore benefits the capitalist class (Poulantzas 2002, 171-176; Jessop 1999, 42-44).

The central claim of his relational approach to the state is that "political class domination is inscribed in the material organization and institutions of the state system; and that this 'institutional materiality' is grounded in its turn in the relations of production and the social division of labor in capitalist society" (Jessop 1999: 44).

In particular, Poulantzas considers the state as a 'strategic field' in which different apparatuses, sections and levels serve as power centers for different fractions or fractional alliances within a so-called power bloc and/or as centers of resistance for different elements among the popular masses:

“The state [then] must be understood as a strategic field formed through intersecting power networks that constitutes a favourable terrain for political manoeuvre by the hegemonic fraction.” (Poulantzas quoted in Jessop 1999: 48)

Poulantzas argues that the arrangement and design of policies such as the analyzed soft loan policy of this study essentially depend on the state’s constitution and organization as a strategic field. To him, the reproduction of class struggles among and within every branch of the state system is reflected in the incoherence and chaotic character of state policies. It is the state’s organization as a strategic terrain which ensures that finally particular actors, sections and fractions make politics and agree upon these diverse micro-policies (Poulantzas 2002, 165-166; Jessop 1999: 49).

Jessop, however, claims that the *structural* imperative of social processes – contradictions, struggles and other interactions – has to be given up. He argues that the general line of a policy is not solely reducible to the state as an institutional ensemble, but emerges in a complex fashion from the institutional matrix of the state and the clash of specific strategies and tactics. He therefore puts his emphasis on the social interaction that accounts for the general line: the state’s structural matrix *and* the specific strategies pursued by different forces. In short, Jessop grasps social processes as a contingent result of *strategic* selectivity and he therefore adapts Poulantzas’s mechanism of the *structural* selectivity of the state to develop his own approach of political domination (Jessop 1999: 50-56).

Poulantzas tries to differentiate himself from the dichotomy of instrumental and structural-functionalist approaches as he considers the state as the factor which condenses politico-ideological relations (Poulantzas 2002: 154-171). As an ‘organic intellectual’ he was continuously involved in politics in the 1960 and 70ies which provided him relevant insights for his theoretical framework (Jessop 1991: 83-85). Jessop, on the other hand, is one of the most well established social scientists who has carried on with Poulantzas’s relational approach of the state and further developed his own ideas of the state’s strategic selectivity (Jessop 2010: 21-52).

In the following I will refer to both their ideas about the state, power and political struggle in order to build a state-theoretical framework for this study. I will further apply my approach to case studies of Germany and the Netherlands in order to analyze the soft loan policies of these countries.



## **2.1. The State as the Condensation of a Relationship of Forces**

Generally speaking, Poulantzas combined Marxist theory and political strategy to understand changes and their implication for national states and class struggles in Europe, and to provide both, a theoretical program and a guide to political action (Jessop 1999: 2).

Poulantzas developed a theoretical understanding in which he avoided to reduce the state to an instrument of the hegemonic class or to a neutral subject, but conceptualized the state as a strategic field of social relations. He argued that a theory of the state could only be developed if one relates the state to the history of political struggle in capitalism (Poulantzas 2002: 159-163, 165-167).

Thus, his approach essentially takes into account the relationship between the economic and the political aspects of capitalism. "Despite the formal separation, Poulantzas argues that the political aspect, embodied by the state, is part of the economic aspect" (Nelson 2013: 3).

To him, the state is present in the constitution and reproduction of the economic relations of productions. Under the dominance of the latter, the whole production process – which is based on the unity of the labor process and the relations of productions – is organized. It is important that Poulantzas grasps these relations not as purely economic, traditional Marxist critique of political economy; they involve specific political and ideological moments as well (Poulantzas 2002, 54-57).

According to Poulantzas, it is mainly the process of production and exploitation which involves the reproduction of the relations of politico-ideological domination and subordination. To put it differently, "(...) power has precise bases in economic exploitation, the place of different classes in the various state apparatuses and mechanism outside the state, and the state system itself." (Poulantzas quoted in Jessop 1999: 45).

As Poulantzas puts the social relations of production at the heart of his analysis of class conflict, he examines the social reproduction of these relations in terms of the reproduction of the interrelated economic, political and ideological conditions within the circuit of capitalist and non-capitalist relations of production (Poulantzas 2002: 54-57; Jessop 1999: 43-45).

This means that class power is firstly determined by the contrasting positions occupied by different classes in the social division of labor. But it is further determined by their different modes of organization and their respective strategies in the different fields of class struggle, as the process of production and exploitation also embodies and reproduces relations of politico-ideological domination and subordination (Jessop 1999: 45).

“In other words, politics and ideology are not limited to reproducing the general, external conditions in which production occurs: they are also present in the heart of the labor process as constitutive moments of the social relations of production. Thus the relations of production are expressed in specific class powers organically articulated to the more general political and ideological relations that concretize and legitimize them.” (Poulantzas quoted in Jessop 1999: 45).

As mentioned above, the relations of productions are expressed in specific class powers. Hence, Poulantzas argues that political class domination is inscribed in the material organization and institutions of the state system. In turn, this ‘institutional materiality’ of the state is grounded in the relations of production and the social division of labor in capitalist society (Poulantzas 2002: 154-159; Jessop 1999: 44).

Poulantzas affirms that the state concentrates, condenses, materializes and incarnates politico-ideological relations in a form specific to the given mode of production. In other words, all relevant power relations are established through and assigned class pertinence by the state. They are enmeshed in the web of economic, political and ideological powers of the dominant class. This means that the state is ‘everywhere’, mainly actively involved in constituting and maintaining the relations of production and the social division of labor (Poulantzas 2002: 64-75; Jessop 1999: 46-47).

At this point Poulantzas considers the general nature of the state as constituting and reproducing class domination. This does not mean that the capitalist state is reducible to a simple repression-ideology; rather the state is involved in organizing the hegemonic class unity within the power bloc and in managing the material bases of consent among the popular masses (Poulantzas 2002: 55; 171).

In summary, the cornerstone of power in class-divided formations is class power, which is grounded in economic power and the relations of production rather than in the state. The state embodies the political-ideological relations of the capitalist relations of production and has a main role in their existence and re-production. Alternatively, the logic of the state and its consequent internal unity comes from the same logic that produces class relations. Due to the idea that economic and political regions are constituted by their mutual relation and articulation, from the very beginning, the autonomy of the state can only be a ‘relative’ one (Poulantzas 2002: 47; Tabak 1999: 138).

## **2.2. The Relative Autonomy of the State**

Poulantzas developed his relational approach in terms of the changing articulation between economic, political and ideological relations within capitalist production. In particular, he

argues that the mental-manual division of labor is embodied by the state because within capitalism, specialized professionals (politicians, intellectuals, public servants) necessarily organize the domination of the bourgeoisie (Poulantzas 2002: 40, 78-81; Jessop 1999: 43).

This means that the division of manual and mental labor is a precondition for the constitution of the state. In capitalism, it is the existence of the surplus which enables the bourgeoisie to concentrate on mental labor. Thereby, the bourgeoisie, who is assigned class pertinence by the state, becomes the dominant class governing over society (Poulantzas 2002: 81-90).

As mentioned above, the constituting and action-orientated effects of the state are always present in the labor process in terms of a complex economic, political and intellectual division of labor. These categories – economic, political and ideological – perform conjointly in maintaining social cohesion and the functionality of the state so that capital accumulation can proceed unhindered (Tabak 1999: 138).

Thus, the state plays a specific role in the constitution of classes and of class struggle in the capitalist mode of production. Although the production of commodities is largely controlled by capitalists, their valorisation in the market is not under the capitalists' control. Capitalists therefore "require an overarching force like the state which follows the overall logic of surplus value creation" in order to ensure their general interest in re-investing capital (Tabak 1999: 140).

According to Poulantzas, the state has to enjoy relative autonomy towards all societal groups and fractions, in particular towards the dominant class and groups within the power bloc in order to ensure the regulatory framework for capitalist production and reproduction. The long-term interests of capital can only be organized by the state if none of the heterogeneous groups within the power bloc directly take hold of the state.

In other words, the state will only be successful in uniting and organizing the bourgeoisie if the relative autonomy of the state is guaranteed. Poulantzas insists that the state's relative autonomy is essential, otherwise the state would be nothing else than an arena in which particular interests clash into each other so that conflicts within the dominant class intensify (Poulantzas 2002: 159).

The absolute autonomy of the state does not work either because then the state would antagonize the dominant classes against the state. On the contrary, the bourgeoisie is not able to execute direct domination as the state disposes of coercive power emerging apart from social classes and necessarily stands contradictorily to the interests of capital (Brand 2005: 49-50).

At this point Poulantzas argues that power only exists in apparatuses. Therefore, power relations condense over time towards different apparatuses and institutions which all develop certain autonomy. Herewith, the contradictions within the state manifest themselves. Insofar the power of different fractions of the bourgeoisie got materialized in form of state apparatuses, they are part of state power (Poulantzas 2002: 163-165).

Poulantzas explains that the state is not solely a reflection of complex structural interactions. The state apparatuses rather exhibit a material opacity and resistance of their own, to which power relations condense in time. It is the relationship of forces among classes, which is present in the state in a condensed form. Therefore, changes in the relations of production will not have direct or immediate consequences for the state apparatus (Nelson 2013: 2-3; Poulantzas 2002: 155-162).

According to Poulantzas “the presence of contradictory social relations within the state is expressed through apparatuses and branches of the state that represent the interests of different classes and class fractions.” (Poulantzas quoted in Nelson 2013: 4). Thus, the relative autonomy of the state is “inherent to its very structure (the state is a relation) in so far as it is the resultant of contradictions and of the class struggle as expressed, always in their own specific manner, within the state itself.” (Poulantzas quoted in Nelson 2013: 4)

Hence within the state a main axis of contradictions is between different groups of capital. These contradictory social relations do not only explain the relative autonomy of the state, but also define the state as ‘naturally’ divided and as a strategic field. The relative autonomy of the state is a relational ‘relationship’, which is continuously contested and never completely fixed (Poulantzas 2002: 167; Nelson 2013: 3-4).

Poulantzas asserts that the relative unity of the state stems from state power, which in global politics gradually articulates in favor of the hegemonic class or fraction (Poulantzas 2002: 168). Thus, the unity of the state is not inscribed into the capitalist state, but depends on the concrete arrangement of power relations.

### **2.3. The State and the National Bourgeoisie**

A main duty of the state – or his ‘global ordering function’ – is to establish social cohesion or consensus in a permanently contested and contradictorily class-divided society. Therefore, the state obviously embodies something like a common welfare and appears in some way class-neutral or in a way like a peoples’ state with class character, obtaining his legitimacy from the sovereignty of the people. At the same time a main function of the state consists of organizing the dominant classes while disorganizing the subordinated classes (Brand 2005: 49).

The bourgeoisie's main interests are a predictable framework and form of governance which best suits their interest in re-investing capital. Its overall reproduction conditions are ensured by the institutional terrain of the state. Poulantzas argues that the principal role of the capitalist state consists of organizing the national bourgeoisie by representing its long-term interests. He explains that due to the economic relations of production, all capitalists are in competition with each other (Jessop 1999: 47-48).

Thus, the bourgeoisie has a constitutively divided character. In consequence, the bourgeoisie is not able to reign on its own, but has to be organized as reigning class. The unity of the national bourgeoisie as reigning class is organized by the state. It is the state and his agents who overall unite the heterogeneous bourgeoisie within the power bloc (Poulantzas 2002: 157-158).

Whereas the national bourgeoisie consists of industrial, bank and commercial capitalists as well as big landowners, the power bloc forms an alliance of different fractions of the bourgeoisie (Koch 2006: 123). They all have various positions (because the material advance of one can only be at the expense of another) and differing self-serving interests, being all but not simply balanced. It is the state which organizes that all of them are ruled within the power bloc by the 'hegemonic' regime of one fraction (Poulantzas 2002: 157-158).

According to the Marxist philosopher *Antonio Gramsci (1891-1937)* 'hegemonic' means that one fraction succeeds in establishing its particular interests as the interests of a whole. In this view, the state is not solely a result of the economic relations of productions, but a result of contingent social negotiation processes (Poulantzas 2002: 158; Brand 2005: 50).

It is important to understand that the dominant classes are only able to exercise political power if their projects are hegemonic. At the same time, the state has to enjoy relative autonomy towards particular interests in order to play his part in uniting and organizing the bourgeoisie and the power bloc in the long run. Otherwise – as mentioned in section 2.2 – existing contradictions and conflicts would clash into each other and worsen.

One of Poulantzas's main innovative arguments is that class relationships in capitalism are not within the state or beyond; they are inscribed into the state. To him, the relations of production, the division of labor and the economic structure are not situated beyond classes and their struggles. Thus, social classes do not exist for themselves; in the first place they constitute themselves exactly via these struggles (Poulantzas 2002: 67).

In doing so the state plays a key role. The interests of the power bloc (which is not a united alliance in itself) are not simply enforced to one side; there rather occur instable balances of

compromises. These interests are conflictive; therefore the balance is historically specific and dependent on the hegemony of certain fractions (see section 2.4).

According to Gramsci, hegemony always means the ability of the dominant classes to enforce their interests by establishing them as interests of general concern and in this way as interests of the subordinated classes. In particular, Gramsci means a far reaching vision of society and development, which is shared by dominant and subordinated classes. Domination is always economical, political and ideological. Therefore, hegemony and consensus are not only of importance within the power bloc, but in the society as a whole (Brand 2005: 50).

As mentioned above, Poulantzas defines the national bourgeoisie mainly along economic criteria. Further, he insists that the bourgeoisie can only be defined properly if the political and ideological criteria of its class determination are also taken into account as well as a definition of the scope of the laboring class and, particularly, of the petty bourgeoisie (Poulantzas 1976: 70-71).

Originally, Poulantzas differs between monopoly capital and non-monopoly capital and describes – due to these different capital categories – contradictions within the power bloc. For the current analysis more important, Poulantzas identifies not only the contradiction between big and medium capital but also between national and internationally orientated capital (Koch 2006: 125-126).

In particular, Poulantzas emphasizes the concrete analysis of development in combination with the capital fractions of a certain formation. In this case, he argues that the internationalization of capital relations went along with the establishment of intermediaries between the national economy and foreign capital. Traditionally understood as comprador bourgeoisie, Poulantzas at this point starts using the term 'internal bourgeoisie'. It must be noted that this definition refers to the different positions the bourgeoisie has in international labor division (Poulantzas 1976: 71-73).

As the internationalization of capital has increased immensely since Poulantzas writings, I will refer more thoroughly to the internationalization of capital relations, and in particular, to the 'internal bourgeoisie' in section 2.7. Prior to that, the following and the next section will deal with political struggle within the state and the structural and/or strategic selectivity of politics.

## **2.4. Political Struggle and the Structural Selectivity of Politics**

In different apparatuses and branches of the state contradictory social relations are expressed representing the interests of different classes and class fractions. What constitutes the state is that the dominant classes or class fractions as well as the subordinate classes are present in different ways within the state. Whilst the dominant classes are organized in power centers and the power bloc, the subordinate classes are present in apparatuses understood as centers of resistance (Nelson 2013: 2-4; Jessop 1999: 48).

According to Poulantzas class power within the economic relations of production is the basis for political power networks. These networks are the essence of the state's strategic field but are not single actors. They shape their power with others. Those include 'apparatuses' like churches or sport organizations that are situated in civil society (Nelson 2013: 2-3).

Poulantzas explains that these apparatuses may build their own power networks; nevertheless they are still included in and shaped by the state's strategic field. In consequence, complex interactions arrayed within multiple networks of power relations form the capitalist state (Poulantzas 2002: 64-65).

The state is also involved in dis-organizing the popular masses. As mentioned at the beginning of chapter two, the state is a social relation. Hence, form and function of the state also depend on the role of the state in relation to the subordinated classes.

On the one hand, state power prevents the masses from forming a unified front against the state and links them severally to the power bloc through its management of material concessions. In other words, the state apparatuses constitute and re-produce hegemony by enabling agreements between the power bloc and certain subordinated classes (Poulantzas 2002: 171). "In particular it mobilizes the petty bourgeoisie and the rural classes in support for the power bloc (either directly or through their support for the state itself) so that they are not available for alliances with the proletariat." (Poulantzas quoted in Jessop 1999: 48).

On the other hand, the state disorganizes the masses by hindering the proletariat to join forces in certain political institutions. Instead their unity is indirectly represented by the state as a nation (Poulantzas 2002: 90). In this way the popular masses are part of state power and are also materially inscribed into the state. So the state simply cannot be reduced to ideology and repression, but establishes domination and hegemony by making concessions towards the subordinated classes (Poulantzas 2002: 59-63; 171-176).

So the popular masses are part of state power and materially inscribed into the state by different consensuses. The power bloc does not enact these consensuses since they have their own materiality. Nevertheless, the subordinated classes are materialized in a different form than the dominant classes; they only exist in form of centers of resistance. These centers are used to oppose the real power of the bourgeoisie by the subordinated classes but not to advance their own long-term political interests. Hence, within the state, there is no permanent situation of dual power. Although the popular masses are represented and integrated differently, they are always existent within the state as subordinated classes (Poulantzas 2002: 174).

The mechanisms of power are self-limiting since class relations are always and necessarily relations of struggle, resisting integration into apparatuses and tending to escape all institutional control. These mechanisms always incorporate and condense the struggles of the dominated classes but without necessarily integrating them and absorbing them. In this way, the class struggle always has primacy over the institutions-apparatuses of power because both, class and non-class struggles, escape state control. Thus, state power is always provisional, fragile and limited (Poulantzas 2002: 67; Jessop 1999: 47).

Current policies of the state are not only a result of inner-state contradictions between the state apparatuses and branches, but are also a result of contradictions within the state apparatuses and branches. According to Poulantzas, specific importance is attached to the mechanism of structural selectivity. This selectivity is mainly a result of the materiality and history of every single apparatus and their specific representation of particular interests within these apparatuses, meaning their position within the configuration of power relations (Poulantzas 2002: 165).

In other words, the state represents an institutional matrix of different apparatuses. The unity of the state, its apparatuses and that of policies cannot be assumed a priori but are a result of structural and strategic interactions among and within those apparatuses (Nelson 2013: 4). To put it differently, in its material apparatuses the state is an actor, which does politics by formulating and implementing policies (Brand 2005: 51).

Poulantzas further argues that the strategic selectivity of the capitalist state favors the dominant class due to the hierarchy of interactions which establish "a whole chain whereby certain apparatuses are subordinated to others, and through the domination of a particular apparatus or branch (such as the military, a political party or a ministry) which crystallizes the interests of a particular hegemonic fraction." (Poulantzas quoted in Nelson 2013: 4).



Political power is not solely expressed through the relations of production and the position within the state apparatuses, but also through the strategies applied by dominant or subordinated classes within or in opposition to the entire system. Although the state continuously tries to disorganize the popular masses, certain consensuses have to be achieved. Hence, the subordinated classes can alter their situation by forcing the state to concessions through mobilization within and beyond the state. (Nelson 2013: 4).

These concessions are never sufficient in order that the subordinated classes can advance their long-term interests because – according to Poulantzas – political power within the state is expressed through interactions between the structure of a highly uneven and strategically selective institutional terrain and the agency of different classes.

## **2.5. The Strategic Selectivity of the State**

Politics are mainly a result of power relations and political struggle. As the establishment of political domination and the selectivity of politics are major aspects of Poulantzas theory, his state-theoretical approach provides the necessary perspective to thoroughly analyze soft loan policies.

According to Jessop, Poulantzas's relational perspective enables one to comprehend how each national state system develops in a distinctive way according to the material condensation of the specific political relations that have developed in a given nation-state; and on the other hand how the state changes according to each stage and phase of capitalism, according to normal and exceptional periods, and across diverse forms of regime (Jessop 2010: 125).

Since Poulantzas developed his approach in the 1970ies, some of his major thoughts have been adapted and further developed (Brand 2005: 52). In particular, Jessop's approach of strategic selectivity marks an advancement of Poulantzas's more structural-orientated analysis of political struggle.

Jessop's theoretical framework underlies Poulantzas's main claim that the state being a social relation has not any political power of its own and as an institutional ensemble is characterized by contradiction and class struggles. Hence, Jessop agrees with Poulantzas that the state and its societal functions are a result of social processes which materialize towards the institutional apparatuses and develop a life of their own. Both see the institutional ensemble as relatively autonomous having historically different forms of organization and representation. This relative autonomy finally enables certain alliances and fractions to question the already established institutional arrangement of the state (Jessop 1999: 50-51).

According to Jessop, Poulantzas overestimated the structural selectivity of the state. Thus, Jessop reformulates Poulantzas's definition of the capitalist state and defines state power as a form-determined condensation of the balance of forces in political and politically relevant struggle (Jessop 2010: 125-126). Further, Jessop insists on the following two interrelated aspects of the state system:

"We need first to examine the state form as a complex institutional ensemble with a specific pattern of 'strategic selectivity' that reflects and modifies the balance of class forces; and second, to consider the constitution of these class forces and their strategies themselves, including their capacity to reflect on and respond to the strategic selectivities inscribed within the state apparatus as a whole." (Jessop 2010: 126).

Alternatively, Jessop argues that one can analyze the structure of the state (being a social relation) as strategic in its form, content and operation. On the other hand, this view enables analyzing actions, in turn, as structured, more or less context-sensitive, and structuring.

According to Jessop, "this involves how a given structure may privilege some actors, some identities, some strategies, some spatial and temporal horizons, some actions over others; and the ways, if any, in which actors (individual and/or collective) take account of this differential privileging through 'strategic context' analysis when choosing a course of action. In other words, one should study structures in terms of (differentially reflexive) their structurally inscribed strategic selectivities and actions in terms of structurally oriented strategic calculation." (Jessop 1999: 51)

To put it differently, Jessop argues that the access of single actors to the state, respectively state apparatuses is asymmetrical. Based on Poulantzas, Jessop confirms, that this access is inscribed into the material structure and the strategic orientations of the state. In short, particular interests are privileged. This strategic selectivity finally makes some regimes and policies more likely than others.

Jessop explains that individual, collective or organizational learning capacities, which include experiences resulting from already applied strategies in different conjunctures, influence the recursive selection of strategies and tactics (Jessop 1999: 52). He adds that the "reflexively re-organized structural configurations and recursively selected strategies and tactics co-evolve over time to produce a relatively stable order out of a potentially unstructured complexity." (Jessop 1999: 54).

Importantly, Jessop argues that the structurally inscribed strategic selectivity, which essentially forms part of this co-evolving, relatively stable order, "rewards actions that are compatible with the recursive reproduction" of the corresponding structures in different ways.

As a result, Jessop points out that the access of certain interests is privileged over others by particular forms of the state (Jessop 1999: 54).

He further states “that a change in the self identity of political forces, the pursuit of different interests, the development of different strategies or the building of different blocs and alliances could well lead to different outcomes, making it easier or harder to achieve specific objectives in and through a given type of state, a given state form, or a given form of regime.” (Jessop 1999: 54-55).

In other words, reorganizing the state – its modes of representation, its social bases, the currently dominant state project, the mode of political legitimation or the state’s broader hegemonic project –will change the strategic selectivities as well.

As mentioned above, the “state is an ensemble of power centres that offer unequal chances to different forces within and outside the state to act for different political purposes. How far and in what ways their powers (...) are actualized depends on the action, reaction, and interaction of specific social forces located both within and beyond this complex ensemble.” (Jessop 1999: 55).

Being a social relation, the state does not exercise power by itself, but via its apparatuses, institutions and agencies. Although the state apparatus has its own resources and powers being the basis of its relative autonomy, it is always a set of politicians, state personnel and other political forces that activate specific powers and state capacities inscribed in particular institutions and agencies. Thus, the power of the state apparatus is always activated through the agency of definite political forces in specific conjunctures (Jessop 1999: 55).

Thus, Jessop deduces with his strategic-relational approach that the nature and extent of state powers “depend on structural relations between the state and its encompassing political system, strategic ties among politicians and state officials and other forces, and the complex web of structural interdependencies and strategic networks that link this state system to its broader social environment.” (Jessop 1999: 56).

In summary, Jessop explains that a more inclusive strategic-relational analysis helps to develop a reflexive analysis well suited to the study of structurally inscribed selectivities in the state and other fields of action (Jessop 1999: 52). “It also offers a basis for identifying the weaknesses and strengths of a given type of state, state form, or political regime, their crisis tendencies, as well as their capacities to counteract these tendencies, and so on.” (Jessop 1999: 56).

With regard to the soft loan policies, Jessop’s approach of the state’s strategic selectivity provides relevant insights. His considerations provide the necessary framework, for example,

to analyze and interpret the balance of forces within the state more closely. Furthermore, the framework is conducive in addressing main actors, their priorities and their influence on the selectivities within the corresponding policy fields.

Selectivities are a result of power relations and political struggle. As described in section 2.3, the state does not only enforce the interests of the power bloc, which is not unified in itself. According to Poulantzas, the state establishes the balance of forces between classes and their groups and fractions. Their interests are conflictive, so the balance of forces and the hegemony of certain fractions are historically different. Thus, in the following I will refer to the quite complex question about political power and hegemony.

## **2.6. Conflict and Stability in Capitalist Society**

One of the most famous intellectuals, who considered the private ownership of the means of production as a constituting factor of class relations, was Karl Marx. The philosopher Marx mainly argues that the exploitation of individuals is inscribed into the capitalist mode of production, which establishes antagonistic relations between capitalists and workers. From this point of view he further describes that the capitalist society is constituted by class struggles, which cannot be balanced by the state in the long run (Opratko 2012: 26-27).

According to the political scientist Benjamin Opratko, Marx's considerations bring up a series of problems. Opratko mainly refers to the key question, which kept and keeps a lot of other intellectuals and philosophers busy: How is the capitalist mode of production, which produces classes with antagonistic interests, finally reproduced by itself, even through crises, in a relative stable way? Following Opratko, classes constitute themselves in struggles, which basically happen face-to-face and not in the backyard. Thus, he questions: Why is a society in which the majority of the people is being exploited and a state which is committed to the minority of owners of the relations of productions and the organization of its different bourgeois groups and fractions not being swept away by the exploited? (Opratko 2012: 28).

Marx and Engels mainly find two arguments why the capitalist society is reproduced by and through the exploited in their daily practice. On the one hand, they argue that the power of the bourgeoisie includes the instruments of idea production, so that the exploited are ideologically subordinated. On the other hand, they explain that the products of human labor are products, which are awarded a tangible (exchange) value. As a consequence, social relations between people are established as relations between things, which confront them like natural laws (Opratko 2012: 28-30).

Opratko mentions that a lot of Marxist philosophers tried to answer the question of the relative stability of the capitalist relations of productions along Marx and Engels' argumentation. Nevertheless, the political scientist mainly refers to Antonio Gramsci, another intellectual, who tried to find an answer by developing his own concept of hegemony (Opratko 2012: 30).

As described in section 2.3, Gramsci defines hegemony as the ability of the dominant class to assert their interests as the common interest and achieve consent by the subaltern via their involvement in concrete projects and material and ideological concessions.

Thus, according to Gramsci, power is not primarily exercised via coercion and violence, but rather more via leadership and the organization of consensuses. It is essential that the consensus is organized by a certain group or dominant class in the political, ideological and cultural superstructures and includes the whole society. Gramsci further argues that the 'unity' of structure and superstructure (what Marx called 'basis' and 'superstructure') enables the relative stability in a certain phase of capitalist development, which he defines as 'historic bloc' (Opratko 2012: 42).

Following Gramsci, the capitalist state – he uses the term 'integral state' – is constituted by two overlapping spheres: the 'political society' and the 'civil society'. Whereas the political society means the state in its traditional form as coercive state apparatus, the civil society is rather associated with consent and hegemony. Nevertheless, Opratko points out that these concepts are analytical terms and the complex reality is characterized by a 'dialectical becoming' (Opratko 2012: 39-41).

According to Gramsci, material and ideological consensuses are the main elements, which enable the relative stability. Terry Eagleton states thereto that "...in modern societies it is no longer enough to occupy factories and to oppose the state. The exploited have to attack the field of 'culture' in its broadest, most mundane sense. The power of the ruling class is both ideological and material, so any counter-hegemony must lead their campaign on the hitherto neglected areas of values and customs, rituals of the language and habits." (Eagleton quoted in Opratko 2012: 38; own translation).

In order to emphasize the political and practical implications, Gramsci argues that a 'war of attack' (active revolution) could only succeed with a prior 'war of position' (passive revolution), in which a struggle over ideas and beliefs, to create a new hegemony, takes place. Thus, following Gramsci, the long-term struggles necessarily have to be entered because in politics the 'siege is mutually reinforcing', in other words, this means that hegemony is continuously contested (Opratko 2012: 38-39).

In summary, Gramsci grasps hegemony as a modus of exercising power, in which the consent of essential parts of the population, including the subalterns, to the prevailing power relations, has to be organized. This modus includes forms of coercion, which are mostly associated with the state's monopoly on the use of force. According to Gramsci, hegemony essentially depends on consent and compromises; modes of coercion clearly have to be less important. Thus, if a formation is mainly characterized by coercion, violence, repression and corruption, one by no means can argue for a hegemonic constellation (Opratko 2012: 188-190).

As illustrated in this section, the question of hegemony concentrates, following Gramsci, similar to Poulantzas, on the nation state. This does not mean that Gramsci ignored the importance of other levels than the national, but his remarks, which he wrote down in his Prison Notebooks, are, apart from a few indications, quite limited. The general question how to grasp and conceptualize inter- or transnational hegemony is still an issue of intellectual disputes about the re-formulation of the term and corresponding concepts. In particular, representatives of the Neogramscian theories of the International Political Economy deal with this question (Opratko 2012: 57).

Before addressing the future of the nation state I would like to deal with the nexus of the internationalization of capital relations and the nation state. As soft loans and export promotion are regulated by the OECD and partly by the WTO, international relations and regimes are of importance for this analysis. In this context, I will discuss the internationalization of the state in the next section.

## **2.7. Internationalization of Relational Regimes**

Grasping the state as a social relation – reproduced by the state's institutional form in cooperation with the changing character of political power relations – is one of Poulantzas main theoretical contributions. As described in the last section, Poulantzas mainly argues that the state is a system of structural selectivity; this means the state being a field of political conflict where various fractions and alliances compete for hegemony with different strategies.

Even though Poulantzas could not anticipate the crisis of Fordism and the evolving Post-Fordism era – as characterized by regulation theorists – in the 1970ies, he insisted on the changing forms of the nation state and tried to analyze them on the basis of his state-theoretical approach. In this case, Poulantzas' ideas concerning the internationalization of the state still provide a theoretical understanding and important perspectives in analyzing international politics (Poulantzas 2001).

Poulantzas's work is strongly influenced by his close political bonds with the dominated classes and the struggle for democracy. Thus, he was not only very familiar with the theoretical positions of Marx, Engels and Lenin but also insisted on discussing the question of the internationalization of capital in terms associated with imperialism. In this theoretical and strategic context, Poulantzas put his emphasis on the new forms of the international division of labor (Jessop 2001: 72, 75).

To him, these changes in the global relations of productions tend towards raising the rate of exploitation, so as to counteract the tendency of the rate of profit to fall. In particular, American capital would try to realize higher profits via indirect exploitation of dependant formations, merger & acquisitions and foreign direct investments in other metropolises (Poulantzas 1976: 62).

Poulantzas considers these new forms of capital accumulation and the international division of labor (that are at the root of this extended reproduction of capitalism between the metropolises and dominated formations) as a crucial phase of imperialism:

Following Poulantzas this means that the line of demarcation and cleavage between the metropolises and the dominated formations was becoming sharper and deeper. Further, a new dividing line was drawn within the metropolitan camp, in particular, between the United States and other metropolises, mainly in Europe. So from this moment on, the relations between the imperialist metropolises were also organized in terms of a structure of domination and dependence within the imperialist chain (Poulantzas 1976: 47).

Poulantzas further describes that in addition to the struggle between US and European capital, the US have consolidated their hegemony by technical standards, American know-how and new relations of productions characteristic of American monopoly capital and by the reproduction within these metropolises of this new relation of dependence. This extended reproduction mainly implied the reproduction of political and ideological conditions (Jessop 2001: 75).

According to Poulantzas this phase of imperialism has changed the relations between capital and labor on the one hand, and on the other hand marked the reorganization of class relations within the bourgeoisie. Therefore, he argues in his analysis that the relations between the European bourgeoisies and American capital brought forth another form of the bourgeoisie, for which he uses the term 'internal bourgeoisie' (Poulantzas 1976: 72).

Prior to this development, Poulantzas mainly distinguished the national bourgeoisie from the comprador bourgeoisie. In contrast to the national bourgeoisie being "...the fraction of the indigenous bourgeoisie which, on the basis of a certain type and degree of contradictions

with foreign imperialist capital, occupies a relatively autonomous place in the ideological and political structure, and exhibits in this way a characteristic unity”, the comprador bourgeoisie “...is that fraction of the bourgeoisie which does not have its own base for capital accumulation, which acts in some way or other as a simple intermediary of foreign imperialist capital (which is why it is often taken to include the ‘bureaucratic bourgeoisie’) and which is thus triple subordinated – economically, politically and ideologically – to foreign capital.” (Poulantzas 1976: 71).

Poulantzas does not argue that the economic contradictions between foreign capital and indigenous capital do not play any role in defining the national bourgeoisie. Nevertheless, he was aware that these definitions could not grasp the bourgeoisies of the imperialist metropolises in their relationship with American capital. Thus, Poulantzas introduced the ‘internal bourgeoisie’ existing alongside sectors that are genuinely comprador, but no longer possess the structural characteristics of a national bourgeoisie, although this extent differs, according to him, from formation to another (Poulantzas 1976: 72).

Poulantzas explains that the internal bourgeoisie – as a result of the reproduction of American capital – is implicated by multiple ties of dependence in the international division of labor and in the international concentration of capital under the domination of American capital. This domination can go so far as that a main part of the surplus-value this capital produces goes to the profit of the latter. Furthermore, the internal bourgeoisie is affected by dissolution effects on its political and ideological autonomy vis-à-vis American capital as a result of the induced reproduction of the political and ideological conditions of this dependence (Poulantzas 1976: 72).

Following Poulantzas the imperialist metropolises are not affected in the same fashion by the domination of American capital as those of peripheral formations because “(...) the internal bourgeoisie maintains its own economic foundation and base of capital accumulation both within its own social formation, and abroad.” (Poulantzas 1976: 72). Even so there are significant contradictions between American capital and the internal bourgeoisie, which cannot lead to positions of effective autonomy or independence towards this capital and have effects on the state apparatuses of these formations in their relations with the American state.

As a consequence of these forms of alliances (including all contradictions) Poulantzas discusses the question of the nation state. According to him, “the current internationalization of capital neither suppresses nor by-passes the nation states, either in the direction of a peaceful integration of capitals ‘above’ the state level...or in the direction of their extinction by



the American super-state, as if American capital purely and simply directed the other imperialist bourgeoisies.” (Poulantzas 1976: 73).

Nevertheless, Poulantzas notes that this internationalization deeply affects the politics and institutional forms of these states because “these states themselves take charge of the interest of the dominant capital in its development within the ‘national’ social formation, i.e. in its complex relation of internationalization to the domestic bourgeoisie that it dominates.” (Poulantzas 1976: 73). In other words, “the imperialist states take charge not only of the interests of their domestic bourgeoisies, but just as much of the interests of the dominant imperialist capitals, as these are articulated within the process of internationalization.” (Poulantzas 1976: 75).

Poulantzas further argues that on the other hand this does not mean that these ‘foreign capitals’ directly participate as relatively autonomous social forces in each of the power blocs involved. Following him, their presence is rather ensured by certain fractions of the internal bourgeoisie, their internalization and representation and by the induced reproduction of the dominant imperialist capital in the metropolises. He concludes that this explains a whole series of dislocations at the level of hegemony within these power blocs (Poulantzas 1976: 75-76).

Although Poulantzas wrote most of his books and articles in the 1970ies, he has influenced the debate about the role of the nation state until today. In recent debates, different social and political scientists have tried to grasp the internationalization of the state. Therefore, I will refer to the German debate in which Jens Wissel focuses on the ‘transnationalization of the state’. Then I will deal with the ‘Second-order condensation’ (Neo-Poulantzian approach) in order to conclude about the internationalization of the nation state and talk about its future.

## **2.8. From the Internationalization of the State to Transnationalization**

Poulantzas’s thinking about ‘the international’ and his general idea that the penetration of European nation states by American capital inserts American power in the European social formation and calls for a rethinking of state, class and capital relations across borders has become increasingly relevant in the debates about the possible rise of a transnational capitalist class and transnational state.

Jens Wissel, a German political scientist, who thoroughly studies ‘transnationalization’ processes and their conditions of domination, has tried to update Poulantzas’s class- and

state theoretical view. Wissel argues that current relations of production cannot be explained with Poulantzas's concept of the internationalization of capital. Wissel therefore illustrates that – different to multinational companies – transnational firms not only relocate subsidiaries or high-end production lines to other countries but also develop transnational production networks. (Wissel 2007: 109).

Wissel explains that this development is not primarily driven by certain capital fractions; the bourgeoisie rather transnationalizes herself or is transnationalized. According to him, this world wide integration is led by big funds with a focus on their shareholder value and has tremendously increased the internal competition and decentralisation processes of the company's structure (Wissel 2007: 110-112).

From a class-theoretical perspective Wissel argues that the transition from internationalization to transnationalization has not only led to a tending dissolution of the national economies but also to the development of a class fraction being neither national (Poulantzas) nor transnational in the sense of existing outside the fragmented national spaces. Following Wissel, this newly established 'transnational class' is economically, politically and culturally located within national spaces and thus, part of the national power bloc (Wissel 2007: 115). Moreover, he explains that combined with the development of a transnational capital fraction the difference between foreign and domestic capital disappears because all companies have to be domestic in their main markets. The transnational companies are nevertheless national because they refer to a specific nation state (Wissel 2007: 116).

According to Wissel the identification of a 'transnational capital fraction' does not only require an analysis of the relations of production but also of their constituting political agency. With reference to other political scientists (e.g. Gill 1990, van der Pijl 1998) Wissel explicates the constitution of neoliberal hegemonic politics as a political and cultural project of a transnational class fraction at world level. In short, he argues that global relations of power and control are condensed in transnational networks (Wissel 2007: 116).

Further, Wissel defines this transnational capital fraction as a 'transnational internal bourgeoisie' because its basis of reproduction is still the nation state though the degree of transnationalization varies from nation to nation. Following Wissel, the transnationalization enters nation states, but at the same time, nation states continue to be main actors of transnational processes (Wissel 2007: 120-121).

Wissel assumes that a transnational power bloc has formed which cannot be captured with Poulantzas's conceptions of state and class relations based in national spaces. At this point,

he refers to Gramsci's definition of hegemony and explains that the development of a transnational power bloc is mainly characterized by the transformation of the relations of productions which includes undermining Keynesian class consensus in favor of transnational financial and industry capital (Wissel 2007: 123).

According to Wissel, private networks and institutions, which are structured, partially, by the forms of international law, form part of the transnational bloc. Following him, this bloc is not a national power bloc at world order; it is rather a bloc with different fractions of transnational orientated capital. As the nation state is still of reference for these fractions, the transnational bloc constitutes itself through the nation states and the corresponding power blocs. In consequence, the national power blocs are in themselves transnationalized. In summary, the main difference between transnational and national condensations of power relations is that the former are less continued. As a result, transnational apparatuses are more easily dissolved or may sink into oblivion (Wissel 2007: 127-129).

Wissel finally argues that all these transnational processes are power struggles which have led to new governance structures. This development is empirically underpinned by his analysis of the Dispute Settlement Body of the WTO (Wissel 2007: 135-148). In this analysis he demonstrates the increasing autonomy of the organization in respect to its national member states. In contrast, private companies, in particular transnational companies, get more influence. In general, Wissel concludes that the WTO is part of a wider network, consisting of national, supranational and transnational apparatuses, and has an important function by governing the struggles within this new transnational power bloc (Wissel 2007: 161-173).

Not only Wissel tries to reflect upon the processes which are labelled as 'the internationalization of the state'. The political scientists Ulrich Brand, Christoph Görg and Markus Wissen use the term 'second-order condensation of power relations' in order to grasp the re-articulation or re-configuration of the state under conditions of changing class formations and the internationalization of capital.

## **2.9. Second-Order Condensation of Power Relations**

In the light of Poulantzas's view of the state – defined as a social relation where state apparatuses are seen as the material condensation of power relations between classes and class fractions – Ulrich Brand, Christoph Görg and Markus Wissen have developed their concept of the internationalization of the state.

They assume that the internationalization of the state is mainly characterized by a civil society, which shifts to a transnational level, the increasing importance of international organizations, regimes and networks and the general transformation of the state towards a neoliberal state characterized by competition. The latter already points out that Brand, Görg and Wissen do not argue for the dissolution of the nation state, but explain its changing character whilst the state and the state system necessarily remain part of capitalist regulation and reproduction (Brand/Görg/Wissen 2007: 221-223).

Brand et al. conceptualize supranational institutions as second-order material condensation of social power relations. As the nation state is already seen as the material condensation of power relations, at an international level the generalisation of interests materialize and condense in their respective institutional form. The scientists note that this process neither has to be functionally stipulated nor necessarily successful (Brand et al. 2007: 226-227).

It is essential to state that Brand et al. do not see any linear or hierarchical relationship. A second-order condensation does not mean that it is superior to any other nation state. Existing hierarchies are rather the result of struggles between different – e.g. national or international – levels from the point of view of rescaling. So the concept of second-order condensation denotes a complex relationship among condensations over various spatial scales (Brand et al. 2007: 226-228).

The political scientists affirm that other actors than the nation state play a vital role in their conceptualisation, most importantly transnational class actors, NGOs, knowledge communities and media but also trans-local actors and coalitions. According to Brand et al. these actors also successfully try to influence international organizations directly and not in a roundabout way via national representatives (Brand et al. 2007: 228).

They further argue that not only nation states influence at international level, but also international organizations, other social forces or particular interests influence the national balance of power relations and thus, the articulation of 'national interests'. Moreover, specific 'national interests' can also be consolidated via bilateral or multilateral negotiations and regulations (Brand et al. 2007: 228).

The scientists demonstrate that policies nevertheless have to be implemented by the nation states and their governments because international organizations still lack own financial resources and coercive power. According to them nation states are still main actors because they own what Max Weber defined as 'monopoly of legitimate physical violence' (Brand et al. 2007: 227).

Contrary to Wissel (cf. section 2.8), Brand et al. explain by referring to the Dispute Settlement Body of the WTO or the UN Security Council that nation states and their power relations dominate the governance levels in these international organizations. Therefore, they by themselves cannot establish hegemonic projects because they are not able to give continuity and stability.

The political scientists conclude that the international organizations' strength is the discursive implementation of hegemonic projects, which is currently demonstrated by the neoliberal agenda. Due to the lack of coercive power and resources international organizations are therefore characterized by the power of individual member states and their relations of power between each other (Brand et al. 2007: 227).

Brand et al. do not want their ideas to be understood as a theory; they rather talk of a 'research program' which needs further rethinking. Nevertheless, they open up a new perspective for the analysis of international politics. In this context I will refer to the role of the nation state and its future in the next section before concluding preliminarily.

## **2.10. The Future of the Nation State**

Although today's wording is different from the debate in the 1970ies, Poulantzas addressed important aspects about the future of the nation state in an era of an advancing internationalization of capital. He insisted above all on the importance of the nation state despite – or more precisely because of – further internationalization (Jessop 2001: 77). According to him these changes in progress only affect certain elements of the state, and they do so to an uneven extent. Thus, these elements take the form of modifications of the state that remains, in its inner core, the nation state (Poulantzas 1976: 80).

Poulantzas affirms that there is no doubt that forms of 'coordination' of economic policies of different states have proved to be a contemporary necessity. But, according to him, "...these institutional forms do not in fact amount to apparatuses supplanting the national states or superimposed on them." (Poulantzas 1976: 81). Thus, following Poulantzas the nation state rather delegates the exercise of these economic and public functions.

Bob Jessop, whose work is essentially based on Poulantzas theoretical considerations, refers to six major points, with which Poulantzas meets objections of the development of a supranational state:

First of all, only certain functions of the state can be transferred to supranational institutions. Secondly, nation states remain power blocs with their own economic interests and, thirdly, are extended sites of reproduction of national bourgeoisies competing against each other.

Fourth, class struggles still take place within the state organizing and establishing consensus between the different classes. Fifth, institutions at a supranational level experience difficulty in taking the balance of power of each nation state which has historically grown into account. And sixth, as power resources are provided by the state for the national functional elites, they have a lot of interest in the persistence of the prevailing form of the nation state (Jessop 2001: 78).

However, it has to be mentioned that the then existing phase of imperialism with its contemporary developments and conflicts influenced Poulantzas's view about the state considerably (cf. section 2.7). Thus, he paid increased attention to the importance of US capital and its separation with other capitals within the European imperialistic bloc. Additionally, he wanted to analyze the reproduction of American capital in each national economy, in each power bloc and in each state (Jessop 2001: 85).

Jessop points out that even though in an alleged 'triad world' the ongoing dominance of US capital and the American state can hardly be disputed, the European and (East) Asiatic capital is catching up to American capital. Moreover, he notes that nowadays the internal contradictions and conflicts within the national power blocs in Europe reflect the structural and cyclical relations with Asia and America as well as within Europe (Jessop 2001: 85).

The political scientists Brand, Görg and Wissen confirm Jessop's view about international power relations. They define the USA still as the main actor of second-order condensations of power relations (cf. section 2.9). According to Brand et al. first and foremost the USA is able to switch levels by scale jumping and forum shifting. Nevertheless, the role of the USA has to be verified because Europe currently does and China will in future influence the power relations in the international state (Brand et al. 2007: 232).

Despite Poulantzas's important insights about the internationalization of the state, Brand, Görg and Wissen emphasize that his work has remained within the origins of the classical Marxist critique of Political Economy. As a last resort they particularly mention the determining role of the relations of productions including the predominant importance of contradictions between labor and capital and their struggles (Cf. Brand et al. 2007: 225).

As described in section 2.9, Brand et al. share Poulantzas view about the state being a social relation. Nevertheless, the political scientists indicate that his view of the state has a tendency to be functionalist, because the relative autonomy of the state (cf. section 2.2) merely concentrates on the two functions of organizing the dominant and disorganizing the subordinated classes (Brand et al. 2007: 225-226).

Another political scientist, Alex Demirović points out that Poulantzas could not make clear how the different interests of the bourgeoisie develop to a uniform class interest (cf. section 2.3) and finally manifest a political-state character (Brand et al. 2007: 226).

Jessop is among the few state theorists (confer e.g. Demirović 2008, Wissel 2007, Hirsch 2005) who have pressed Poulantzas's work ahead and set it into today's context. Jessop acknowledges that the replacement of Fordism by post-Fordism involves many complex changes in society. His first argument is that the Keynesian welfare state changes to a Schumpeterian workfare state, as Fordism changes to post-Fordism. Jessop's second argument is that the nation state will be reorganized on supranational, national, regional and translocal levels (Jessop 2001: 87-89).

By referring to Poulantzas's view that the state's function in maintaining the balance of forces and social peace is crucial, Jessop concludes "The shift from government to governance linked to destatization and deterritorialization does not make states redundant – they gain new importance precisely because of these trends. Not only are they key actors in many individual governance arrangements but they also attempt to steer them individually and together in the light of the overall balance of forces and their mutual interactions and effects." (Jessop 2004: 5).

As described in section 2.8, the political scientist Wissel argues for the transnationalization of class relations. According to him, class power relations in transnational networks of regulations cannot exclusively be explained by the nation states involved. They have to be analyzed as a newly established institutional structure in which a new transnational power bloc has formed. Thus, Poulantzas's conceptions of state and class relations as based in national space are not able to capture this power bloc regulating contradictions and conflicts at transnational level.

Contrary to Wissel, the scientists Brand, Görg and Wissen analyze international politics as an arena that is strongly intertwined with the nation states. By referring to the enforcement of law, which in case of conflict is still bound on the use of monopoly of force of the nation state, they argue for the importance of the nation state in international politics (cf. section 2.9).

In summary, the international system is nowadays characterized by international capital and dominant nation states. Their main interest is to maintain and further institutionalize the capitalist market economy, private property and the politics of deregulation (Brand/Görg 2003: 42). On the other hand supranational structures of civil society have developed which successfully exercise influence in international regulation networks. NGOs in particular

articulate interests which are generally ignored or not on the agenda of these established institutions (Brand et al. 2007: 221).

According to Wissel, transnational companies increasingly exercise controlling influence in international politics and their institutions whilst nation states are relatively losing their influence (cf. section 2.8). The political scientist Joachim Hirsch indicates that the interests of transnational companies correlate with the nation states' interests because both are structurally dependant on capital flows. Nevertheless, he concludes that companies are dependent upon the state's function to maintain social peace and therefore agrees with Poulantzas's view of the nation state (Hirsch 2001: 125).

In this diploma thesis I agree with the peculiar crucial role of the nation state in politics and thus, share the ideas of Poulantzas (1976) and Jessop (2007) including their further development to a state-theoretical framework. Before applying this 'research program' to my case studies about soft loan policies I will conclude preliminarily in the following.

## **2.11. Preliminary Conclusion**

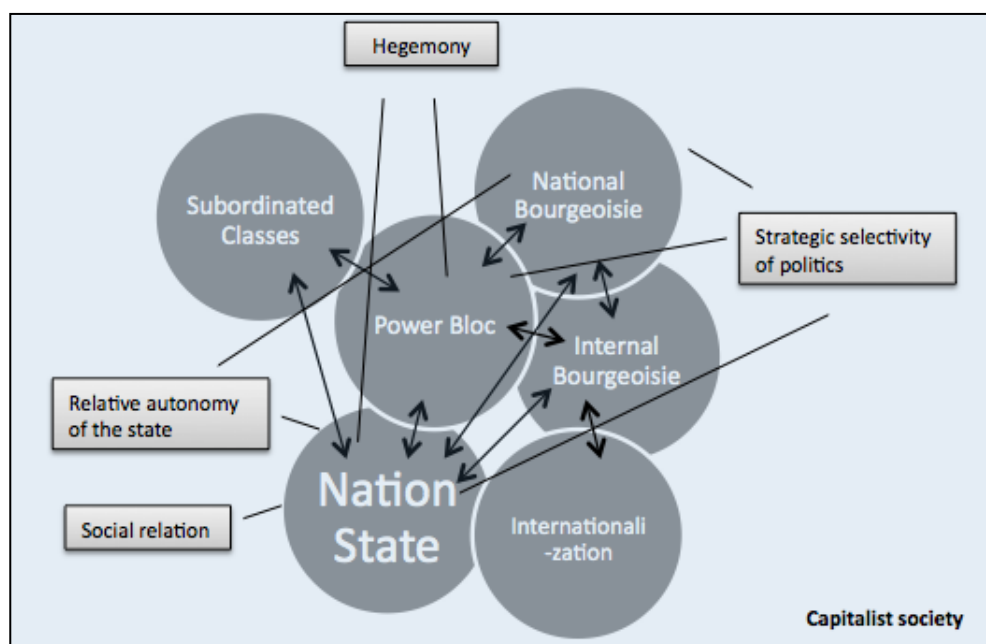
Although Poulantzas developed his main ideas in the 1970ies, his analysis of political power and social classes still provide important views. As demonstrated in section 2.1, he grasps the state as a social relation; so the state forms the balance of forces by condensing and materializing politico-ideological relations in a form specific to the given mode of production. This means that the state does not own any power, which is independent from society.

According to Jessop, the Poulantzasian approach to the state enables one to consider the relative unity of the state apparatuses as well as the limits of their capacities to function in a rational, coherent and systematic way whilst being part of a power bloc (cf. section 2.3). Further, to him this view is rather helpful in analysing the state in relation to the internationalization processes and the alleged loss of sovereignty in the context of current globalisation processes (Jessop 2001: 84).



The following figure illustrates the main concepts of Poulantzas's state-theoretical perspective in order to summarize the key terms which are needed to further analyze the soft loan policies.

**Figure 1: Key Concepts and Terms of Poulantzas's State-Theoretical Approach**



Source: Own elaboration

In summary, it is mainly Poulantzas's emphasis on class conflicts as relational phenomena within the nation state that constitutes the core of his theory, whereby it is essentially important that the relative autonomy of the state is a result of the contradictory social relations within it (cf. section 2.2). It is the organic role of the state to constitute the national bourgeoisie as political power and to disorganize the popular masses as subordinated classes.

According to Poulantzas, state power prevents the masses from forming a unified front against the state. Instead their unity is indirectly represented by the nation. Moreover, hegemony is established by making material concessions towards the subordinated classes. As illustrated in figure 1 the interests of the subordinated classes and fractions are present in the state apparatuses and also form part of the current hegemonic formation.

Whilst the dominant classes are organized in power centers and the so-called power bloc, the subordinate classes are present in apparatuses understood as 'centers of resistance'. Contrary to the bourgeoisie they cannot rely on the state as organizer of their long-term

political interests. These centers of resistance are solely used to oppose the real power of the bourgeoisie, in particular, by extracting material concessions.

Following Poulantzas it is the state and its agents who overall unite the heterogeneous bourgeoisie within the power bloc. The interests of the power bloc, which is not a united alliance in itself, are not in favor of one side; there rather occur instable balances of compromises. These interests are conflictive; therefore the balance of forces is historically different and dependent on the hegemony of certain capital fractions (see section 2.4).

According to Gramsci, hegemony always means the ability of the dominant classes to enforce their interests by establishing them as interests of general concern and in this way as interests of the subordinated classes (cf. figure 1). In particular, Gramsci means a far reaching vision of society and development, which is shared by dominant and subordinated classes. Thus, domination is always economical, political and ideological (cf. section 2.6).

By analyzing the internationalization of the state, Poulantzas introduced the internal bourgeoisie as a result of the reproduction of American capital, which no longer possesses the structural characteristics of a national bourgeoisie. According to him, the internal bourgeoisie is implicated by multiple ties of dependence in the international division of labor and in the international concentration of capital (cf. section 2.7).

At this point the increasing importance of international capital and multi- or transnational companies but also the further development of political-institutional structures, e.g. international regulation networks and processes, has to be emphasized. Other actors that have changed the political environment in capitalist society are social movements or NGOs and their international alliances (cf. section 2.8/2.9).

Nevertheless, mainly by referring to Poulantzas, it has to be clarified that the nation state is still of key importance in politics (cf. section 2.10). Although the importance of the international level is growing steadily, the internationalization only affects certain elements of the state. Contradictions, class struggles and consensuses are still predominantly part of national politics.

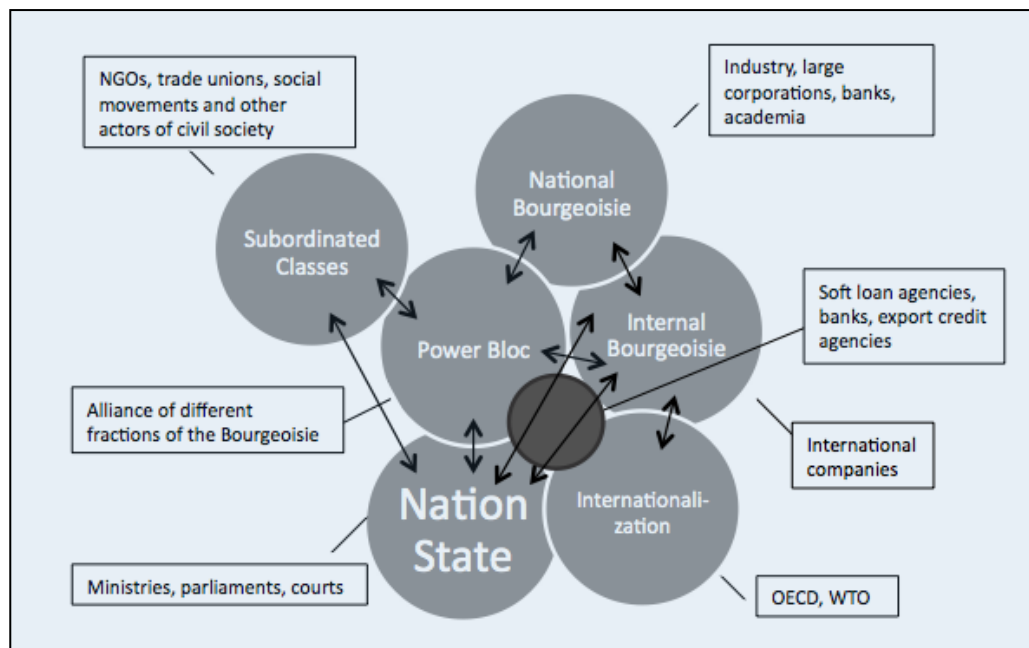
In conclusion, the main theoretical argument of this diploma thesis is that the state is a social relation and thus a structural strategic terrain, in which different actors struggle for political power. They all interact on stabilizing or changing social discourses and relations of power. Thus, they act along the social relation of the state as contradictions and conflicts are inscribed into state apparatuses, discourses and policies.

### Soft Loan Policy Field from a State-Theoretical Perspective

The soft loan policy field has several different actors which are illustrated in figure 2. At the national level, ministries and agencies are the state apparatuses in which soft loan policies are formulated. Generally speaking, the Ministry of Finance and the Ministry of Economic Affairs mainly are in charge of the promotion of exports whereas other ministries, e.g. the Ministry of Foreign Affairs and development agencies, or – if existent – the Ministry of Development rather stress the importance of human rights, environmental and other development goals.

Although there are not numerous NGOs and social movements dealing with soft loan policies, as representatives of the civil society they have to be mentioned at this point as part of the subordinated classes. By promoting human rights they mainly have a watchdog function. Moreover, trade unions are another actor of the civil society representing employed persons, workers and their human rights.

**Figure 2: Soft Loan Policy Field from a State-Theoretical Perspective**



Source: Own elaboration

Besides ministries and agencies, parliaments and courts of auditors are state apparatuses and further soft loan policy actors. Contrary to NGOs and social movements, the parliament as well as the court of auditors generally have supervisory and control functions by law. On the one hand, this could mean that the parliament has the right to put questions; on the other

hand soft loan agencies may be obliged to accountability to the corresponding ministry, the parliament or the respective court of audit.

Industry, large corporations, private banks, other financial service providers and academia are further key actors that form part of the soft loan policy field. As demonstrated in figure 2, they constitute the national bourgeoisie. Although the national bourgeoisie is quite heterogeneous, their main interest within the soft loan policy field is the promotion of exports of goods and services as well as capital goods. Due to the fact that all of them are part of the bourgeoisie, they have in common to invest capital in order to make profits.

According to Poulantzas, the state has to enjoy relative autonomy towards all groups and fractions, in particular towards the dominant class and groups within the power bloc, in order to ensure the conditions for the reproduction of capital (cf. section 2.2). The long-term interests of capital – within the soft loan policy field it is the promotion of exports – can only be organized by the state if none of the heterogeneous groups within the power bloc directly take hold of the state.

In other words, the state will only be successful in uniting and organizing industry, large corporations, banks, etc. – in short what Poulantzas subsumed as the national bourgeoisie – if the relative autonomy of the state is guaranteed. Poulantzas insists that the state's relative autonomy is essential, otherwise the state would be nothing else than an arena in which particular interests clash into each other so that conflicts within the dominant class intensify.

Figure 2 illustrates that as a consequence of the internationalization, the state has to deal with national and international capital. Thus, different fractions and groups of the national bourgeoisie and also of the internal bourgeoisie are in competition for influence, power and political domination. As the latter is implicated with transnational companies, one could argue that the internal bourgeoisie has a strong interest in entering new markets via the promotion of exports and via Foreign Direct Investments (FDI).

Current soft loan policies are not only a result of inner-state contradictions between ministries, industry, trade unions or NGOs but are also a result of contradictions within these apparatuses and branches. According to Poulantzas, the mechanism of structural selectivity is of importance. This selectivity is mainly a result of the materiality and history of every single apparatus and the specific representation of particular interests within these apparatuses, meaning their position within the configuration of power relations (cf. section 2.4).

Poulantzas further argues that the strategic selectivity of the capitalist state favors the dominant class due to the hierarchy of interactions which establish “a whole chain whereby

certain apparatuses are subordinated to others, and through the domination of a particular apparatus or branch (such as the military, a political party or a ministry) which crystallizes the interests of a particular hegemonic fraction.” (Poulantzas quoted in Nelson 2013: 4).

As illustrated in figure 2, not only civil society but also medium-sized companies, large corporations as well as transnational companies influence policies; also via representative lobbies, e.g. industry associations and/or chamber of commerce.

At this point I would like to refer to Jessop, who argues from his strategic-relational perspective that the access of single actors to the state, respectively state apparatuses is asymmetrical. Based on Poulantzas, Jessop confirms that this access is inscribed into the material structure and the strategic orientations of the state. In short, particular interests are privileged. This strategic selectivity finally makes certain constellations and policies more likely than others (Jessop 2007).

In general, soft loan policies are implemented by agencies or development banks in cooperation with private banks and export credit agencies. From a state-theoretical perspective, it seems reasonable to assume that the access of different soft loan policy field actors into state apparatuses, public administration and politics is asymmetrically distributed in favor of the bourgeoisie and their interest in the promotion of exported goods and capital. Thus, by analyzing the organizational form, engaged staff and particular instruments of soft loan agencies including their institutional environment, the (un-) importance of development aspects could be addressed (Gössinger et al. 2011: 274-282).

As representatives of the promotion of exports generally argue with preserving jobs and national added value in the donor country, trade unions and other human rights actors are in a difficult position to lobby in the soft loan policy field for development aspects and sustainable local development in recipient countries. Based on these considerations, one has to assume that dominant ministries, industry and their representatives successfully manage to maintain the current power constellation, also by forum shifting and scale jumping.

Poulantzas adds that political power is not solely expressed through the position within the state apparatuses, but also through the strategies applied by dominant or subordinated classes within or in opposition to the entire system. Although the state continuously tries to disorganize the popular masses, certain consensuses or compromises have to be achieved in order to maintain the power constellation. Hence, the subordinated classes can alter their situation by forcing the state to material concessions through mobilisation within and beyond the state (Nelson 2013: 4).

Although the internationalization has led to an increasing importance of international agreements – also within the soft loan policy field (OECD, WTO) – the following case studies mainly concentrate on the analysis of national formations. Thus, as illustrated in figure 2, this analysis essentially concentrates on the importance of different national actors, their competences, interests and political power in the soft loan policy field. Further, I want to analyze which power relations and compromises characterize the current configuration and if one could indicate hegemony.

Moreover, by analyzing general priorities and specific activities of different actors in the soft loan policy field, structural and strategic selectivities may be addressed. To put it differently, it is of main interest to analyze to which extent development aspects play a role in the implementation of soft loan facilities. Further, one could identify to which extent development actors participated in the formulation of respective programs.

As specific condensations provide information about underlying interests and why some institutions are more important than others, not only institutions and their historic configuration of political power but also the relationship between institutions including the latest development discourse have to be considered.

In conclusion, the main interest of this diploma thesis is to analyze the implementation of soft loan policies from a development perspective. Thus, priority will be given to the institutional set-up and the specific design of this hybrid policy instrument. Ideally, specific selectivities could be addressed in order to explain if the donor's foreign trade policy is privileged over the recipient country's economic and social development.

### 3. Case Studies

The developmental orientation of soft loan policies or more generally, concessional financing is analyzed in the corresponding programs of Germany and the Netherlands in the following.

#### 3.1. Germany

All over Europe development budgets have continuously been cut within the last years in reaction to the economic crisis in 2008/2009. Germany is one of the few countries, which recently has decided to increase the development budget by EUR 2 billion between 2014 and 2017. Despite this decision, it will be relatively difficult for Germany to live up with its commitment to meet the ODA/GNI-target of 0.7 % by 2015.<sup>5</sup>

The new Federal Minister for Economic Cooperation and Development, Gerd Müller (CSU), who has been in office since December 2013, now has the opportunity to show how these funds will be implemented in near future. The former minister Dirk Niebel (FDP), who was in office between 2009 and 2013, had his focus on fostering sustainable economic development as well as democracy and human rights within German bilateral Development Cooperation (BMZ 2013a: 49-69).

Under Niebel's era, German development policy aimed at improving the relationship between foreign trade and development cooperation and specifically their contribution to poverty reduction via economic growth and private sector development. Moreover, an emphasis was put on innovative finance for development; here the KfW Bankengruppe has been playing a major role as one of the world's largest bilateral finance institutions for development (BMZ 2011).

This is reason enough to analyze the developmental orientation of the portfolio of the KfW Development Bank, which is implementing the German Financial Cooperation. Furthermore, Germany has recently been sharply criticized by civil society actors for leveraging their budget funds with funds raised at the capital markets (Terre des Hommes 2012: 14-17). In addition, Germany has triggered a debate about the definition of concessionality in the OECD with its ODA reporting practice; both will be part of this case study.

There have always been close linkages between development cooperation and foreign trade in Germany, thus some country facts and figures as well as the institutional set-up will be illustrated before analyzing the German Financial Cooperation more thoroughly.

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<sup>5</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, <http://www.bmz.de/20131223-1en>

### 3.1.1. Country Facts and Figures

Being the third largest exporter and importer in the world, Germany is a trading nation, accounting for more than half of the European Union's international trade. In Europe, Germany is the largest national economy, providing the fourth-largest economy by nominal GDP worldwide (USD 3167 trillion, 2012 et.).<sup>6</sup>

Much of Germany's exports focus on manufactured goods and services. In particular German mechanical engineering products, vehicles, and chemicals are highly valued internationally; e.g. Germany is the leading producer of wind turbines and solar power technology in the world. Around one Euro in four is earned from exports and more than every fifth job depends directly or indirectly on foreign trade.<sup>7</sup>

The most important market for Germany is the European Union; about 57% of all goods and services were delivered to its member states in 2012; followed by Asia with a share of 16% and North & South America, with a share of approximately 12%.<sup>8</sup> The top countries of destination of German exports were France, followed by USA, UK and the Netherlands in 2012; most imports to Germany came from the Netherlands, China, France and the USA (Statistisches Bundesamt 2013: 2).

In 2012, all German exported goods accounted for USD 1416.2 billion, whereas imported goods made up USD 1173.3 billion; thus, the export surplus was about USD 243.2 billion. Exports of goods and services account for 51.8 % of GDP. Apart from the financial crisis in 2008/2009, exports as a percentage of GDP have steadily risen within the last years.<sup>9</sup>

In comparison to these economic indicators, the German Official Development Assistance was about USD 14.533 billion in 2011, equivalent to 0.39% of GNI; preliminary data for 2012 show a slight decrease to 0.38% of GNI. In real terms, this represents a 5.9% increase over 2010; nevertheless Germany is among the seven members of the EU that have not met the 0.51% ODA/GNI target for 2010 set by the EU (OECD/DAC 2012b: 3; OECD/DAC 2013a: 200).

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<sup>6</sup> Central Intelligence Agency, CIA, The World Fact Book, Homepage, <https://www.cia.gov/library/publications/the-world-factbook/geos/gm.html>

<sup>7</sup> Information Portal Economywatch, Homepage, [http://www.economywatch.com/world\\_economy/germany/export-import.html](http://www.economywatch.com/world_economy/germany/export-import.html)

<sup>8</sup> Destatis, German Federal Statistical Office, Homepage, <https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/ForeignTrade/TradingPartners/Current.html>

<sup>9</sup> Organization for Economic Co-operation and Development, OECD, Homepage, [http://www.oecd-ilibrary.org/economics/country-statistical-profile-germany\\_20752288-table-deu](http://www.oecd-ilibrary.org/economics/country-statistical-profile-germany_20752288-table-deu)



### 3.1.2. German Development Cooperation

Germany's development cooperation policy is underpinned by the coalition agreement that covers each legislative period and the budget procedure; in particular the budget act passed by the Bundestag each year (OECD/DAC 2010).

The coalition agreement from 2009 defines the following key sectors for German development cooperation: good governance, education and training, health, rural development, protection of the climate, the environment and natural resources, and economic cooperation.<sup>10</sup> The agreement expresses the willingness to work towards achieving the 0.7% ODA/GNI target.

Under the overall policy and decision-making authority of the Federal Chancellor, the Federal Ministry for Economic Cooperation and Development (BMZ) guides German development policy and financing. Hence, the oversight of German development cooperation is vested in the BMZ, with implementation carried out by a range of different ministries, federal states (Länder), agencies and „implementing organizations“ (EuropeAid 2013: 2).

The BMZ has its own budget line, which forms part of the federal budget and denotes expenditure items for the running year. To increase predictability, some budget items include minimum expenditure volumes („commitment appropriations“), usually for the following two to five years. Breakdowns of bilateral cooperation by region and sector are confidentially provided to Parliament but not published.<sup>11</sup>

Germany's development priorities are outlined in its overarching policy document, 'Minds for Change' from 2011. This policy outlines five key areas: strengthening Africa, particularly through the promotion of the private sector; sustainable energy for poverty reduction; climate friendly development; helping fragile states; and the promotion of innovative global leadership (BMZ 2011: 10-12; OECD/DAC 2012b: 1).

Within the last years, the federal government carried out organizational and structural reforms of the German aid structure in order to streamline processes and further improve aid effectiveness. This particularly involved the German technical cooperation; here three organizations have been consolidated to form GIZ, the German Agency for International Cooperation in 2011. The foundation of DEval, the German Institute for Development Evaluation, in 2012 has been one of the latest institutional reforms.

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<sup>10</sup> In the coalition agreement from 2013 rural development, health, education and training, protection of the climate, environment and natural resources, energy, civilian crisis prevention, conflict resolution and post-conflict peace building are defined as thematic focuses.

<sup>11</sup> Information Portal SEEK Development, Homepage, <http://donortracker.org/donor-profiles/germany/budget-process>

### **3.1.2.1. Financial and Technical Cooperation**

Apart from Technical Cooperation (TC), the Financial Cooperation (FC) is one of the most important instruments of German development policy. Its main task is to support partner countries in the financing of measures which are important for their development. These might be investments in the education or health system of the country, in the water supply and wastewater system, in the energy sector, in climate protection or agriculture.<sup>12</sup>

Within the framework of FC, the BMZ provides support in the form of financial payments, in particular subsidized loans, equity capital and grants, which are non-refundable (BMZ 2007: 10). The KfW Entwicklungsbank (Development Bank), which works on behalf of the German federal government, is the executing agency of the BMZ and responsible for project appraisals and implementing projects under Financial Cooperation.<sup>13</sup>

If investments of this sort are to lead to lasting improvements, they must be accompanied by reforms. For this reason, FC is very often conducted in close coordination with other German development cooperation activities, e.g. technical assistance with the German Development Agency (GIZ), or broader international initiatives.<sup>14</sup>

One way of providing funds for projects in developing countries is by combining capital market loans with grants. Germany uses this instrument in both bilateral and European financial cooperation. This case study will consider these bilateral 'blending' activities of Germany.

### **3.1.2.2. Programming of Bilateral Cooperation**

Regional as well as country strategies are the management instruments within the German bilateral development cooperation; both are developed in close cooperation with the developing countries which receive assistance.

The regional strategies link the BMZ's development policy principles or aims, and the individual country strategies. Country strategies are the key for country-level implementation; up to three priority areas are defined and negotiated between Germany and the recipient country.

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<sup>12</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [www.bmz.de/en/what\\_we\\_do/approaches/bilateral\\_development\\_cooperation/approaches/financial\\_cooperation](http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/approaches/financial_cooperation)

<sup>13</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, <http://www.bmz.de/en/ministry/structure/index.html>

<sup>14</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [http://www.bmz.de/en/service/glossary/F/finanzielle\\_zusammenarbeit.html](http://www.bmz.de/en/service/glossary/F/finanzielle_zusammenarbeit.html)

The framework and guidelines for these negotiations are basically provided by the national Poverty Reduction Strategy Paper (PRSP) drawn up by the recipient countries, and by the agreed priority areas of bilateral cooperation.

The negotiated strategies, objectives and priority areas of cooperation form the basis of the German bilateral cooperation. Programs or projects within Financial Cooperation or Technical Cooperation build upon the between Germany and the recipient country agreed priority areas and are based on intergovernmental agreements.<sup>15</sup>

“Thus we ensure that they [the projects’, author’s note] are always embedded in the partner’s development policy goals and priorities and are not just isolated solutions. It is essential for us that our commitment functions well and is shared in cooperation with the efforts of other donors“, explains an interview partner with regards to the coordinated approach of the German bilateral cooperation, which often includes European and international development cooperation (Interview C1).

The priority areas, which are closely aligned with the key sectors of German development cooperation and the individual country strategies, differ from country to country (Interview C1). In Vietnam, for example, sustainable economic development (including vocational training), environmental protection and conservation of natural resources (including adaptation to climate change) and health care are the priority areas.<sup>16</sup>

### **3.1.2.3. Country and Sector Concentration**

The official German development cooperation concentrates on 50 program partner countries. The assistance has officially been cut from 120 developing countries to the above-mentioned number within the last five to ten years in order to enhance aid effectiveness according to the Paris Agenda on Aid Effectiveness and recommendations made by the OECD/DAC in corresponding reviews.<sup>17</sup>

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<sup>15</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [http://www.bmz.de/en/what\\_we\\_do/countries\\_regions/laenderkonzentration/index.html](http://www.bmz.de/en/what_we_do/countries_regions/laenderkonzentration/index.html)

<sup>16</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [http://www.bmz.de/en/what\\_we\\_do/countries\\_regions/asien/vietnam/zusammenarbeit.html](http://www.bmz.de/en/what_we_do/countries_regions/asien/vietnam/zusammenarbeit.html)

<sup>17</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [http://www.bmz.de/en/what\\_we\\_do/countries\\_regions/laenderkonzentration/index.html](http://www.bmz.de/en/what_we_do/countries_regions/laenderkonzentration/index.html)

The following table illustrates the bilateral development cooperation in the context of country programs.<sup>18</sup>

**Table 1: Bilateral Development Cooperation in the Context of Country Programs**

Region	Partner Country
Asia	Afghanistan, Bangladesh, India, Indonesia, Cambodia, Kyrgyzstan, Laos, Mongolia, Nepal, Pakistan, Tajikistan, Uzbekistan, Viet Nam
South Eastern Europe/ Caucasus	Albania, Kosovo, Serbia, Ukraine
Latin America and the Caribbean	Bolivia, Brazil, Ecuador, Guatemala, Honduras, Colombia, Mexico, Peru
Middle East	Egypt, Palestinian Territories, Yemen
Africa	Ethiopia, Benin, Burkina Faso, Burundi, Ghana, Cameroon, Kenya, D.R. Congo, Mali, Malawi, Morocco, Mauritania, Mozambique, Namibia, Niger, Rwanda, Zambia, South Africa, South Sudan, Tanzania, Togo, Uganda

Source: Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [http://www.bmz.de/en/what\\_we\\_do/countries\\_regions/laenderkonzentration/tabelle\\_neu.html](http://www.bmz.de/en/what_we_do/countries_regions/laenderkonzentration/tabelle_neu.html)

As illustrated in the table above, Africa will remain the main focus of German development cooperation in regional terms. Almost half of all partner countries (24) are in sub-Saharan Africa.

According to the latest OECD DAC mid-term review (2012), in 2010 German's top ten ODA-recipients included Nine Middle Income Countries, „This ODA-allocation pattern is unique among DAC members and is partly a reflection of Germany's increasing use of concessional loans as part of differentiated development partnerships, the increasing engagement of other ministries in emerging economies and an outcome of Germany's strategy for working with emerging economies for the purpose of global and regional development and its policy of focusing on global public goods, such as climate and food security.“ (OECD/DAC 2012b: 3).

### **Sector Concentration**

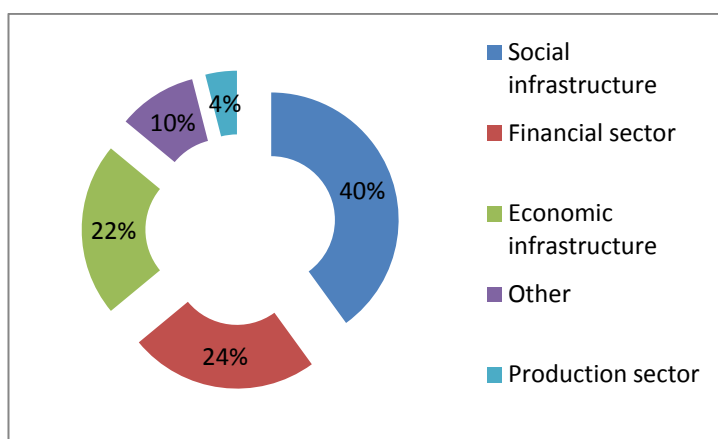
According to the Annual Report of the KfW Development Bank from 2012, the greatest share of Financial Cooperation (FC) commitments by priority development sector is allocated to social infrastructure (40%), followed by the financial sector (24%) and economic infrastructure (22%) (KfW Entwicklungsbank 2012a: 45).

<sup>18</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [http://www.bmz.de/en/what\\_we\\_do/countries\\_regions/laenderkonzentration/tabelle\\_neu.html](http://www.bmz.de/en/what_we_do/countries_regions/laenderkonzentration/tabelle_neu.html)

In comparison, in 2007 social infrastructure had a share of 24%, the financial sector had about 32%, and economic infrastructure accounted 28% (KfW Entwicklungsbank 2007a: 77). In 2002, the social sector had about 40%, followed by economic infrastructure (27%) the financial sector (12%), and the producing sector (7%) (KfW Entwicklungsbank 2002: 58).

The following figure illustrates the KfW commitments by priority development sector in 2012.

**Figure 3: KfW Commitments by Priority Development Sector 2012**



Source: KfW Entwicklungsbank Annual Report 2012: 45

In the area of social infrastructure the KfW Development Bank supported in 2012 projects and programs in the German government's priority areas, which encompass particularly to water supply, solid waste management and sanitation, health-care systems and education. The financial sector mostly includes commitments to the microfinance sector. KfW funded in 2012 environmental loans and supported microfinance institutions. Apart from transport and communications, renewable energy use and efficient, climate friendly use of energy were the focus of most projects in the area of economic infrastructure (KfW Entwicklungsbank 2012a: 45).

The KfW Development Bank has been working in climate protection and adjustment to climate change for more than twenty years; e.g. committed a total of EUR 7 billion for cross-sectoral environmental and climate protection between 1997 and 2007 (KfW Entwicklungsbank 2007a: 3-4).

However, both areas expired by the end of the nineties in terms of approved projects (Interview C1). Due to global warming and climate change global responsibility for climate protection has again become an important topic and prompted Germany to re-announce supporting proposals and projects in the area of climate protection and energy (KfW Entwicklungsbank 2007a: 9-13).

The strategic refocus on climate protection and energy had a remarkable impact on the funds being used within the Financial Cooperation; they have led to an increased use of interest-reduced loans (Interview C1).

### **3.1.3. Profile of Financial Cooperation**

The Financial Cooperation (FC) is part of the official German Development Cooperation. Hence, the objectives, strategies and priority areas of Germany's Development Policy are the framework, in which the Financial Cooperation is being done. Unlike the Technical Assistance, the Financial Cooperation is completely untied. In other words, financial loans are in principle not tied to goods and services from German companies (Interview C2; Interview C1).

#### **3.1.3.1. Legal Background/History**

As Germany's Development Policy is not defined by law, but underpinned by the coalition agreement that covers each legislative period and the budget procedure, there are administrative rules and different policy documents that guide the KfW Development Bank as executing agency.

The main policy document 'Guidelines for bilateral financial and technical cooperation with partner countries of German development cooperation' includes procedures and competences that bind the government, executing agencies and other involved actors (BMZ 2008). Thus, BMZ and KfW Development Bank have to act upon these regulations in order to initiate, assess, finance, monitor and evaluate financial cooperation projects (Dann 2012: 144-145).

The KfW Development Bank has executed the Financial Cooperation on the basis of the 'General Contract' since 1961. The Bank's mandate is to develop project proposals, and to finance, monitor and evaluate projects which have been approved by the BMZ.

#### **3.1.3.2. Institutional Environment**

Several actors are involved within the framework of the German bilateral Financial Cooperation (FC). In this set-up, the Federal Ministry for Economic Cooperation and Development (BMZ) is the key actor.

##### **BMZ**

Being in charge of the German development policy and financing, the BMZ not only provides FC support in the form of financial payments, but oversees the programming of bilateral

financial development cooperation. This programming includes the development of regional and country strategies in general, government negotiations regarding priority sectors and concrete projects as well as the setting up of procedures, terms and conditions of Financial Cooperation instruments.

The BMZ was established as Federal Ministry for Economic Cooperation in 1962. Nevertheless, the Federal Ministry for Economic Affairs (BMW) and the Federal Foreign Office (AA) still were in charge of development assistance; the BMW for financial assistance and the AA for technical assistance. In general, fostering foreign trade policy was the principal motive that triggered Germany to provide development assistance back in the 1950ies (Dann 2012: 44-45).

It was Minister Erhard Eppler (1969-1974) who succeeded in constituting development policy as a relatively autonomous policy field by disburdening development assistance from its subordination of foreign trade policy. Main competences included inter alia the political responsibility for the financial assistance and final decision-making powers regarding project approvals. Nevertheless, the BMZ had to consult other institutions before giving approval but the Interministerial Committee (IMC) which had decided upon project approvals of financial assistance under the responsibility of the BMW was abolished (Dann 2012: 61-63).

In the 1980ies German development policy again became an instrument of Germany's own interests and thus, of general German foreign policy. To this end, German development policy was subordinated and exploited by economic and foreign policy. This means that development loans were tied to goods and services from German companies, which were also more actively involved in identifying and defining new projects (Dann 2012: 81-82).

In 1993, the BMZ was renamed to Federal Ministry for Economic Cooperation and Development and thus considered 'development' in its name for the very first time. Nevertheless, the 1990ies were characterized by an excessive politicization and conditionalization of development cooperation. Although the BMZ's competencies were formally stabilized, the ministry was continuously losing them to the German Development Agency GTZ (nowadays GIZ), which had been founded in 1975 (Dann 2012: 83).

Though Minister Heidmarie Wiecek-Zeul (SPD) was in office in 1998-2009 and had the possibility to influence decisions of the government as a member of the cabinet, the degree of influence and weight of the BMZ in the government is a matter of debate because it was challenging to improve the relationship between development cooperation and foreign policy, in particular security and defense policy.<sup>19</sup>

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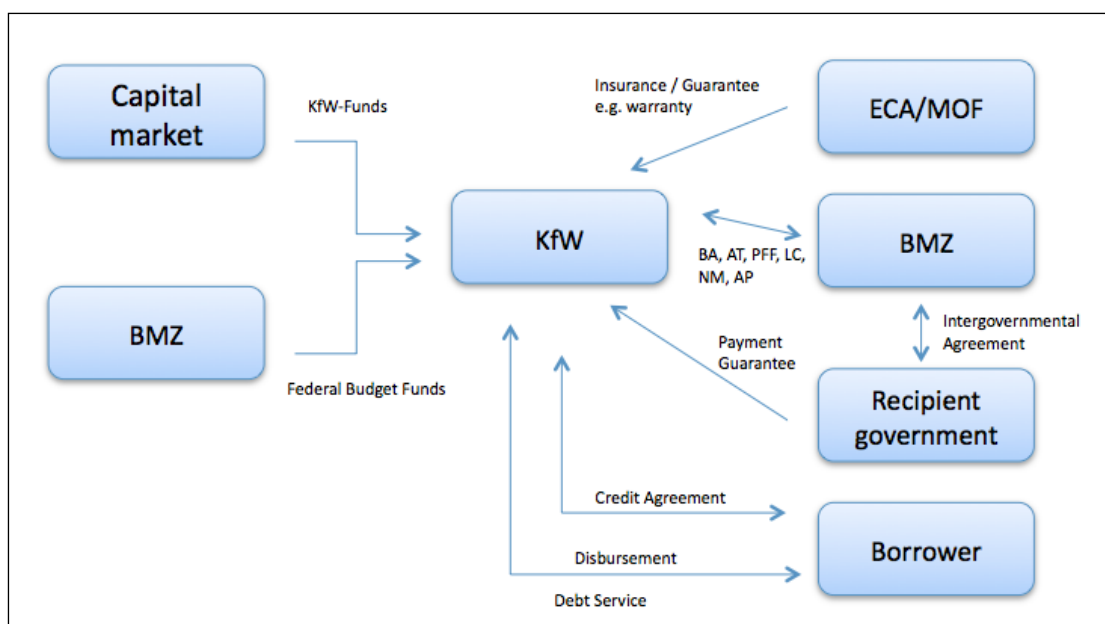
<sup>19</sup> Die ZEIT, German Newspaper; Homepage, [http://www.zeit.de/2003/30/Entwicklungspol\\_](http://www.zeit.de/2003/30/Entwicklungspol_)

Moreover, the ministry underwent two reorganizational reforms (2003, 2010) in order to strengthen the efficiency of development cooperation as well as to ensure the implementation of the new main political focal points, economic development and education (OECD/DAC 2010: 64-65). Further, the BMZ has been strengthened with the addition of 196 new jobs in the last couple of years (this represents an unprecedented increase in the staffing level of 30%). Herewith, BMZ in particular stretched its organizational capacity at field level by additional 46 cooperation officers in partner countries (OECD/DAC 2012b: 3-4).

Today, the terms and conditions governing the awarding of Financial Cooperation funds are laid down by the BMZ in agreement with the Federal Ministry of Finance (BMF), the Federal Foreign Office (AA) and the Federal Ministry for Economics and Technology (BMWi)<sup>20</sup> every year. They take into account the specific economic situation and the debt sustainability of each individual developing country.<sup>21</sup>

The following figure illustrates the institutional set-up of the German bilateral Financial Cooperation, including its main actors and processes:

**Figure 4: Institutional Set-up of the German bilateral Financial Cooperation**



Source: BMZ (o.A.), Slide 12

<sup>20</sup> In December 2013, the Ministry was recreated as Federal Ministry of Economics and Energy (Coalition Agreement 2013).

<sup>21</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [http://www.bmz.de/en/what\\_we\\_do/approaches/bilateral\\_development\\_cooperation/approaches/financial\\_cooperation](http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/approaches/financial_cooperation)



The figure above illustrates that intergovernmental agreements between the BMZ, which acts on behalf of the Federal Government and the governments of the corresponding partner countries are the basis for the official bilateral Financial Cooperation.

### **KfW Development Bank**

The KfW Development Bank is another key actor. The bank is part of the KfW Banking Group (KfW Bankengruppe, formerly Kreditanstalt für Wiederaufbau) and conducts Germany's financial cooperation with developing countries on behalf of BMZ. The KfW Development Bank audits and implements loans and grants allocated to them from the federal budget. Furthermore, the KfW Development Bank complements federal government funds by raising additional resources on the capital market and deploying these for German development and climate protection finance.<sup>22</sup>

The KfW Banking Group is a body under public law, which was founded in 1948. This law was amended upon the implementation of the Financial Cooperation in 1961. Since 1966, the KfW has acted upon the general mandate signed between the Federal Government (BMZ) and the KfW Development Bank. The contract covers finance and management of resources, monitoring and reporting requirements and has been amended most recently in the year 2009 (Dann 2012: 142).

The DEG (founded in 1962, "Deutsche Investitions- und Entwicklungsgesellschaft") is one of the KfW Banking Group's subsidiaries. In contrast to the KfW Development Bank, the DEG's main activities are private sector development which includes financing and structuring of investments of companies and other private sector projects in developing and transition countries.<sup>23</sup>

Another subsidiary of the KfW Banking Group is the KfW IPEX-Bank. Being a traditional export bank, it provides medium to long-term international project and export finance solutions. Further, the bank "is responsible for providing finance to support the German and European Economy, a task derived from the legal mandate assigned to the KfW Bankengruppe"<sup>24</sup>

The executive bodies of the KfW Group are the Executive Board and the Board of Supervisory Directors. The Executive Board has six members, currently three of them are experienced bankers with a background in law and business administration; others have

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<sup>22</sup> KfW Entwicklungsbank, Homepage, <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Unser-Unternehmen/>

<sup>23</sup> Deutsche Investitions- und Entwicklungsgesellschaft, DEG, Homepage, <https://www.deginvest.de/International-financing/DEG/Die-DEG/Unternehmen/>

<sup>24</sup> KfW IPEX Bank, Homepage, <https://www.kfw-ipex-bank.de/International-financing/KfW-IPEX-Bank/About-KfW-IPEX-Bank/Self-image-and-mission/>

expertise in agriculture, consulting and privatization. At least two board members are part of political parties (CDU, SPD).

“The Board of Supervisory Directors and its committees supervise the conduct of the bank’s business and the administration of its assets. The main tasks for which it holds responsibility are the appointment and dismissal of members of the Executive Board, the approval of the financial statements as well as the planning and selection of the auditor to be proposed by the Supervisory Authority.”<sup>25</sup>

The Board of Supervisory Directors has three committees. Whereas the Executive Committee deals with legal and administrative matters, the Credit Committee concerns itself with credit matters. Members of the Board of Supervisory Directors include inter alia representatives of business associations (BDI, DIHK) and trade unions (e.g. DGB).

Environmental and climate protection, financial system development as well as water supply and sewage disposal are the key priority areas of the KfW Development Bank; main objectives are the promotion of reform processes, investments, consultancy and support service in cooperation with governments and state institutions.<sup>26</sup>

## **Partner Country**

Another important key actor is the partner country including its corresponding institutions. The German bilateral Financial Cooperation primarily provides financing for projects and programs in the public sector (social sector, economic development and financial sector), thus the government and/or government-related enterprises are mainly involved in such projects.

The Ministry of Finance or another relevant Ministry dealing with the coordination of development cooperation usually acts as the counterpart in the partner country. The Ministry of Planning is not infrequently responsible for these issues in (former) Soviet countries. Partner countries sometimes also have a Ministry for Development Cooperation or planning authorities below ministerial level which are in charge of the corresponding issues (Interview C1).

Consultations and negotiations in principal take place in the partner country. Depending on sectors, which have been agreed upon in the country strategy, relevant ministries of the corresponding partner country are present in negotiations or consultations as well, e.g. Ministry of Agriculture, Ministry of Health or Ministry of Infrastructure.

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<sup>25</sup> KfW Entwicklungsbank, Homepage, <https://www.kfw.de/KfW-Group/About-KfW/Vorstand-und-Gremien/Vorstand/>

<sup>26</sup> KfW Entwicklungsbank, Homepage, <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Unser-Unternehmen/>

### **Others: AA, GIZ, ECA**

The KfW Development Bank and the German Agency for International Cooperation (GIZ) are closely involved in the set-up of the Financial Cooperation. Both form part of informal consultations, which take place prior to the negotiations, as well as in the following formal government negotiations. BMZ is negotiator in both cases; KfW Development Bank and GIZ provide technical support and advice (Interview C1).

Both, the formal negotiations and the informal consultations take place in the partner country. Thus, the German ambassador of the corresponding partner country who as well represents the German Federal Foreign Office (AA) is involved.

If the BMZ approves a proposal, which has been developed by the KfW Development Bank in cooperation with a corresponding partner country, the project is financed and monitored by the KfW Development Bank.

The GIZ is sometimes not part of projects or programs financed within the German Financial Cooperation. The Agency usually provides smaller Technical Assistance (TA) components; an interview partner states that GIZ brings in know-how in training and capacity building. Further, this interviewed stakeholder remarks that there also collaborative projects, in which the GIZ provides TA and the KfW Development Bank infrastructure financing (Interview C4).

Moreover, the Federal Government, represented by the Ministry of Finance guarantees for untied financial loans in the form of federal guarantees and sureties covering the risk of non-payment for the KfW Development Bank.<sup>27</sup>

### **3.1.3.3. Terms and Conditions**

The German Financial Cooperation (FC) provides financing to governments or government-related enterprises, e.g. energy or water supplier in developing countries (Interview C4).

FC-Conditions are specified every beginning of the year by the Federal Ministry for Economic Cooperation and Development (BMZ) in coordination with the Federal Ministry of Finance (BMF), the Federal Ministry of Economics and Technology (BMWi) and the Federal Foreign Office (AA) with reference to the conditions set up by the World Bank (Interview C2).

The main criterion which establishes the type of funding being used by the KfW Development Bank is the per-capita income of a partner country. Countries classified as Least Developed Countries (LDCs) receive non-repayable grants (to 100%), all other

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<sup>27</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [http://www.bmz.de/en/what\\_we\\_do/approaches/bilateral\\_development\\_cooperation/approaches/financial\\_cooperation](http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/approaches/financial_cooperation)

countries receive loans. The use of exemptions is afforded by the Guidelines and applies to proposals that are e.g. explicitly related to climate and resource protection (Interview C2; BMZ 2008: 23).

If standard conditions are not met, deviations have to be clearly justified and well-argued in coordination with other ministries. An interview partner e.g. mentioned that for a long period South-Eastern Europe had been qualified for particularly favorable conditions although the countries in this region already had higher Per-Capita Income (Interview C2).

Developing countries have to meet certain criteria in order to qualify for FC development loans: They have to be partner countries of the German Development Cooperation. A partner country's performance including the negotiated priority areas has to be robust in order to provide corresponding guarantees. Another crucial point worth taking into consideration is the question whether a loan is the necessary and adequate instrument (Interview C2).

The FC instruments, which are eligible to finance projects in each priority country, are listed in the 'List of Conditions' (FZ-Konditionenliste). This policy document is strictly confidential and not accessible to the public.

### **3.1.3.4. Financial Instruments**

The German bilateral Financial Cooperation (FC) provides funds out of the federal budget which are complemented by funds that have been raised on the capital market by the KfW ('KfW funds'). According to several interview partners at KfW, these additional funds enable the KfW Development Bank to substantially leverage the lending volume and thus, broaden the effectiveness of the German Development Cooperation (Interview C1, C4, C3).

#### **3.1.3.4.1. Overview**

Programs and projects are either purely financed from federal budget funds (grants and/or loans at very advantageous standard conditions) or from a mixture of federal budget funds and loans from KfW funds. The KfW Development Bank additionally offers loans at near-market conditions from pure KfW funds, so-called promotional loans (Interview C4).

The following figure provides an overview of the different funds of the German bilateral Financial Cooperation. The figure illustrates that the performance of the partner country is a crucial determinant for the type of funding available:

**Figure 5: Financing Pyramid - Financial Cooperation Funds**



Source: KfW Entwicklungsbank 2011

The loan conditions vary substantially and depend on the sector, the nature and cost-effectiveness of the project. Further, the economic situation of the given partner country, its level of indebtedness and its state of development form the main criteria for financing projects and programs. Thus, the KfW Development Bank provides specifically tailored financing for their partner countries.<sup>28</sup> Several interview partners confirmed that apart from providing different funds, individual financial proposals are developed for every single project, considering very diverse criteria (Interview C1, C2 and C4).

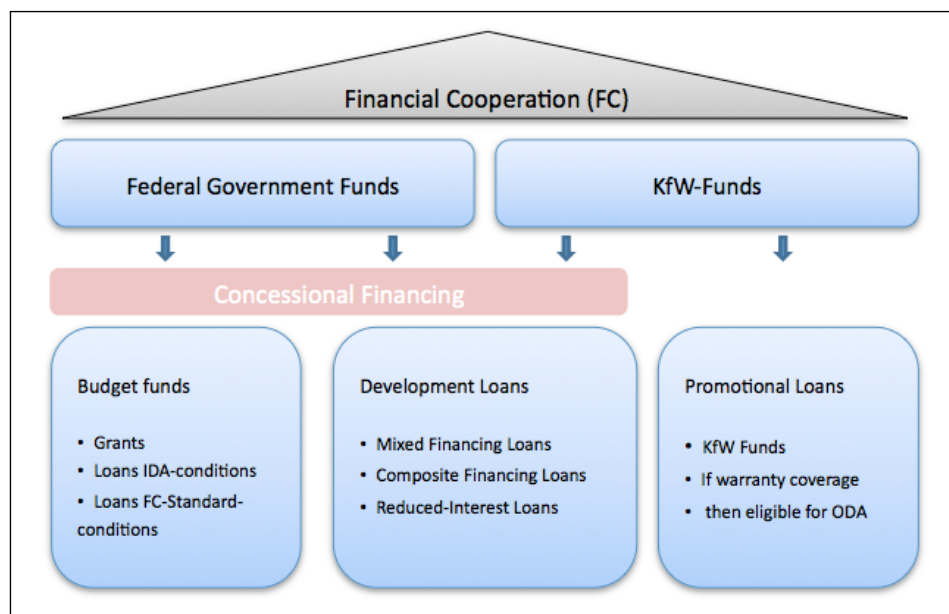
As illustrated in figure 3, the commitment and performance, in short – ownership – of the partner country are key for every single project or program. According to an interview partner, no single FC-proposal is financed without an injection of own resources by the partner country (Interview C3). Ownership of the partner country is one of the critical principles, German Development Cooperation demands in accordance with international agreements (Interview C4).

Projects and programs do not only have to meet the development needs of the partner countries; in terms of financing they also have to be technically feasible for both, the creditor (federal budget funds, KfW funds) and the borrower (partner country); (Interview C2).

<sup>28</sup> KfW Entwicklungsbank, Homepage, <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Unsere-F%C3%B6rderinstrumente/>

The following figure illustrates the different funds of the German Financial Cooperation divided into funds from the federal development budget, funds raised purely by the KfW and the ones they provide jointly:

**Figure 6: Different Instruments of Financial Cooperation**



Source: BMZ (o.A.), Slide 12

#### 3.1.3.4.2. Federal Budget Funds

Grants, and loans, offered at very low interest rates, are purely provided by the Federal Budget Funds. Although provided by the federal budget, both are administrated by the KfW Development Bank.

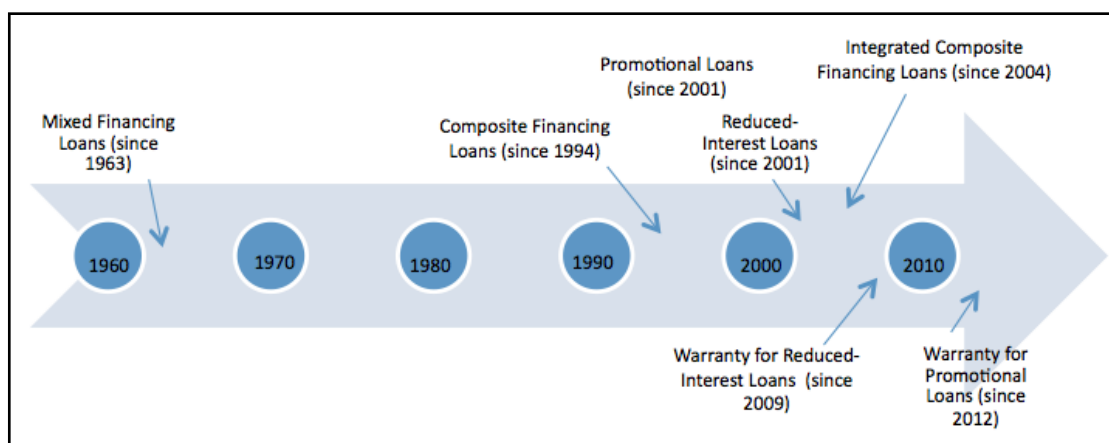
Since 1978, Least Developed Countries (LDCs) have received grants that do not need to be repaid. There are also conditions upon which Non-LDCs may receive grants for special projects. This derogation from the rules is defined in the guidelines and applies for projects or programs targeting climate protection or poverty reduction (BMZ 2008: 23). In this way, e.g. Brazil may also receive funding via grants (Interview C2).

The loans provided by the Federal Budget Funds are offered at very low rates of interest compared to the interest rates at capital markets. The terms and conditions of these soft loans are similar to IDA-conditions. Thus, countries with an annual per-capita income of currently up to 1915 US-Dollar (status: 2012) are offered loans at a very low interest rate of 0.75% p.a., a maturity of 40 years and a 10 years grace period (e.g. Ethiopia, Burkina Faso); (BMZ o.A. Slide 5; Interview C2).

In addition, the KfW Development Bank offers loans at standard conditions, eligible for countries with an annual per-capita income of more than 1915 US-Dollar (status: 2012). FC standard conditions include loans with an interest rate of 3% p.a., a maturity of 30 years and a 10 years grace period (e.g. Algeria, Morocco, Indonesia) (Interview C1).

The following figure illustrates that at the end of the 1990ies the instruments of the German Financial Cooperation have been modernized; starting with Promotional Loans and Reduced-Interest Loans in 2001 and an adapted form of Composite Financing in 2004 (Interview C2).

**Figure 7: Short History of Financial Cooperation**



Source: BMZ o.A., Slide 7

### 3.1.3.4.3. FC Development Loans

Loans and grants from the German development budget (BMZ) are complemented by the KfW Development Bank with funds it raises under favorable conditions on the capital markets.

BMZ and KfW Development Bank created this kind of loans in order to enhance the effectiveness of the Federal Budget Funds available for development cooperation and to increase the volume of German Official Development Assistance (KfW Entwicklungsbank 2011: 1-2).

Several interview partners agreed on the increased volume and scope of German Financial Cooperation by combining funds emanating from the federal budget and the capital market. They explained that due to development loans large-scale projects could be financed in the area of social and economic infrastructure (e.g. power house, underground train system) (Interview C4, C3).

Although terms and conditions of development loans are not as favorable as those from pure budget funds, they are significantly below market conditions. Development loans are combined in such a way that the projects are able to cover the costs and fall under ODA criteria (KfW Entwicklungsbank 2011: 1-2).

FC development loans include reduced-interest loans as well as composite and mixed financing. They differ in (1) combining federal budget funds with KfW funds raised at capital markets, (2) maturity and grace period and (3) details of any guarantees provided.

**Mixed financing loans** mark the beginning of the German Financial Cooperation back in 1963. To this end, loans with favorable conditions from the German development budget with long maturities and grace periods, and an interest rate of 5%, which is geared to IDA conditions, are combined with KfW funds raised on the markets. The KfW funds have less favorable conditions, higher interest rates and shorter maturities. In this case, the partner country is offered one contract with two different tranches (Interview C4).

Mixed financing loans are covered through export credit insurance via Euler-Hermes and thus, contain a minimal procurement tied share of German goods and services. According to an interview partner this financial product is hardly used today because it does not qualify anymore to meet the general efforts of Financial Cooperation projects being not procurement tied to goods and services from German companies (Interview C2, C4).

Mixed financing has been primarily used for infrastructure projects which have one large supplier and a relatively long lifetime (Interview C4). In the year 2013, this form of financing has only been used twice (Interview C2).

**Composite financing loans** are very similar compared to the mixed financing loan type; both have in common that loans with favorable conditions from the development budget (BMZ) are combined with KfW funds raised on the markets.

The difference is that while KfW's risks are covered by an ECA when using mixed financing loans, composite financing loans are covered by a credit guarantee of the German Government (MoF). For the mixed financing loan type, KfW's risks are covered up to 90 % by an ECA; when the KfW provides composite financing loans, up to 80 % of the credit are guaranteed by the MoF (Interview C2).

Since 1994, composite financing loans have been broadly used to finance developmentally important infrastructure projects in partner countries (BMZ o.A., Slide 7). As the conditions from the federal budget include long loan maturities, this loan type is in general more suitable for long-lasting infrastructure projects (KfW Entwicklungsbank 2011: 1-2).



In contrast to mixed financing loans, composite financing does not have to be done with one large supplier; due to the type of guarantee (from the MoF) infrastructure projects with many smaller suppliers are feasible (Interview C4; C2).

**Reduced-interest loans** are development loans, for which funds are raised on the capital markets by the KfW Development Bank. These KfW funds are then combined with grants, which come from the development budget and subsidize the interest rate for the borrower (Interview C4).

Reduced-interest loans have been used since 2001 for financing developmentally relevant infrastructure projects, as long as the maximum maturity of this loan type is adequate for the project (BMZ o.A., Slide 7). According to the KfW Development Bank, many partner countries are in this way enabled to invest in innovative and environment-friendly energy, environmental and climate technologies which otherwise would not have been affordable (KfW Entwicklungsbank 2011: 1-2).

An interview partner states that this loan type has advanced to the most important FC-instrument (Interview C4). Another one confirms this development and mentions that meanwhile up to 60-70% of all FC-projects or programs are financed with reduced-interest loans (Interview C2).

Since 2009 reduced-interest loans have been largely covered by a guarantee of the German Government (MoF) (BMZ o.A., Slide 7). In this way, projects are now affordable for partner countries and comply with ODA criteria (KfW Entwicklungsbank 2011: 1-2).

To qualify as ODA, a transaction must be concessional in character and convey a grant element of at least 25% according to the DAC's definition. This 25 % grant element is calculated at a rate of discount of 10% and should reflect a donor's budgetary effort in favor of a developing country (OECD/DAC 2013b: 2).

As long-term interests rates in Germany and most other member countries are well below 10 %, fulfilling the grant element has become much easier (Fritz 2013: 25-26). Even more, sometimes the concessionality level is de facto negative and thus, does not imply any budget effort for the donor, a practice which has been sharply criticized by various interview partners (Schweiger 2013: 13-16).

#### **3.1.3.4.4. FC Promotional Loan**

The German Financial Cooperation is completed by so-called promotional loans. They have been designed to finance development projects in countries without apparent indebtedness problems. They are primarily offered to developing countries with significantly higher levels

of income (threshold countries), for which other available FC funds are not suitable anymore (KfW Entwicklungsbank 2010).

The award of these funds is conditional on the indebtedness of a country; in addition, projects have to be commercially cost-effective and provide added-value in terms of development policy.<sup>29</sup>

Since 2001, the FC promotional loan has been available under terms and conditions that are close, but still below market conditions. Although the funds for promotional loans are purely raised on the capital markets by the KfW Development Bank, the award of these funds needs the final approval of BMZ (Interview C2; BMZ o.A., Slide 3).

Promotional loans form part of FC funds and are included in the forecasts by the ministry's desk officers. If possible, the use of this loan type is included in the minutes of the bilateral negotiations between BMZ and the corresponding partner country (Interview C1). In appropriate cases –depending on the conditions – promotional loans are covered by a guarantee from the federal budget (Interview C2).

If such loans are covered by a state guarantee, they must be eligible for ODA according to Germany's interpretation of concessionality because they incorporate an effort (in the implicit form of a guarantee for the default of the loan) by the German government (Interview C10).<sup>30</sup> Critical voices repeatedly pointed out that such reporting practice erode the ODA-concept, in particular as they refer to large amounts of loans, which do not meet any reasonable definition of 'concessional in character' (Fritz 2013: 25-26).

According to the KfW Development Bank this type of loan complements the available FC funds and is particularly appropriate for promoting private and public investments in infrastructure, refinancing of financial institutions and for credit and equity investment operations in the micro finance sector (KfW Entwicklungsbank 2010).

For instance, China does not receive any more grants or soft loans from the German development budget. Here promotional loans are used for financing public transport projects in order to continue the cooperation with China as a former development cooperation partner country. An interview partner mentioned that apart from China, Thailand or Vietnam, some East-European countries qualify for promotional loans (Interview C1).

The promotional loan has accounted for the smallest share of all FC funds until now. Another interviewed person confirms that this instrument is used very carefully and mentions that the

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<sup>29</sup> KfW Entwicklungsbank, Homepage, <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Unsere-F%C3%B6rderinstrumente/>

<sup>30</sup> Organization for Economic Co-operation and Development, OECD, Homepage, <http://www.oecd.org/dac/stats/concessional-note.htm>

indebtedness of a country is seriously assessed by the KfW Development Bank upon the basis of the debt sustainability analysis of WB and IMF (Interview C2).

### 3.1.4. FC Performance

The statistical data provided in the following aims at analyzing the quantitative evolution of the German Financial Cooperation including their sectoral and geographical distribution. The chapter mainly draws on information extracted from the KfW Transparency Portal, but will also take into account information from the DAC's Creditor Reporting System, national budget frames, KfW Development Bank' Annual Reports and builds on data provided by interview partners.

#### 3.1.4.1. Development of Financial Cooperation

The total volume of loan commitments has significantly increased in recent years by combining federal budget funds with funds raised at the capital markets.

Table 2 illustrates the total volume of commitments between 2003 and 2012, which rose from EUR almost 1.6 billion in 2003 to nearly EUR 5 billion by 2012. The German Financial Cooperation almost doubled its funds compared to the year 2006 when around 2.5 billion had been committed.

**Table 2: Total Volume of Commitments in 2003-2012**

Year	Amount in EUR Million
2003	1577
2004	1934
2005	1881
2006	2445
2007	2902
2008	3313
2009	3331
2010	4452
2011	4532
2012	4916

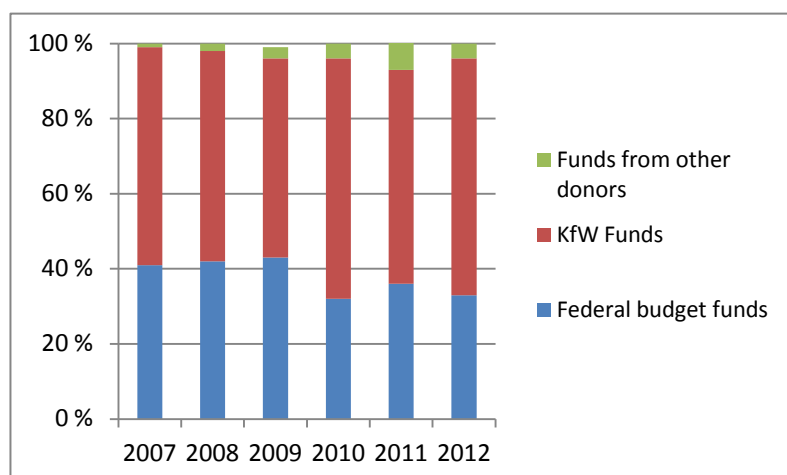
Source: KfW Entwicklungsbank 2007a: 73; KfW Entwicklungsbank, Transparency Portal, Homepage, <http://transparenz.kfw-entwicklungsbank.de/>

The share of German budget funds in the commitments of KfW Development Bank rose from EUR 1 billion in 2001 to around EUR 1.6 billion in 2012. As a result of the blending of market funds the total volume of commitments rose during the same period from just under EUR 1.6

billion to nearly EUR 5 billion by the end of 2012. Of these, over EUR 3 billion were KfW funds raised at the capital markets (KfW Entwicklungsbank 2007a: 73).

The following figure illustrates the share of Federal budget funds and KfW Funds between 2007 and 2012.

**Figure 8: Origin of FC Funds 2007-2012**



Source: KfW Entwicklungsbank, Transparency Portal, Homepage, <http://transparenz.kfw-entwicklungsbank.de/en/mittelherkunft/>

Total commitments have more or less continuously increased since 2002 as illustrated in the following table. In comparison to other years, particularly the period between 2007 and 2009 marks the beginning of an overall increase in terms of the total volume of grants, development loans and promotional loans which have been provided within the German Financial Cooperation.

**Table 3: Total Commitments 2002-2012 (in EUR Million)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
FC grants	680	740	703	751	864	803	882	1112	1036	1336	1347
FC standard loans	182	227	271	307	280	277	351	230	179	145	179
FC development loans	249	287	782	492	704	579	1033	878	2142	1713	1600
*Total budget funds	109	101	321	157	198	131	213	106	215	134	112
*Total KfW funds	140	186	461	336	507	448	821	772	1927	1579	1487
FC promotional loans	41	246	160	247	512	1263	1314	1151	913	996	1603

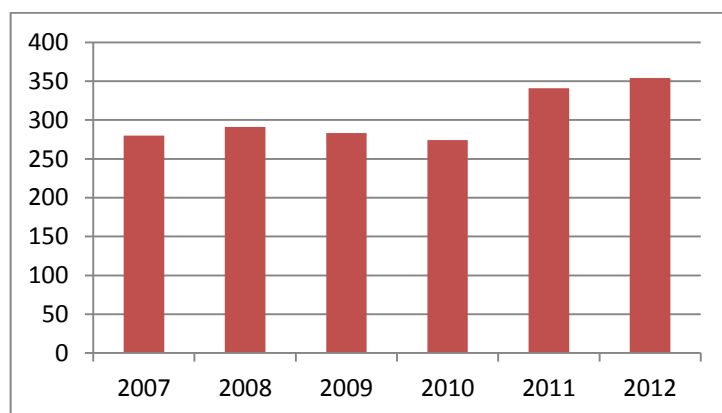
Source: KfW Entwicklungsbank Annual reports 2004, 2007, 2012

The volume of standard loans has decreased in favor of development loans and promotional loans within the last years. Federal budget funds (FC grants) have sharply increased since 2009 whereas total budget funds, which go into development loans, have substantially varied at a rather low level in the last five years. In comparison, the high volume of total KfW funds raised at the capital markets has dramatically increased the leverage of development loans. While the leverage ratio (total KfW funds to total budget funds) was 7:1 in 2009, the analysis suggests that the leverage nearly doubled to 13:1 in 2012.

In general, development loans, in particular reduced-interest loans, have advanced to the most important FC-instrument. Table 3 indicates that on average about EUR 1800 million has been committed in the form of development loans in the period 2010-2012. In addition, the volume of promotional loans has sharply increased since 2007. The guarantee which has been provided by the Ministry of Finance since 2012 led to a high peak of commitments with about EUR 1600 million last year.

More than 270 different projects have been financed each year since 2007. In the last years the number of projects has increased to 354 projects in 2012 and 341 projects in 2011.

**Figure 9: Number of FC Projects 2007-2012**



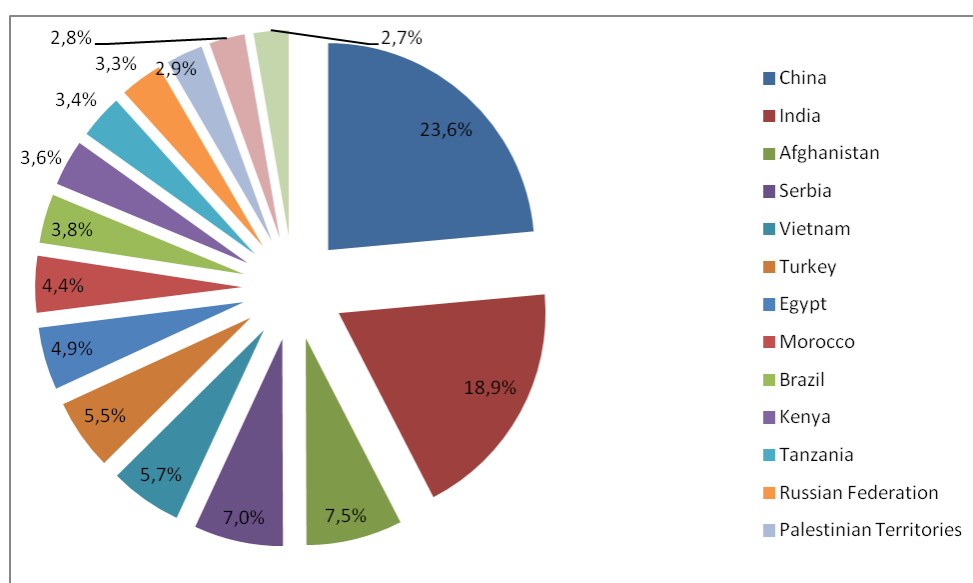
Source: KfW Entwicklungsbank, Transparency Portal, Homepage, <http://transparenz.kfw-entwicklungsbank.de/en>

Most project proposals, which receive funding, have a project size between EUR 5 and 15 million; a few are smaller and thus, up to EUR 5 million. The establishment of reduced-interest loans has provided the opportunity to finance infrastructure projects at large-scale; e.g. Metro-projects which have a total volume of several EUR 100 million (Interview C1).

### 3.1.4.2. Key Recipient Countries

Apart from China, Turkey and the Russian Federation, all main recipients are part of Germany's bilateral development cooperation in the context of country programs. The following figure illustrates that China, India and Afghanistan have been the key recipients between 2007 and 2012.

**Figure 10: Main Recipients of Financial Cooperation 2007-2012**



Source: KfW Entwicklungsbank, Transparency Portal, Homepage, <http://transparenz.kfw-entwicklungsbank.de/en>

An interviewed stakeholder points out that the graduation of countries has in turn led to an increased use of (Promotional) Loans. Thus, countries like China do not receive any more grants but loans; further eligibility for countries like Sri Lanka and Philippines which have received grants is expiring. According to this source, Vietnam and India are big and interesting cooperation countries (Interview C1).

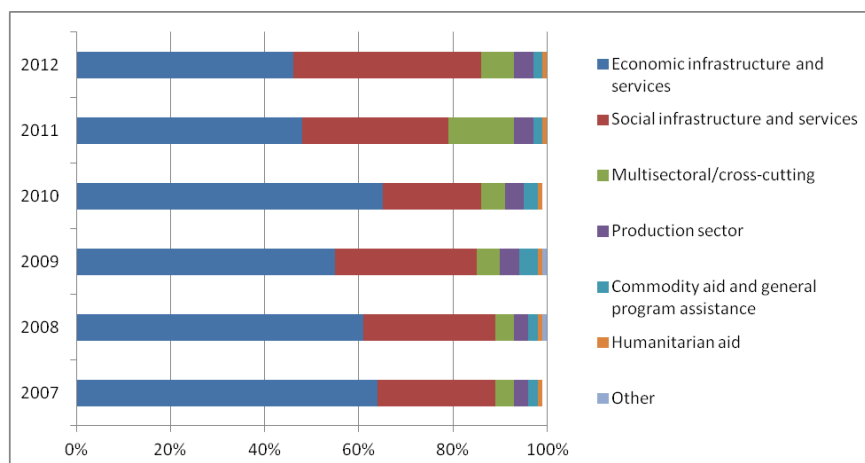
### 3.1.4.3. Key Sectors of Financial Cooperation

The key sectors of KfW Development Bank's activities are environmental and climate protection and the promotion of financial, social and economic infrastructure.

Based on the data provided by the KfW Development Bank's transparency portal, which is based upon the Creditor Reporting System (CRS) purpose codes for sector classification of the OECD, the key sectors have been analyzed.

The following figure illustrates that economic infrastructure as well as social infrastructure have had highest shares between 2007 and 2012.

**Figure 11: Key Sectors of Financial Cooperation 2007-2012**



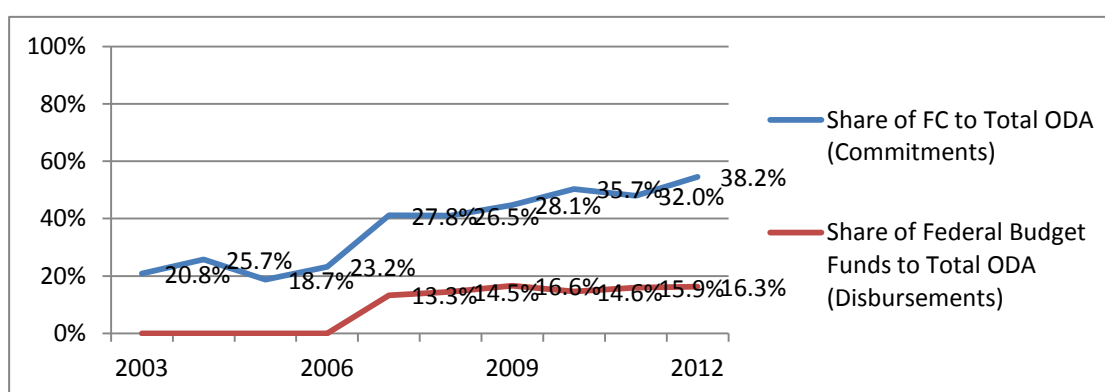
Source: KfW Entwicklungsbank, Transparency Portal, Homepage, [transparenz.kfw-entwicklungsbank.de/en/sektoren](http://transparenz.kfw-entwicklungsbank.de/en/sektoren)

Here economic infrastructure includes banking and financial services, energy generation and supply, transport and storage as well as business and other services. Water and sanitation, education, health, government and civil society, population policies/programs and reproductive health are key subsectors of social infrastructure and services.

### 3.1.4.4. Share of Financial Cooperation to Total ODA

The German Financial Cooperation has accounted for more than 30% of total ODA in 2010-2012. Although the share of FC to total ODA varies in 2003-2012, a general increase is identified, except from the slight decrease in 2011. The following figure illustrates its highest peak in 2012 (around 38.2% of total ODA). In comparison, the share of federal budget funds to total ODA – data is available from 2007 onwards – has only varied slightly; from 13.3% in 2007 to 16.3% in 2012.

**Figure 12: Share of FC/Federal Budget Funds to Total ODA 2003-2012**



Source: OECD/DAC Statistics 2014; KfW Entwicklungsbank Annual Reports; KfW Entwicklungsbank, Transparency Portal, Homepage, <http://transparenz.kfw-entwicklungsbank.de/>



### 3.1.5. Planning and Implementation of FC Funds

All projects that are supported by the German Financial Cooperation go through the same processing cycle. Every stage of this cycle is subject to various checks and balances, e.g. quality assurance reviews (KfW Entwicklungsbank 2012b: 3). The following figure illustrates the planning and implementation of Financial Cooperation as well as Technical Cooperation in the strict sense.

**Figure 13: Planning and Implementation of Financial and Technical Cooperation**



Source: Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [http://www.bmz.de/en/what\\_we\\_do/approaches/bilateral\\_development\\_cooperation/approaches/index.html](http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/approaches/index.html)

### **3.1.5.1. Intergovernmental Agreement and Project Pre-Selection**

The official bilateral Financial Cooperation is based on intergovernmental agreements between the Federal Government of Germany, represented by the BMZ and the governments of the corresponding partner countries.

These intergovernmental agreements are in turn framed by the programming of the Official German bilateral Cooperation: Its regional strategies, country strategies and key sectors form the framework for any intergovernmental negotiation about projects or programs to be financed with FC funds.

Before starting intergovernmental negotiations, the BMZ decides in informal consultations with the partner country on bilateral assistance priorities based on its country strategies and on the partner country's development strategy.

These informal consultations take place every two or three years; the main stakeholders are the BMZ as negotiator, the KfW Development Bank and the GIZ are represented (for technical questions) and the respective German ambassador (AA). Their counterparts are the Ministry in charge of development cooperation and relevant line ministries or public authorities of the partner country (Interview C1).

Proposals for projects or programs are then briefly described by the KfW Development Bank for the BMZ. This brief statement of opinion (2-3 pages) includes a short description about the preparation and feasibility of the project, its developmental soundness and alignment with the priority areas of the given country; in short this brief statement of opinion evaluates whether the planned project is promising and beneficial. An interview partner concludes that this assessment is relatively basic and solely intended as a basis for the BMZ to decide whether this project will be put in the federal budget and further, be part of intergovernmental negotiations (Interview C1; KfW Entwicklungsbank 2012b: 4).

The KfW Development Bank's main duty in this process is to ensure the sufficient supply of proposals to meet the demand of projects; to develop proposals in cooperation with relevant line ministries from partner countries, which then are ready to be discussed in these informal consultations, and furthermore, negotiated in the formal intergovernmental negotiations (Interview C1).

Quite contrary to this procedure, different interview partners highlighted that ownership of the partner country is key. According to them, in principle the partner countries themselves propose projects and programs, which form part of the informal consultations as well as the official intergovernmental negotiations (Interview C3, C1 and C2).

The ownership of partner countries is here solely indicated by the fact that projects are as well but not exclusively proposed by the partner country. Further, their development strategy is one of the key documents which are considered in the intergovernmental negotiations. It is important to note that the involvement of the KfW Development Bank in general depends to a large extent on the capabilities and capacities of the given country (Interview C3).

The BMZ also provides a studies and counseling fund with a volume of EUR 15-20 million per year. This fund, which is administrated by the KfW Development Bank, finances studies needed for project definition, including preliminary and feasibility studies in order to prepare a project or program (KfW Entwicklungsbank 2013: 20; Interview C1).

The studies and counseling fund is not necessarily used to prepare every single project because projects or programs are also prepared by a given study of the partner country. In addition, new projects proposed are very often follow-up projects; hence there is usually no need for doing an overall preparation or feasibility study again (Interview C4).

An interviewed stakeholder estimates that one third of all projects, in absolute numbers, between 30 up to 40 projects per year, are prepared with resources of the studies and counseling fund (Interview C1).

According to the website of the KfW Development Bank, "The partners in the respective developing country itself are responsible for procuring consultancy, construction works, supplies and services for the programs and projects" they finance.<sup>31</sup> Several German interview partners agreed upon the importance to put the partner country in the „driver's seat" (Interview C4; Interview C3).

Nevertheless, the KfW Development Bank supports and assists in preparing the project and provides back-up services during implementation. The Terms of Reference (ToR) of the above mentioned preparation and feasibility studies are provided by the KfW Development Bank in cooperation with the corresponding ministry (Interview C1).

The partner country then carries out an international call for tender. The invitation to participate in an international competitive bidding process is usually published in the developing country and in Germany, if appropriate also in international media KfW (Entwicklungsbank 2007b: 8).

These ToR often ask for very specific consultancy and for companies, which have a proven record of similar projects and country experience. Thus, in general technical consultants win these tenders because of the technical rather than socioeconomic questions that have to be

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<sup>31</sup> KfW Entwicklungsbank, Homepage, <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Vergabe-von-Auftr%C3%A4gen/>

answered. An interviewed person concludes that these engineering consultants are very often from industrial countries, not only from Germany, also from Great Britain, France or the USA (Interview C1).

### **3.1.5.2. Decision-Making and Project Selection Process**

The stakeholders of the formal intergovernmental negotiations are the same as in the informal consultations held earlier on: the BMZ, the KfW, the GIZ, the AA and their counterparts from the given partner country. They agree upon concrete projects on the basis of the existing proposals and studies.

The negotiated projects and programs, their volume of funding and other results of these negotiations are protocolled. These minutes form the basis for the intergovernmental agreement between the German Federal Government and the government of the partner country. This agreement is binding under international law (Interview C1).

The developmental orientation, the volume of funding pledged and other important details are then agreed and implemented by the KfW Development Bank in the name and on behalf of the German government on the basis of the intergovernmental agreement.

In detail, the KfW Development Bank is commissioned by the BMZ to conduct an on-site appraisal. The ministry gives its approval on the basis of the brief statement of opinion done by the KfW Development Bank which then serves as basis for the decision to release these funds in the federal development budget (Interview C1; KfW Entwicklungsbank 2012b: 5).

Then the KfW Development Bank conducts the on-site appraisal, guided by a confidential handbook from the BMZ, which has been operationalized for KfW staff. An interview partner confirmed that the bank is obliged by their very formal guidelines to carry out a full and complete examination of all the relevant facts and circumstances.

According to this interview partner, the questions and criteria are manifold and similar to those of the World Bank (Interview C1). This on-site appraisal of a project or program includes (KfW Entwicklungsbank 2007b: 17):

- the overall economic situation in the partner country as well as the proof of necessity of the given project or program; e.g. in the form of a sectoral or regional analysis
- the conceptualization, if necessary the design and technical characteristics (planning, implementation, operation), including opportunities to cooperate with the private sector
- relevant legal basis; organization, management and economic conditions of the project executing partner (including the partner's ability to implement the project on

his/her own), potential support by trained professionals as well as the requisite education and training

- total costs (foreign currency costs, total local costs) and the financing of these costs, human and material supplies as well as financial contributions of each single stakeholder
- Macroeconomic, socio-economic and socio-cultural impacts (e.g. possibility of conflict between different (ethnic) groups), gender aspects and environmental and social compatibility; economic aspects, operational and commercial risks, the target group's attitude towards the project (Interview C1).

Another interview partner concludes that there are few criteria for assessing the developmental orientation of the given project or program. Within financial cooperation, measures are rather more assessed along the logframe matrix and corresponding indicators (Interview C2).

These on-site appraisals usually include field missions. All criteria have to be assessed each time and reported to BMZ. The appraisal report includes a proposal for funding (Finanzierungsvorschlag) which is based on the 'List of Conditions' (FZ-Konditionenliste) (Interview C1).

This program proposal is similar to the appraisal reports (Bankprüfberichte) of the World Bank; according to a stakeholder the reports of the KfW are shorter but usually contain quite similar information (Interview C1).

If the appraisal, done by the KfW Development Bank, is positive, BMZ country desks (Länderreferate) normally approve the developmental criteria of the project appraisal as well as the proposal for funding. At this stage adaptations or changes regarding the developmental soundness of the project or the funding proposal could be amended by the BMZ because the ministry gives final approval for funding (Interview C2).

Thus, the KfW Development Bank has to take into account the ministry's objections and has to come up with developmental improvements or other financial proposals. In general, these proposals are developed jointly; because it is in the interest of both that the BMZ gives the KfW Development Bank the negotiating mandate for the loan agreement (Interview C1).

Once the KfW Development Bank has received the ministry's approval, the bank concludes the loan agreement with the corresponding government. The framework for the delivery of services to support projects or programs and for the selection of consultants are also agreed upon in the loan agreement or other agreements between the project executing agency and the KfW (KfW Entwicklungsbank 2013: 3).

These loan agreements generally do not have to be negotiated in detail; according to an interview partner, most partner countries are familiar with this kind of contracts. The contract is made up of 8 to 10 pages, particular risks have to be dealt with in the annex (Interview C1).

„The supplies and services to be financed, the disbursement procedure to be applied and the details of the documents to be submitted to the KfW Development Bank are specified in the „Separate Agreement“ to the Loan/Financing Agreement.“ (KfW Entwicklungsbank 2006: 1).

After signing the loan agreements, the KfW Development Bank makes the funds available. The Bank also deposits the grants and loans from the federal development budget (Interview C2). The payments are usually transmitted to the project partner or the project-executing organization, e.g. government-related energy supplier (Interview C4).

### **3.1.5.3. Implementation-Planning and International Competitive Bidding**

The KfW Development Bank supports the project executing organization in the partner country in preparing the project. One of these back-up services provides an independent qualified consultant to advice on particular technical questions of the planning and implementation of the project, including the tender (Interview C4).

In detail, the local or international consultant, who is generally awarded by the project executing agency via tendering, provides support for the project-executing agency in the detailed design of the project.

This often includes the consultant's role as a tender agent, preparing the tender documents (including technical specifications and the draft contracts for supplies and services), holding the tender, assessing the bids and proposing an applicant to be awarded the contract, drafting the contract, drawing up the final design, including the architectural plans, supervising the execution of the project and monitoring its development (KfW Entwicklungsbank 2013: 20).

„The consultant's services also include examining and approving invoices and supporting the project executing agency in foresighted cost and financial management of the project, in dealing with contractual issues, in accepting the project and in drawing up reports on the development of the project.“ (KfW Entwicklungsbank 2013: 20).

In principle, contracts for goods, works and associated services are always awarded by the project executing agency in charge of the implementation of the project, which in most cases

is also the agency that calls for an International Competitive Bidding (ICB). In exceptional cases other awarding procedures may be applied. For instance, in individual cases, the KfW Development Bank may carry out part or all of the selection procedure and commission the consultant on behalf and in the name of the project executing agency (KfW Entwicklungsbank 2013: 4-6).

Nevertheless, the general role of the KfW Development Bank is to make sure that calls to tender and contract awards proceed according to international rules. Even though the bank emphasizes the commitment and ownership of the partner country, it still plays an active part in the preparation and implementation of the projects financed.

The bank's obligation to exercise due diligence consequently influences the project in a manner that is appropriate to the case in hand: This influence shall ensure that the funds provided are spent as efficiently as possible and that the contracts are awarded on the basis of fair and transparent competition, which is designed to identify the most suitable bidder according to performance and price (KfW Entwicklungsbank 2013: 5; KfW Entwicklungsbank 2007b: 4).

Further, the bank will examine the tender documents, assessment reports, proposals for the award of the contract and draft contracts for prior approval to ensure that they conform with the agreements made with the Project Executing Agency and with international practices (KfW Entwicklungsbank 2007b: 4).

Once, the preparation for the International Competitive Bidding (ICB) is done, the Project Executing Agency will publish an international invitation to tender supplies and services for the corresponding project. Publication in the partner country will follow the rules and regulations applicable there, but in principle publication will take place in the daily newspapers of the partner country (KfW Entwicklungsbank 2007b: 7).

In addition, the procurement notice must be published in Germany in the databases of Germany Trade & Inward Invest Agency (GTAI) beforehand (KfW Entwicklungsbank 2007b: 6.). Due to the guidelines of the German bilateral financial and technical cooperation, the German economy must be informed as early as possible about projects financed with FC funds. An interviewed person states that in addition to the GTAI, publication takes place in the EU Official Journal (Interview C1).

The bidding documents include the following (KfW Entwicklungsbank 2007b: 8-9):

- general information about the project and the supplies and services to be provided
- information on the execution of the bidding process and evaluation procedures
- sample form of tender

- general and specific conditions of contract and, if appropriate, draft contract
- general technical conditions of contract, neutral technical specifications with bill of quantities, specifications or performance criteria for performance-based contracts
- clear and complete design documents
- specification of standards and measuring system applied
- specimen declaration of undertaking
- standard forms of bid bond, advance payment bond and performance bond
- preliminary cost estimates, unless there are serious reservations against their disclosure

The bidder has to ensure a fair and transparent competition and comply with, at least those ILO core labor standards that have been ratified by the partner country (KfW Entwicklungsbank 2007b: 7).

According to an interviewed person, the documents the bidder has to hand in vary from case to case; in general they heavily depend on the procurement system and legal issues in the partner country (Interview C1).

The bids are usually evaluated by the contracting agency in cooperation with the tender agent or by the tender agent. If specified in the bidding documents, apart from the price, several factors are evaluated ((KfW Entwicklungsbank 2007b: 10-11):

- delivery of construction period
- personnel
- equipment lists
- environmental and social acceptability
- costs of operation and total useful life
- supply of spare parts
- qualification for training local personnel

The purpose of the evaluation is to determine the most advantageous offer by assessing all individual bids and by subsequently comparing all the bids submitted. The contracting agency has to send the detailed evaluation report to the KfW Development Bank, which generally reserves the right to review all the bids and corresponding documents (KfW Entwicklungsbank 2007b: 20).

In principle, the procurement procedure is confidential. The decision to whom the contract is awarded is made by the partner-contracting agency. The KfW Development Bank may withhold funding if the award of the contract has not been carried out adequately (e.g. unduly favorable treatment of a bidder, offer does not comply with the public invitation to tender, serious deviation from the project design, corruption) (KfW Entwicklungsbank 2007b: 20).

Once a supplier is awarded the contract, the consultant further provides „support for the Project Executing Agency in developing operation and maintenance concepts, in advising



and training skilled personnel to operate and maintain the facilities constructed under the project, and in carrying out flanking measures (e.g. hygiene advisory campaign in connection with drinking water supply projects).” (KfW Entwicklungsbank 2013: 20).

#### **3.1.5.4. Payment Terms, Guarantees and Insurance**

One of the KfW Development Bank’s duties is to deal with payment terms, in particular to administrate disbursements and repayments of projects or programs to be financed with FC funds.

The bank disburses loans and non-repayable financial contributions (grants) according to the progress of the corresponding project or program to be financed or upon request of the project executing agency. Further, the KfW Development Bank supervises the contractually agreed utilization of the funds (KfW Entwicklungsbank 2006: 1).

According to the KfW Development Bank its disbursement procedures are in line with the Paris Declaration (PD) in which donors have committed themselves to align their procedures more strongly with those of the partner countries. The bank generally applies this principle by providing all necessary information in order that partner countries are able to allocate the funds in their public budgets (KfW Entwicklungsbank 2006: 1).

The KfW Development Bank provides direct disbursements as well as reimbursements. Upon request of the project executing agency, payments are directly disbursed to the enterprises (,suppliers’) whose supplies and services are to be financed by FC funds (Interview C3).

An interview partner states that the KfW Development Bank usually applies reimbursements. Here the project executing agency or the authorized party first performs the full payment of amounts which are then requested by the partner and subsequently reimbursed by the KfW. If necessary, specific audits are done by independent auditors in order to examine whether the funds were used for the contractually agreed purpose (Interview C3).

In some cases the KfW Development Bank provides a so-called disposition fund. This fund is endowed with an adequate amount, if the authorized party, in most cases the project executing agency, is not able to pre-finance the supplies and services. The funds are then disbursed to cover the needs of the project over a period of up to four months. In contrast to reimbursements, disposition funds have to be audited on a regular basis by independent auditors (KfW Entwicklungsbank 2006: 2; Interview C3).

## **Guarantees**

In general, the project executing agency is the borrower who receives funding from German Financial Cooperation. Since the partner country is not the borrower, it usually provides a state guarantee in order to guarantee for any payment defaults (Interview C4).

In addition, FC funds are conditional upon guarantees covering the risk of non-payment for the KfW Development Bank which are either covered by Euler-Hermes (ECA) or the German Ministry of Finance (Interview C4).

Further, the contractor has to provide different bonds (bid bonds, advance payment bonds and performance bonds) in order to guarantee that all obligations will be duly fulfilled (KfW Entwicklungsbank 2007b: 16; 21-23).

## **Insurance**

According to the procurement guidelines, all „goods and works are to be insured adequately and to the customary extent against all risks that may occur up to the orderly completion and acceptance of the project so that replacement or rehabilitation is possible in the event of damage.“ (KfW Entwicklungsbank 2007b: 16-17).

An interviewed person concludes that the KfW Development Bank supports the project executing company in guarantee or insurance issues but the bank's main function herein lies in auditing if these issues are considered adequately in each project (Interview C1).

### **3.1.6. Monitoring and Evaluation**

The KfW Development Bank monitors the progress of the measures financed with FC funds until the project or program will become operational. Once the project has been completed, the bank reviews whether the development objectives have been achieved and will have a lasting impact.<sup>32</sup>

#### **3.1.6.1. Reviewing Project-Related Progress**

The monitoring results are submitted by the KfW Development Bank to the ministry on a regular basis. They include reviewing the progress of outstanding action and consider (KfW Entwicklungsbank 2007b: 18-19):

- the latest development in the given sector

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<sup>32</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [http://www.bmz.de/en/what\\_we\\_do/approaches/bilateral\\_development\\_cooperation/approaches/financial\\_cooperation](http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/approaches/financial_cooperation)

- the impacts of the implemented actions
- compliance with planning and financing (int. al. schedule and budget)
- potential difficulties which have occurred during the implementation
- potential modification of framework conditions
- recommendations

The reports that review the progress of a project or program in principle may be reports of the project executing agency or local staff as well as results of an interim evaluation or other knowledge acquired by the KfW Development Bank and their corresponding stakeholders (KfW Entwicklungsbank 2007b: 19).

If framework conditions change substantially during the implementation phase, the KfW Development Bank must immediately report to the ministry. In such cases the ministry reserves the right to request reports (KfW Entwicklungsbank 2007b: 19).

In addition, the KfW Development Bank conducts field visits once or twice per year in order to monitor the operation of the respective project. If problems occur, the bank will conduct as many field visits as necessary. These progress reviews are then submitted to comply with BMZ in order to the reporting obligations. At the end of these reviews final inspection reports are drawn up. Here, KfW staff also includes engineers who determine which deliverables have to be mended (Interview C1).

### **3.1.6.2. Independent Ex-Post Evaluation**

Two up to five years after a project or program has been implemented or has become operational, the KfW Development Bank generally conducts evaluations of these measures and activities.

This so-called ex-post evaluation is carried out in order to analyze whether the expected developmental impacts of a given project have actually been achieved and whether they have initiated a sustainable development process. Aspects being evaluated consider the whole project cycle, the environment, the partner and involved agencies as well as the target group.<sup>33</sup>

The evaluations are done by the Evaluation Department of the KfW Development Bank (FC Evaluation) or by assigned external consultants.

The Evaluation Department is officially an independent unit, which reports directly to the Board of Managing Directors. This board also appoints a highly qualified expert in the field from the outside as head of KfW's Evaluation Department in order to ensure that this unit is

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<sup>33</sup> KfW Group, Homepage, [https://www.kfw.de/KfW-Group/Newsroom/Aktuelles/Pressemitteilungen/Pressemitteilungen-Details\\_10223.html](https://www.kfw.de/KfW-Group/Newsroom/Aktuelles/Pressemitteilungen/Pressemitteilungen-Details_10223.html)

able to work independently (from regional divisions which are responsible for the planning and implementation of FC funds).<sup>34</sup>

An interviewed stakeholder claims that despite the independence of the evaluation unit, external consultants are in practice still more independent, simply because of the fact that these evaluations are external and not in-house. This may call the independence of the evaluation unit, e.g. from regional divisions, into question. In addition, this interview partner argues that external consultants are often interested in follow-up orders and thus, external consultants are not always more critical in their evaluation reports (Interview C1).

#### **3.1.6.2.1. Approach and Methodology**

The Evaluation Department moved away from assessing every single project in 2007; since then a representative sample of individual projects has to be submitted for ex-post evaluation. According to an interview partner, approximately half of all implemented projects are evaluated in this sample per year; in total about 60 projects. Further, the interviewed person mentions that this random sampling allows more profound and thorough analysis; e.g. providing own surveys, conducting thematic research or applying a more sophisticated methodology (Interview C1).

On the bank's website, the Evaluation Department states that this representative sampling provides a solid basis for the bank in order to determine the success rate of Financial Cooperation activities (Interview C1).

It seems questionable whether it is sufficient to evaluate every second project. Evaluations are not solely done in order to measure the success rate or to organize learning effects; they are essentially conducted to demonstrate whether funds have been employed efficiently and whether the target group is affected positively by the impacts of a given project or program. Thus, every single project should be evaluated thoroughly.

About two thirds of all evaluations are done by the Evaluation Department of the KfW Development Bank, one third of all projects evaluated is conducted by external and independent consultants. As a general rule, the Evaluation Department never assigns individuals who have worked on the project under evaluation (Interview C1).

#### **3.1.6.2.2. Logframe and Field Missions**

Ex-post evaluations are generally based on the Logical Framework Matrix („Logframe“). In principle, this matrix is produced every time when the KfW Development Bank is

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<sup>34</sup> KfW Entwicklungsbank, Homepage, <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/Evaluation/Unabh%C3%A4ngige-Evaluierungseinheit/>

commissioned by the ministry to conduct an on-site appraisal of a given project in order to provide a basis for the decision whether to finance the measures with FC funds (view section 4.2). Thus, the logframe matrix is of major relevance throughout the whole process.

On the basis of the logframe matrix the therein-formulated indicators and other related documents and interim reports of a given project, the evaluators assess the implemented measures of a corresponding project or program (Interview C1).

Field missions are usually part of an ex-post evaluation: Evaluators conduct interviews with representatives of the executing agency and the target group; analyze corresponding data and statistics; assess statements and information of other stakeholders, e.g. other external donors working in the sector the project corresponds to. The evaluation reports also consider documents and reports that are related to a given project or program and have been produced over the whole project cycle.<sup>35</sup>

Criteria which are applied to measure a project's development success are the following: relevance, effectiveness, efficiency, overarching developmental impact and sustainability. „The bank considers a project sustainable if the project-executing agency and/or the target groups are willing and able to carry on with the project once the external support comes to an end.“<sup>36</sup>

The ex-post evaluations of the Evaluation Department in principle address the following key questions:

- „How have the partner country, the sector and the environment of the project/program changed since preparation? Did the project/program specifically address a major constraint in the partner country and has it contributed to solving a core problem?
- Was the project/program carried out as originally planned (planned versus actual comparison of measures, costs and finance)? If applicable, were deviations warranted?
- Which elements of the design have proved more or less effective? To what extent have important anticipated effects actually occurred and how sustainable will they be?
- What other positive and negative effects (also non-intended impacts) have occurred? What could and should be done differently/better in new projects/programs from today's point of view?“<sup>37</sup>

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<sup>35</sup> KfW Entwicklungsbank, Homepage, <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/Evaluation/Ex-Post-Evaluierungen/>

<sup>36</sup> KfW Entwicklungsbank, Homepage, <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/Evaluation/FAQ-Frequently-Asked-Questions/>

<sup>37</sup> KfW Entwicklungsbank, Homepage, <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/Evaluation/Ex-Post-Evaluierungen/>

In addition, at the end of each evaluation, a final performance assessment of the given project or program is done. Measures are considered to be successful (rating 1-3) or not successful (rating 4-6).

The ex-post evaluation reports are submitted to the BMZ; abridged versions covering individual projects are published online and are available to the public. Additionally, every couple of years the Evaluation Department publishes analysis reports, which focus on different topic areas, with more detailed information about different sectors or regions, and provide detailed performance statistics.<sup>38</sup>

### **3.1.7. Transparency and Accountability**

Although Germany's development policy is not defined by law, there are guidelines and procedures that guide the BMZ being in charge of German development policy formulation and financing and the KfW Development Bank as the executing agency for FC funds.

Further, the BMZ has reporting duties to the parliament. In addition, the Federal Court of Auditors regularly audits the financial management of the Federal government, its ministries and executing agencies. Therefore, the BMZ and the KfW Development Bank are quite regularly monitored. The Bank is also continuously supervised by the private auditing company PricewaterhouseCoopers.

The role of the German civil society is more strongly focused on the export credit transactions. Here, the KfW IPEX-Bank, one of the KfW Banking Group's subsidiaries is regularly criticized.

#### **3.1.7.1. Involvement of the Parliament**

Forming part of the overall development cooperation, the financial cooperation is as well underpinned by the coalition agreement that covers each legislative period and the budget procedure ("Einzelplan23"). Since the 14<sup>th</sup> legislative period (1998-2002) policy statements on development have been an integral part of the debates of the Bundestag (EuropeAid 2013: p.1).

The Parliamentary Budget Committee (PBC) decides upon the development cooperation budget every year, which has been drafted by the BMZ based on the ceiling of the overall federal budget allocated by the BMF. Before the PBC agrees upon a final version, the draft is

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<sup>38</sup> KfW Entwicklungsbank, Homepage, <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/Evaluation/Ergebnisse-und-Publikationen/>

debated in the corresponding committees. Thus, every year FC funding is agreed upon during the budget procedure.<sup>39</sup>

The BMZ has reporting duties to the parliament regarding the approval of FC funds. The BMZ as well regularly reports to the Parliamentary Committee for Economic Cooperation and Development (AWZ) about the developmental impact of evaluated projects.<sup>40</sup>

Furthermore, members of the parliament are entitled to ask questions which have to be answered by the government or the corresponding ministry. German NGOs regularly make use of this option and ask parliamentarians to request information about projects or programs being financed by the KfW.

Several interview stakeholders of the German civil society conclude that parties in opposition to the government are more eager to help with such requests (Interview C9, C7).

### **3.1.7.2. Auditing of Financial Management**

The financial management of the federal government, its various property funds and state-owned companies are regularly examined by the Federal Court of Auditors. Thus, the BMZ and also the KfW Development Bank as one of the ministry's executing agency are audited by the Federal Court of Auditors.

As an independent and not subordinated organization of the federal government, the Federal Court of Auditors is able to freely choose the subject matters it intends to audit. The court usually does not only deliver recommendations, but also provides advice and counseling for the audited bodies in order to point out the potential for savings or increases in revenue.

An interview partner explains that the court in principle does not audit the business activities of the KfW Development Bank, but rather examines specific issues, given projects or programs, e.g. fiduciary participations or appropriations for preparatory and complementary investment measures (Interview C3).

Once the Federal Court of Auditors has audited the KfW Development Bank, the bank receives the audit findings in a 'management letter' for comment. The final report is sent to parliament where representatives of the corresponding ministries answer to questions of the members of parliament in the Parliamentary Budget Committee (PBC). According to an interviewed stakeholder, the individual reports are confidential; only the annual reports have to be made public (Interview C3).

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<sup>39</sup> Information Portal, SEEK Development, Homepage,  
<http://donortracker.org/donor-profiles/germany/budget-process>

<sup>40</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage,  
[http://www.bmz.de/de/was\\_wir\\_machen/wege/erfolg/evaluierung/evaluierungsberichte/index.html](http://www.bmz.de/de/was_wir_machen/wege/erfolg/evaluierung/evaluierungsberichte/index.html)

## **German Banking Act**

The KfW Development Bank is supervised by the Ministry of Finance, in consultation with the Federal Ministry of Economics and Technology (BMWi) (Interview C3; KfW 1969: 12).

Being a public body (AöR), founded by law (Law concerning Kreditanstalt für Wiederaufbau) and acting upon a political mandate, the KfW is not regulated by the German Banking Act (KWG, „Banking Act“) (Interview C3).

According to the law concerning the KfW, there is as well no supervision by the Federal Financial Supervisory Authority (BaFin). However, the federal government has the legal option to declare certain provisions of the KWG applicable, including supervision by the Financial Supervisory Authority (BaFin) (KfW 1969: 13).

An interview partner highlights that the bank generally has to comply with stronger regulation procedures for the funds raised on the capital markets than for federal budget funds; according to him, especially handing out grants is significantly easier than other FC funds (Interview C3).

## **Certified Accountants**

The KfW Development Bank is not only audited by the Federal Court of Auditors for executing the federal budget funds from the BMZ but also by an external private accountant consultancy (PricewaterhouseCoopers, PWC) (Interview C1; C3).

PWC is officially commissioned by the BMZ simply because of the ministry's obligation to audit the sound management of public finances. Nevertheless the KfW Development Bank, being contracted as executing agency, concludes the contract with the auditing company (Interview C3).

In contrast to the Federal Court of Audit, PWC conducts audits of all business activities. A stakeholder mentions that an audit team is constantly busy throughout the whole year in order to audit the KfW's business activities (Interview C1).

### **3.1.7.3. German Institute for Development Evaluation**

The main purpose of the German Institute for Development Evaluation (Deutsches Evaluierungsinstitut der Entwicklungszusammenarbeit; DEval), which was founded in the year 2013, is to provide independent evaluation of the performance of German development



cooperation measures in order to support the work of the BMZ and the ministry's implementation organizations, such as the KfW Development Bank.<sup>41</sup>

DEval intends to conduct an overarching evaluation of all FC Funds in 2015 (which has been planned for 2013 but then postponed to 2015). In this first evaluation, instruments of financial cooperation, which are leveraged by capital market funds, are evaluated (DEval 2013: 1; Interview C2).

In general, DEval also helps the German Parliament (Bundestag) to perform its parliamentary role of overseeing the work of the executive and provides the evidence it needs to formulate German policy initiatives in the field of international cooperation.<sup>42</sup>

#### **3.1.7.4. Civil Society and Availability of Information**

Projects to be promoted with FC funds are devised jointly by the German government and the government of the partner country. Before these negotiations start or final approvals are given, the BMZ regularly invites civil society actors to stakeholder consultations in which individual partner countries are the subject for debate (Interview C1).

All press information about the projects to be financed with funds from German Financial Cooperation is published online by the BMZ after the involved governments have signed the intergovernmental agreement. An interview partner mentions that no information is available before the approval because a prejudgment and/or influence of the intergovernmental negotiations are not desired. Once the loan agreement has been signed project information is available to the public (Interview C1).

The gtai (Germany Trade & Inward Invest Agency) being the economic development agency of Germany provides information about tenders of German Financial Cooperation (so-called 'KfW tenders'). The gtai is a public enterprise; thus, interested parties are charged for the information provided.<sup>43</sup>

Though international export and project financing is covered by the KfW IPEX Bank, the promotion of KfW-tenders enables German business to benefit from informational and institutional advantage in order to acquire business opportunities abroad. Further, German business is institutionally organized in various associations, e.g. the Federation of Industries (BDI), the German Chambers of Commerce and Industry (DIHK) and/or the German Association of Consulting Engineers (VBI).

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<sup>41</sup> DEval, German Institute for Development Evaluation, Homepage, <http://www.deval.org/de/about-us.html>

<sup>42</sup> DEval, German Institute for Development Evaluation, Homepage, <http://www.deval.org/de/about-us.html>

<sup>43</sup> GTAI, Germany Trade & Invest, Homepage, <http://www.gtai.de/GTAI/Navigation/EN/Trade/search-kfw-tenders.html>

These associations have in common that they lobby for an increased cooperation between German business and German development policy. Their representatives specifically promote private sector development in developing countries, German know-how and technology transfer, e.g. in the infrastructure sector, and innovative development finance instruments (DIHK 2010, BDI 2007, AGE 2005).

Interestingly, the Working Group on Development Policy of German business (AGE) stated in a 2005 published position paper that partner countries should be more thoroughly supported by donor countries when defining projects and preparing the tender (AGE 2005: 11).<sup>44</sup>

Ever since AGE representatives recommended to the government and corresponding ministries that the cooperation between German business and partner countries of German development cooperation should commence when identifying new development cooperation projects and could include the involvement of German business in the formulation of country strategy papers, the overall aim of German business became apparent (BDI 2007: 5).

In fact, several position papers illustrate that German business take an interest in generating foreign business opportunities within development cooperation. Representatives of DIHK e.g. demanded that German business should be involved when BMZ jointly with other ministries decides upon partner countries and priority sectors (DIHK 2010: 7).

In other words, German business have highlighted that they want to be involved in (in-)formal negotiations of potential development cooperation projects early on. Although an interviewee denied that German business forms part of concrete project negotiations, their lobbying activities indicate that there are closer relationships than officials state in public (Interview C1).

This is also confirmed by the fact that German business representatives (BDI, VBI) are regularly consulted by the BMZ in order to discuss options regarding the greater involvement of German business in bilateral and sectoral development cooperation. This working group headed by BDI was established in 2006 and aims at enhancing business relationships between political and business stakeholders.<sup>45</sup>

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<sup>44</sup> AGE, Arbeitsgemeinschaft Entwicklungspolitik der Deutschen Wirtschaft, Homepage, [http://www.csrgermany.de/www/csr\\_cms\\_relaunch.nsf/id/arbeitsgemeinschaft-entwicklungspolitik-de](http://www.csrgermany.de/www/csr_cms_relaunch.nsf/id/arbeitsgemeinschaft-entwicklungspolitik-de)

<sup>45</sup> VBI, Association for Consulting Engineers, Homepage: <http://www.vbi.de/aktuelles/newsletter/news/bdi-arbeitskreis-entwicklungspolitik-unter-vbi-vorsitz/>

German NGOs regularly criticize the strong(er) promotion of foreign trade in order to prevent fostering the involvement of Germany's business sector within the official German development cooperation.

Erlassjahr, a German NGO has recently also commenced to monitor the mixed financing activities within the German financial cooperation (Erlassjahr 2013). Nevertheless, the role of the German civil society is more strongly focused on the exports and projects which are financed by the KfW IPEX-Bank. The bank, one of the KfW Banking Group's subsidiaries, is regularly criticized by different NGOs, for instance by Urgewald, a German environmental NGO, for financing projects which violate environmental and social standards (Interview C7).

An interview partner states that due to the harsh critique by the German civil society, the BMZ and the KfW have started to consider the compliance with environmental and social standards more strongly. Further, the interviewed person conceives that within FC the main actors could even do more to contribute that goods and services are awarded to companies which provide high quality and respect minimum standards (Interview C2).

The KfW Development Bank created a transparency portal on development finance in order to support the international efforts for greater effectiveness and transparency in development cooperation. The portal is complete since January 2014 and provides information about the bank's engagement in partner countries, relevant sectors, indicating the sources of funds from 2007 onwards. Brief outlines of evaluation reports provide results of implemented projects. In addition, the portal is supplemented with a project database containing more detailed information on all projects agreed by contracts signed since January 2013.<sup>46</sup>

By establishing the transparency portal, the bank responds to critics of the German civil society and supports the BMZ in aligning with the ministry's transparency and accountability activities.<sup>47</sup> In fact, the transparency portal is an important, but long overdue step. However, no detailed development-related information, e.g. country and project eligibility criteria or the assessment of the expected developmental impact of given projects is available. Moreover, no insights about concrete financing conditions, e.g. the level of concessionality and/or the source of market funds are provided for the public.

### **3.1.8. Conclusion and Outlook**

Germany is one of the few European countries, which has recently decided to increase the development budget by EUR 2 billion between 2014 and 2017. Despite this decision, it will

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<sup>46</sup> KfW Entwicklungsbank, Transparency Portal, Homepage, <http://transparenz.kfw-entwicklungsbank.de/en/ueber/index.html>

<sup>47</sup> Federal Ministry for Economic Cooperation and Development, BMZ, Homepage, [http://www.bmz.de/en/what\\_we\\_do/approaches/transparency-for-greater-effectiveness/index.html](http://www.bmz.de/en/what_we_do/approaches/transparency-for-greater-effectiveness/index.html)

be relatively difficult for Germany to live up to its commitment to meet the ODA/GNI-target of 0.7% by 2015.

Nevertheless, Germany's development cooperation currently provides one of the strongest bilateral finance institutions for development as well as one of the biggest development agencies worldwide. On the other side, Germany has enjoyed an international reputation as the World Champion in Exports ('Exportweltmeister') for decades, exporting various goods and services, from the smallest precision equipment to the largest industrial plants.

Apart from the Financial Cooperation (FC), whose developmental orientation has been analyzed in this report, the Technical Cooperation is one of the main pillars of the official German Development Cooperation. In general, the Technical Cooperation is formally and institutionally separated from export and project financing. Whereas the KfW Development Bank is implementing the FC funds being the executing agency of the Ministry of Economic Cooperation and Development (BMZ), the KfW IPEX-Bank provides export financing.

In addition, private sector development in developing and transition countries is mostly covered by the DEG, another subsidy of the KfW Banking Group. Though these three institutions are formally separated, all of them belong to the KfW Banking Group. Apart from the KfW Development Bank, the BMZ is the key player.

Although the German Financial Cooperation is officially not tied to goods and services procured from German companies, the last Minister for Economic Cooperation and Development (2009-2013), Dirk Niebel, in particular aimed at improving the relationship between German business and development cooperation and specifically their contribution to poverty reduction via economic growth and private sector development.

The strong(er) promotion of foreign trade in order to foster the involvement of Germany's business sector within the official German development cooperation indicates that there are closer linkages between export promotion, foreign trade and development cooperation than officially stated by the German government and/or its key actors.

In fact, several business associations (BDI, VBI and DIHK) have lobbied for an increased cooperation between German business and German development policy within the last years. In their position papers, they clearly address that German business takes an interest in generating foreign business opportunities within development cooperation.

To sum up, at various points in time, business representatives have recommended to the government and corresponding ministries that German business should be involved – early on – in the selection of partner countries and priority sectors; further in the formulation of

country strategy papers as well as in identifying new development cooperation projects. This suggests that there are closer relationships between German business and development cooperation than interview stakeholders and other officials state in public.

The German Financial Cooperation provides various financial instruments for government or government-related enterprises in developing countries or emerging markets:

Programs and projects are either purely financed from federal budget funds (non-repayable grants and/or loans at very advantageous standard conditions) or from a mixture of federal budget funds and loans raised at the capital market. These Development Loans include Composite Financing, Reduced-Interest Loans and Mixed Financing. In addition, loans at near-market conditions from capital market funds, so-called Promotional Loans, are offered.

#### **3.1.8.1. Developmental Orientation**

The main task of the German Financial Cooperation is to support partner countries in the financing of projects or programs which have relevance for their development. The key sectors of KfW Development Bank's activities are environmental and climate protection and the promotion of financial, social and economic infrastructure.

In general, projects and programs financed with FC funds are embedded in country strategy papers, sector programs and other relevant documents of the partner countries and corresponding policies of German development cooperation.

The developmental soundness of projects or programs is first and foremost analyzed along the logframe matrix and corresponding indicators: Macroeconomic, socio-economic and socio-cultural impacts (e.g. possibility of conflict between different (ethnic) groups), gender aspects and environmental and social compatibility; economic aspects, operational and commercial risks, the target group's attitude towards the project.

Ex-ante evaluations, monitoring activities (including field visits) and final inspection reports are done regularly by the KfW Development Bank or by assigned external consultants. Since 2007 only a representative sample of individual projects has been submitted for ex-post evaluation.

The BMZ and the KfW Development Bank both stress the importance of ownership by the partner country. De facto no single FC-proposal is financed without an injection of own resources by the partner country. Additionally, recipients are responsible for the tendering and the contract management. The involvement of the KfW Development Bank depends to a

large extent on the capabilities of the given country. Nevertheless, the bank is involved very closely in the implementation of projects and programs financed with FC funds and has important final decision-making powers.

The bank is continuously trying to make efforts to improve its transparency. Nevertheless, so far only very basic information on development criteria used to analyze the development relevance of a corresponding project has been provided to the public. Different stakeholders repeatedly refer to the confidentiality of internal guidelines and manuals. Although the KfW Development Bank has launched a transparency portal, which fully became operational at the beginning of 2014, no detailed information about financing conditions, e.g. the level of concessionality or the source of market funds is available.<sup>48</sup>

Technical assistance components from the German Development Agency (GIZ) are often part of the projects or programs financed with FC funds. In this context the German civil society strongly criticizes that GIZ and the KfW Development Bank have not been merged as proposed in the OECD/DAC peer review in 2005 and 2010 (Reuke/Grohse 2013: 5-6).

Being strongly focused on export financing, German NGOs are not that much of a watchdog of development finance activities of the officially untied German Financial Cooperation. Thus, the BMZ, including the KfW Development Bank as implementing agency, do not have a strong non-governmental opposition; their reporting duties are mainly those to the parliament and to the federal court of auditors.

### **3.1.8.2. Rationale of ODA Reporting**

Financial cooperation instruments such as reduced-interest loans and/or promotional loans are mainly provided for emerging markets. Critical stakeholders indicate that by this export promotion is given the overarching priority and not poverty reduction. Furthermore, LDCs will be marginalized in terms of fewer funds which are provided by the German Financial Cooperation (Reuke/Grohse 2013: 2).

Further, the German civil society indicates that the use of different forms of mixed financing loans has been steadily increasing. Reduced-interest loans are very popular; here federal budget funds are used to reduce the interest rate of a loan provided by the KfW Development Bank with funds raised at the capital market. These loans are eligible to be counted as ODA which has been comprehensively criticized on quite a few occasions (Terre des Hommes 2012: 6).

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<sup>48</sup> KfW Entwicklungsbank, Transparency Portal, Homepage, <http://transparenz.kfw-entwicklungsbank.de/en/index.html?>

Critical voices (e.g. Richard Manning, former DAC chairman) have repeatedly pointed out over the last years that current reporting practices of Germany and other major DAC donor countries eroded the ODA-concept. This criticism particularly refers to large volumes of loans being counted as ODA although they did not meet any reasonable definition of being 'concessional in character', which is the basis of the OECD's definition of aid (Fritz 2013: 25-26).

On the other hand, it is being questioned in how far the definition of ODA is adequate because under low-interest conditions it largely depends on which meaning is assigned to 'concessional in character' in order to decide whether a loan qualifies as ODA. In other words, a precise definition is absent which means that members are relatively free to report loans as ODA as long as they meet the grant element criterion (OECD/DAC 2013b: 2-5).

Germany has argued until now that Development (and Promotional) Loans are concessional in character because these loans (1) incorporate an effort by the German government either by means of an explicit subsidy element (grant) or an implicit form of a guarantee; (2) are attested development relevance and provide benefits to the recipients because these loans have softer terms; (3) do not earn any profits for Germany as the beneficial owner of KfW Development Bank as any benefits are passed on to the recipient country (Interview C10).<sup>49</sup>

The issue of how to establish 'concessional in character' has been discussed several times in the DAC, but has recently gained even more importance because of its different interpretation among DAC members. Thus, Germany has also been asked by the DAC "late in 2012 to identify which loans included in their ODA reporting represented marked-raised funds being on-lent on harder terms, i.e. without a subsidy." (OECD/DAC 2013b: 4).

A stakeholder explains that final data on 2012 flows had been released in December 2013 but no report has been published about the performance of DAC members until now. In addition, this person mentions that a report for the DAC Working Party on Development Finance Statistics (WP-STAT) will be reviewed and discussed by DAC members in June 2014.<sup>50</sup>

### **3.1.8.3. (Un-) tied German Financial Cooperation?**

Germany has undertaken efforts to untie its FC Funds during the last years. Apart from Technical Cooperation, which is still partly tied to goods and services from Germany, the

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<sup>49</sup> OECD Development Assistance Committee, DAC, Homepage, <http://www.oecd.org/dac/stats/concessional-note.htm>

<sup>50</sup> E-Mail correspondence OECD/DAC

BMZ being in charge of the German development policy officially communicates that the German Financial Cooperation is completely untied (Interview C2; OECD 2012: 4).

Several stakeholders confirm that the German financial cooperation is principally not tied to goods and services from Germany. In addition, an interview partner states that compared to the 1960ies and 1970ies tied aid has simply no significant relevance anymore. This person adds that nowadays construction work in big infrastructure projects is awarded to local companies, companies from neighbor countries or consortia, e.g. led by Chinese companies (Interview C2, C1).

In addition, the same stakeholder underpins that all German exports amount more or less to EUR 1100 billion per year. In comparison to this number, the FC federal budget funds are about EUR 1.5 billion and, approximately, an additional EUR 3 billion which are raised on the capital markets by the KfW per year.<sup>51</sup> Due to this, the person being interviewed draws the conclusion that the FC funds are about 1.4 permille of Germany's foreign trade, which demonstrates the irrelevance of FC funds for German exports (Interview C1).

In fact, these figures demonstrate that, compared to Germany's foreign trade, the country's financial cooperation is negligible in terms of the financial volume. Nevertheless, there are several points which have to be questioned when considering the relevance of (un-)tying within Germany's financial cooperation:

On average, about 60% of all project deliverables, which have to be tendered internationally, are awarded to German companies within the German Financial Cooperation (Seebens 2012). Here several stakeholders point to the international competitiveness as the main reason for this high volume and add that a lot of project components, especially consultancy and advisory activities, need comprehensive know-how and sufficient experience (Interview C1; C4).

However, Germany has created a range of services to encourage companies to make use of the opportunities for development policy engagement.

Due to the guidelines of the German bilateral financial and technical cooperation, the German business sector must be informed as early as possible about projects financed with FC funds (KfW Entwicklungsbank 2007b: 19-20). Thus, the information about so-called 'KfW-tenders' is published by the GTAI, the German economic development agency, which corresponds to the Ministry of Economics and Technology (BMWi) and provides foreign

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<sup>51</sup> KfW Entwicklungsbank, Transparency Portal, Homepage, <http://transparenz.kfw-entwicklungsbank.de/mittelherkunft/index.html>



trade information to German-based businesses seeking to expand in international markets, as early as possible (Interview C1).<sup>52</sup>

In addition, the former minister Niebel (2009-2013) e.g. established a new Service Point for the Private Sector within the BMZ in order to provide advice for German companies interested in investing in developing and emerging countries. Further, the BMZ started sending so-called EZ-scouts to industry associations and chambers of industry and commerce in order to advise their member companies about the services available to support development-related investment by the German private sector (BMZ 2013a: 17).

In the German Financial Cooperation partner countries intensively make use of the support and advisory services of consultants primarily in order to prepare, execute and operate specific projects. Although these consulting services are internationally tendered by the partner country or the corresponding project executing agencies, these services are often delivered by engineering consultants from Germany, other industrial countries or consortia from Great Britain, France or the USA (Interview C1).

As a result, the German Financial Cooperation may officially be untied to goods and services from Germany. Nevertheless, there are several mechanisms in place which facilitate the supply of goods and services from Germany or other industrial countries, because of informational and institutional advantages which have nothing to do with the competitive advantage of the German or European Economy in general.

In conclusion, the analysis of the developmental orientation of the German Financial Cooperation indicates that concessional financing and promotional loans have increasingly been used within the last years. This is partly a reflection of Germany's strategy to work with emerging economies (here key countries are China, India and Vietnam) and its development policy focusing on global public goods such as climate change.

Though the German Financial Cooperation is institutionally separated from export financing, and development-related aspects are considered throughout the whole life cycle of a given project, more transparency is urgently needed in order to prevent that projects will be even more framed by economic views, export promotion and foreign trade interests.

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<sup>52</sup> GTAI, Germany Trade & Invest, Homepage, <http://www.gtai.de/GTAI/Navigation/EN/Meta/about-us.html>

## **3.2. The Netherlands**

For a long time, the Netherlands has always been one of the front-runners in terms of development cooperation in relation to other OECD/DAC members.

The country's outstanding credibility and well-deserved reputation was generally grounded in responding positively and creatively to major challenges and setting trends for new approaches. Further, the Netherlands has the reputation of being an early campaigner for international aid agreements and a country that advocates the need for coherent development policies and donor coordination (Spitz/Muskens/van Ewijk 2013: 6).

### **3.2.1. Country Facts and Figures**

The very successful history of development cooperation is well documented by statistics: Since 1975, the Netherlands is among the few DAC members to have surpassed the UN target of allocating 0.7 percent of GNI for ODA (Official Development Assistance). According to preliminary OECD figures, the country was the 4<sup>th</sup> largest government donor in 2012, spending USD 5.5 billion on ODA (OECD/DAC 2011: 11-15).

Even though ODA has continuously decreased since 2008, it was still above the UN target of 0.7 percent of GNI in 2012 (0.71 percent). In 2013, ODA shares were estimated to drop to 0.59 percent of GNI, which would leave Dutch ODA far below the 0.7 percent target for the first time since 1975. In addition, indicative budgets for the coming years show further reductions (Ministry of Foreign Affairs 2013a).<sup>53</sup>

„The decision to cut the aid budget and abandon the 0.7 percent target might seem to outsiders to be a surprising move.“ (Spitz/Muskens/van Ewijk 2013: 6). As a consequence of these budget cuts, the Dutch development policy has been undergoing far-reaching reforms since 2010 at the latest.

#### **3.2.1.1. Key Objectives of Dutch Development Policy**

Already in the year 2010, the Dutch Scientific Council for Government Policies (WRR), an independent think tank of the Dutch government, advocated a major change in Dutch development policy: thematic focus on fewer countries; a stronger alignment of development focus with Dutch expertise and interests; a shift from social to economic development (Spitz/Muskens/van Ewijk 2013: 13).

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<sup>53</sup> Information Portal SEEK Development, Homepage, <http://donortracker.org/donor-profiles/netherlands>

These recommendations were partly implemented by the State-Secretary of Development Cooperation, Ben Knapen from the Christian Democratic Appeal (CDA), who was part of the Dutch government (2010-2012), headed by Prime Minister Mark Rutte from the People's Party for Freedom and Democracy (VVD).<sup>54</sup>

In 2011, Knapen decreased the number of partner countries from 33 to 15 countries, ten of them in Sub-Saharan Africa.<sup>55</sup> Further, bilateral projects and embassies have been dismantled in former partner countries (Spitz/Muskens/van Ewijk 2013: 33). In general, Dutch self-interest and economic-diplomacy returned as a centerpiece of development policy during Knapen's period: focus-countries and themes have been synchronized more strongly with Dutch commercial interests and expertise (Spitz/Muskens/van Ewijk 2013: 13).

Another part of the reformed bilateral development policy is the narrowed thematic focus, which has been framed to four spearhead areas. The priority areas of the Dutch development cooperation are women's rights and sexual and reproductive health and rights (SRHR), water, food security as well as security and the rule of law.<sup>56</sup>

All these major changes were agreed upon in the coalition agreement of October 2010, but have remained unchanged in the second Rutte cabinet, formed by the VVD and the PvdA, which was installed in autumn 2012.<sup>57</sup>

„Based on the policy program of the first Rutte Government, the government sees its mission as being to promote the security and well-being of the Netherlands and the Dutch people, and to that end it will focus on international stability and security, energy and raw material security, the international legal order (including human rights) and the commercial and economic interests of the Netherlands and Dutch businesses.“<sup>58</sup>

It should be added that Dutch industry and business sectors have continuously been involved in development cooperation in the past. However, their extent has always been dependent on government constellations, the influence of representative stakeholders as well as the international discourse (Hoebink/Schulpen 1998: 39-40).

Although the Dutch industry and business are not really considered in the Private Sector Development concepts (PSD), which have gained more and more influence since the mid

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<sup>54</sup> Government of the Netherlands, Homepage, <http://www.government.nl/issues/forming-a-new-government/news/2010/10/14/rosenthal-and-knapen-new-government-members-at-foreign-affairs.html>

<sup>55</sup> Government of the Netherlands, Homepage, <http://www.government.nl/issues/development-cooperation/partners-in-development>

<sup>56</sup> Government of the Netherlands, Homepage, <http://www.government.nl/issues/development-cooperation/the-development-policy-of-the-netherlands>

<sup>57</sup> Government of the Netherlands, Homepage, <http://www.government.nl/government/coalition-agreement>

<sup>58</sup> Dutch Ministry of Foreign Affairs, Homepage, <http://www.government.nl/ministries/bz/about-the-ministry>

1990ies, mainly their lobbying contributed to the establishment of PSD as a main pillar of Dutch development cooperation (Gütermann 2011: 71-72).

### **3.2.1.2. A New Agenda for Aid, Trade and Investment**

Considering the current development policy in the Netherlands, which is guided by the strategic policy document 'A world to gain - A New Agenda for Aid, Trade and Investment', a greater emphasis will clearly be placed on an economic view of development and the advantages of bilateral aid in terms of trading opportunities for Dutch businesses in the coming years (Ministry of Foreign Affairs 2013b).

The Ministry of Foreign Affairs is strongly targeted by these comprehensive reforms. The Dutch government established a new cabinet-level post of a Minister for Foreign Trade and Development Cooperation, currently held by Lilianne Ploumen from the Labor Party (PvdA). Thereby, the Dutch government has aligned development policy strongly with foreign trade.<sup>59</sup>

The realignment between those two policy areas is further reflected by the Dutch Good Growth Fund (DGGF), a revolving fund of EUR 700 million financed from the development cooperation budget in the years 2014-2016. This fund was established in close collaboration with the business community, in particular with investment companies, and will support investments in developing countries, especially by small and medium-sized enterprises.<sup>60</sup>

Several other bilateral instruments that aim at advancing local development also provide opportunities for Dutch business to deploy activities in developing countries (Spitz/Muskens/van Ewijk 2013: 33-34). One of them is ORIO, a grant facility for public infrastructure projects, which will be under close scrutiny in the following.

### **3.2.2. Profile of Programs**

It is important to note that the Dutch bilateral development cooperation currently does not provide any kind of 'soft loans'. However, there are government funds, which provide mechanisms to combine public development finance with private finance.

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<sup>59</sup> Government of the Netherlands, Homepage, <http://www.government.nl/government/members-of-cabinet/lilianne-ploumen/cv>

<sup>60</sup> Government of the Netherlands, Homepage, <http://www.government.nl/issues/development-cooperation>

One of them is ORIO meaning ‘Development Relevant Infrastructure Incentive’, the Facility for Infrastructure Development, which provides long-term financing for public infrastructure projects.<sup>61</sup>

ORIO is officially an untied facility and was established in 2009 as a part of a wider reform of the Netherlands’ ‘Development Relevant Export Transactions program’ (in Dutch: ORET), which had been tied to goods and services from Dutch companies.<sup>62</sup>

Another offshoot of the ORET-program is the Infrastructure Development Fund (IDF) formally known as the LDC Infrastructure Fund until October 2009. IDF provides grants, loans and equity for private sector infrastructure projects, e.g. in the form of associated financing.<sup>63</sup>

Further, the so-called Dutch Good Growth Fund (DGGF) will start providing concessional loans and guarantees for Dutch companies in July 2014 in order to facilitate market entry in developing and emerging markets (MfA 2013c: 11-13).

### **3.2.2.1. Historical Overview**

In the history of Dutch development cooperation, the Netherlands always had several motives for providing development aid. Using parts of its aid-budget to support Dutch business has until now always been a continuum.

The Development Relevant Export Transactions program (ORET) has been the most important program in which Dutch business has been supported during the last three decades. Apart from serving development interests, one of the main objectives of this program has explicitly been the promotion of Dutch exports (Berenschot/Seor/Ecolas 2006: 12-17).

The ORET-program was launched in 1983 as a combination of programs administered jointly by the Ministry of Economic Affairs and the Ministry of Foreign Affairs providing finance for public infrastructure projects in developing countries in the form of soft loans and aiming to support development-related export transactions by Dutch companies (IOB/NCSTE 2006: 46).

The first predecessor of the ORET-program already dates back to the year 1979, when the Mixed Credit program was launched by the Minister for Development Cooperation, De Koning in cooperation with the Ministry of Economic Affairs for export transactions that were

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<sup>61</sup> Agency NL, Netherlands Enterprise Agency Homepage, <http://english.agentschapnl.nl/subsidies-programmes/facility-infrastructure-development-orio>

<sup>62</sup> Agency NL, Netherlands Enterprise Agency Homepage, <http://www.oret.nl/>

<sup>63</sup> FMO, Netherlands Development Bank, Homepage, <http://www.fmo.nl/infrastructurefund>

related to the development in the recipient country. Mixed credits for export transactions combined concessional loans or grants and commercial loans (IOB 1999: 11).

In 1987, the Mixed Credit Program was replaced by a program for Less Concessional Loans (LCLs), “which not only provided concessional loans for exports of capital goods but also included service contracts that were linked to civil engineering projects or institution building in developing countries” and was operative between 1987 and 1991 (IOB 1999: 12).

The ORET-program was an LCL program until this loan-based financing was replaced by the award of grants to cover parts of the transaction costs by the year 1991 and renamed into ‘Development Relevant Export Transactions’. ODA grants were often combined with officially guaranteed export credits in the form of Associated Financing (OECD 2008: 14).

An interview partner states that projects within the ORET-program, which have often been combined with commercial loans, have not only included a grant for the recipient country but also a subsidy for Dutch companies (Interview D5).

The 1990ies evaluation of the Mixed Credit Program, which was done by the Policy and Operations Evaluation Department (IOV, now IOB) of the Ministry of Foreign Affairs, inter alia “concluded that export relevance had overshadowed the development relevance of the program: too few safeguards were built into the program to allow for international competitive bidding and ex-ante assessment of development effects. As such, fair prices would not always be guaranteed and export relevance could easily prevail over development relevance.” (IOB 1999: 13).

The findings of the IOV/IOB evaluation and the ‘Helsinki Package’ triggered some changes with regard to mixed credits. Although the ORET-program broadly retained the same design, ORET excluded commercially viable projects and did not provide any more concessional loans but full grants (Elbers 2002: 1).

It is not a coincidence that the shift from loans to grants was proposed in the period of Jan Pronk, Minister for Development Cooperation between 1989 and 1998. Pronk wanted to stop giving loans financed out of public funds and to restrict the Dutch development assistance to grants only. According to him, public debt of developing countries had grown out of proportions in the 1980ies so that debt refinancing took place out of development budgets which led to decreasing funds to be spent on social issues and direct poverty reduction (Interview D1).

Because of its dual character the ORET-program and its predecessors have always been controversial programs and subject to much criticism from various members of Parliament,

Ministers for Development Cooperation, academics and pressure groups in the Netherlands (Elbers 2002: 1).

As a consequence, the ORET-program has been adapted and reformed several times in order to be relevant and timely, and also to be in accordance with international agreements. In comparison to the LCL program, ORET e.g. started to apply detailed appraisal procedures to ensure a larger developmental relevance of the export transactions (Elbers 2002: 19).

**Table 4: History of selected Dutch Government Funds**

1979	Mixed Credit Program	1979 - 1987
1983	ORET-program	Soft Loans (LCL) for development-related export transactions
1987	Low Concessional Loans (LCL) Program	Successor of Mixed Credit Scheme (1987 - 1991)
1991	ORET-program	Tied grant facility, combination of grants with commercial loans for developmental relevant public infrastructure projects
1993	MILIEV-Program	Additional to ORET, focusing on environmental projects
1998	ORET/MILIEV grant program	Merger of ORET & MILIEV; procurement tied
2002	LDC Infrastructure Fund	Untied Fund providing loans, equity, grants and credit guarantees in order to stimulate private infrastructure investments
2005	ORET/MILIEV program renewed	Tied pillar, untied pillar for LDCs
2005	ORET Water Facility	Tied pillar, untied pillar for LDCs
2006	LDC Infrastructure Fund	New public endowment; focus on social sectors (health, education, water, sanitation, electricity, energy)
2009	Infrastructure Development Facility ORIO	Grant facility for public infrastructure projects; officially untied, de facto tied aid facility
2009	Infrastructure Development Fund IDF	Revolving Fund providing grants, loans, equity in order to catalyze private and commercially viable infrastructure investments
2012	ORIO	Reform (objectives, procedures)
2014	Dutch Good Growth Fund (DGGF)	Revolving Fund providing loans, grants, guarantees; strong focus on SMEs, procurement tied pillar

Source: Own elaboration

In 1993, the MILIEV-program (Program for Environment and Economic Self-sufficiency) was introduced in addition to ORET in order to partially provide financing for projects aiming at environmental improvement in developing countries. The MILIEV-program was comparable to ORET providing ODA grants combined with officially guaranteed export credits. The ORET- and MILIEV-program were merged in 1998 because it had been decided that the separation had little surplus (IOB 1999: 20).

Although the influence of Dutch business deteriorated in the 1990ies – quite contrary to the success VNO-NCW being the Dutch employers' organization had during the 1970ies and 1980ies –, the discussion regarding the involvement of Dutch business in development of

cooperation continued because their interest could hardly be side-stepped (Elbers 2002: 17-21).

At the end of the 1990ies, an evaluation report of the ORET/MILIEV program (1994-1999) was provided by IOV/IOB. Though the report was fairly positive, critical remarks considered e.g. sustainable job creation as an unsuitable criterion for assessing the developmental relevance of a project; further IOB considered monitoring and evaluation procedures as completely inadequate (IOB 1999: XXVI-XXVIII).

In addition, IOB stated that the economic benefits from tying the program to goods and services from Dutch companies should not be overstated (IOB 1999: XXIII). This conclusion was remarkable because since the 1970ies onwards the Dutch development cooperation has been strongly tied to goods and services from the Netherlands (Elbers 2002: 17).

Although the evaluation report of the IOV/IOB highlighted some critical points and some minor changes were implemented soon in the way ORET/MILIEV-projects were monitored and evaluated, opponents were disappointed, in particular compared to the very critical evaluation of the ORET-predecessor, the Mixed Credit program (Elbers 2002: 24).

In 2000, Dutch policy on private sector development took shape in the memorandum "In Business against poverty". This document emphasized the importance of private sector development with regard to pro-poor growth in developing countries. The memorandum stressed the importance of good infrastructure for the development of the private sector and the need to address problems related to attracting (foreign) capital for investments (IOB 2009: 29).

In 2001, the ORET/MILIEV program was transferred from the Private Sector Department of the Ministry for Development Cooperation to the Netherlands Development Finance Company (FMO) as a result of trying to improve the coherence and flexibility of the trade promotion instruments of the Dutch government (Elbers 2002: 20).

In concrete terms, the Netherlands Investment Bank for Developing Countries (NIO Bank), a subsidiary of the FMO was authorized to administer the program in consultation with the Ministry of Economic Affairs. In general, the Ministry for Foreign Affairs together with the Ministry of Economic Affairs was responsible to control the ORET/MILIEV program (Berenschot/Seor/Ecolas 2006: 6).

At the same time, the debate about untying aid gained momentum at national and international level. As a result of the OECD agreement about untying in spring 2001, the Least Developed Countries (LDCs) were excluded from ORET/MILIEV. The Dutch



government decided to establish a new fund in order to stimulate infrastructure investment in the LDCs (IOB 2009: 30).

The set-up of the LDC Infrastructure Fund, which was established in 2002, implied an important policy change impacting Dutch enterprises: instead of subsidizing exports, the fund would finance or facilitate investments by providing loans, equity, grants and credit guarantees: "It was to have a larger 'risk appetite' and provide financing to infrastructure projects that were considered too risky for other funds." (IOB 2009: 7,33).

Because the Fund developed considerably slower than anticipated and the subsidy period expired by the end of 2005, a revision as well as a new subsidy decision was necessary. Thus, in 2006, the government decided to extend the subsidy period until 2013 with a focus on social sectors (including water, health and education) and facilitated the financing of non-commercial elements of sponsored projects (IOB 2009: 34).

In 2005, the ORET/MILIEV-program was renewed. The application of specific regulations to MILIEV was discontinued, and the name was simplified to ORET (Berenschot/Seor/Ecolas 2006: 12). Additionally, the ORET-program was augmented with an untied variant in order to serve the LDCs. Furthermore, a water facility was established and made available for all ORET countries (OECD/DAC 2005: 2).

The reformulation of the ORET/MILIEV-program included a shift in the objectives from promoting employment in the recipient country to promoting sustainable economic development and the business climate (Berenschot/Seor/Ecolas 2006: 12-13).

A crucial element was that the Dutch government did not decide on the allocation of the budget per country, nor did it decide on the contract partners anymore but was responsible to assess, monitor and safeguard the quality and sustainability of a project while providing a grant to the recipient country. In addition, the recipient government was officially responsible for the acquisition of projects, the procurement and the contracting process (OECD/DAC 2005: 3).

The ORET/MILIEV-program (1999-2004) was evaluated by an external consortium on behalf of the Ministry of Foreign Affairs in 2005/06. The evaluation highlighted that although objectives and regulations of the program were adopted several times, the thrust of the program – contributing to physical and social infrastructure in developing countries and supporting exports from Dutch origin – remained basically unchanged (Berenschot/Seor/Ecolas 2006: 20,63).

Moreover, the evaluation concluded that a more strategic use of the program including the refinement of appraisal procedures would be necessary because little attention had been

paid to a proposal's (potential) contribution to the program objectives. Further, to recipient countries, ORET was not the most practical financing modality since the grant covered only part of the costs, and therefore a second financing source was always required (Berenschot/Seor/Ecolas 2006: 64).

With regard to Dutch exporters, ORET satisfied only those who already had been optimally established in the corresponding foreign market. Thus, the argument that ORET supports Dutch companies in order to facilitate the entry into new markets did not hold in the end (Berenschot/Seor/Ecolas 2006: 66). Furthermore, the evaluation report criticized the lack of a sound monitoring and evaluation system on effectiveness and impact (during the envisaged lifetime) of projects (Berenschot/Seor/Ecolas 2006: 66-68).

The evaluation did not consider the renewal of the ORET/MILIEV program in 2005. The number of ORET applications submitted and the number of approved applications rose sharply between 2005 and 2006. Consequently, Bert Koenders, the Minister for Development Cooperation (2007-2010), decided not to make any new funds for financing new ORET applications available (ORET.nl 2007: 3).

Moreover, since 2007 a consortium of PricewaterhouseCoopers and Ecorys (the former Netherlands Economic Institute – NEI), called Oret.nl, has been authorized to administer the ORET-program including its phasing-out in consultation with the Ministry of Economic Affairs (ORET.nl 2006: 1).

The findings of the evaluation of 2005/06 were partly taken up in the establishment of the Facility for Infrastructure Development named ORIO in 2009; a grant scheme providing funds for the development of public infrastructure in developing countries. In general, the basis for ORIO was laid in the cabinet of Balkenende IV, which had decided to replace ORET with a more demand-driven, more development-relevant program as the ORET-program performed less well on development effects, including poverty reduction (MfA 2009: 23).

In 2009, the LDC Infrastructure Fund was evaluated by IOB. The evaluation report concluded that the fund fills a gap in the financing of private and commercial infrastructure projects in LDCs. Nevertheless, the report pointed out that it would appear difficult to find suitable projects that strengthen infrastructure being essentially a public good through private projects. Furthermore, the report indicated the importance of considering start-up problems and the time needed for the realization of projects (IOB 2009: 7-11).

These findings served as a basis for the design and establishment of the Infrastructure Development Fund (IDF) providing grants, loans and equity for private and commercial

infrastructure projects in 2009. In particular, the design of the Facility for Infrastructure Development (ORIO) considered the time needed for the development of project proposals by providing a Development Phase (NL Agency/ MfA 2013a: 8-9).

ORIO officially being an untied infrastructure facility never had much support by the Dutch business although the government involving Dutch business developed the grant facility. Ever since the report about the strategic use of export financing instruments was published in 2012, it became clear that the Dutch industry did not really want to give up the tied ORET-program. In this strategic paper it was argued that it was a serious loss for the Dutch business sector that there was no tied aid financing for exports in the Netherlands, in particular in a time in which concessional financing from countries like China, especially in Africa, had increased enormously (Werkgroep Exportfinanciering 2012: 7).

Important ideas from this report were taken up by the Ministry of Economic Affairs, Agriculture and Innovation in the first Rutte government, which had officially stepped down. In the development orientation that is touted by the current Minister for Development Cooperation and Foreign Trade, Lilianne Ploumen (being part of the second Rutte cabinet) aid and trade go together very harmoniously.<sup>64</sup> In spring 2013, a new revolving fund for aid, trade and investment (DGGF) was announced. Hence, inter alia Dutch companies will be able to apply for export financing for development relevant projects (MfA 2013b: 7-8).

The DGGF was mainly developed by the Ministry of Foreign Affairs in consultation with the Ministries of Economic Affairs and Finance, the private sector (here in particular investment companies were consulted) and civil society organizations. According to the Ministry of Foreign Affairs, the to-be-created DGGF is the adequate form of funding in order to implement the “new cohesive approach to trade and development cooperation” (MfA 2013b: 44-45).

Details about the new Dutch Good Growth Fund (DGGF) were debated in hearings in parliament in spring and autumn 2013. The DGGF is faced with a lot of criticism from Dutch civil society as the fund is broadly designed to combine aid and trade; and to a great part will issue export and financing activities to Dutch and local businesses for activities in developing countries and thus raises questions about its developmental relevance as well as tied aid (Action Aid/Both Ends/Somo 2013: 2-3).

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<sup>64</sup> Dutch Magazine for Development, Homepage, <http://www.viceversaonline.nl/2013/05/31916/>

### **3.2.2.2. Legal Background**

The Dutch development cooperation is not defined by law, but underpinned by the coalition agreement that covers each legislature period (VVD-PvdA 2012).<sup>65</sup>

The development budget gives guidance and strategy for the Dutch development cooperation in terms of money. This budget was part of the overall budget of the Ministry of Foreign Affairs until 2013. In 2014, for the first time, the Ministry has two budgets: besides the foreign affairs budget, there is a program budget for foreign trade and development cooperation. This budget ensures that aid and trade will be more closely linked in future.<sup>66</sup>

A memorandum that provides more detailed information for the current budget year and indicative budgets for the following years of the legislature period in general complements the budget (Mess 2012: 128). A third document summarizes all ODA provided by the different ministries (HGIS).<sup>67</sup> Further, the Ministry of Foreign Affairs provides information to parliament by answering questions on the annual budget (Mess 2012: 128).

In addition, there are administrative rules, manuals and various policy documents, e.g. the current development policy document „A world to gain - A New Agenda for Aid, Trade and Investment“ that guide the Ministry of Foreign Affairs and their executing agencies, e.g. FMO or NL Agency.

### **3.2.2.3. Institutional Environment**

Several actors are involved in the Dutch bilateral development finance cooperation. In this set-up, the Ministry of Foreign Affairs and the Ministry of Economics, which has been established as a super-Ministry for Economic Affairs, Agriculture and Innovation between 2010 and 2012, are institutional key players.<sup>68</sup>

FMO, the Dutch development bank, and NL Agency are implementing agencies of the Dutch government; they carry out policy and subsidy programs. In this framework, Atradius Dutch State Business offers insurance and export guarantee products.

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<sup>65</sup> Government of the Netherlands, Homepage, <http://www.government.nl/government/coalition-agreement/the-netherlands-in-the-world>

<sup>66</sup> Government of the Netherlands, Homepage, <http://www.government.nl/news/2013/09/17/ministry-of-foreign-affairs-faces-far-reaching-budget-cuts.html>

<sup>67</sup> Dutch Ministry of Foreign Affairs, Homepage, <http://www.government.nl/ministries/bz/policy-and-budget/homogeneous-budget-for-international-cooperation>

<sup>68</sup> Government of the Netherlands, Homepage, <http://www.government.nl/issues/forming-a-new-government/news/2010/10/14/rutte-government-sworn-in.html>

In the recipient country, the central government is a key actor. Apart from the central authority which usually is the Ministry of Finance (MoF) the competent authority, a line ministry or regional or local authority, is mainly part of the institutional set-up (Interview D5).

Depending on the fund or facility, infrastructure companies and other financiers (commercial bank, regional development bank, etc.) are involved once the implementation of a given project starts. In general, various consultants form part throughout the whole lifecycle of a given project (Interview D5).

### **Ministry of Foreign Affairs**

The Dutch development cooperation is an integral part of the foreign policy implemented by the Ministry of Foreign Affairs (MfA). The Ministry is headed by the Minister of Foreign Affairs, currently held by Frans Timmermans (PvdA).<sup>69</sup>

The Netherlands continuously provided a Minister (1965-2010) or a State Secretary for Development Cooperation (2010-2012) which was part of the Ministry of Foreign Affairs. In order to reinforce the relationship between foreign trade and development cooperation the Dutch government established a new cabinet-level post of a Minister for Foreign Trade and Development Cooperation. Thus, the Minister Lilianne Ploumen (PvdA) who oversees the Directorate General for International Cooperation (DGIS) has assisted Timmermans since November 2012.<sup>70</sup>

Previously, the Netherlands also had two government members at Foreign Affairs: one Minister being in charge of overall foreign policy and the other Minister responsible for development cooperation and European affairs.<sup>71</sup> Back then, foreign trade and export promotion were mainly part of the Ministry of Economics (Interview D2).

The MfA is officially in charge of the implementation of the Dutch development cooperation. More specifically, the Ministry is responsible for the decision-making concerning aid activities and the disbursement of aid funds.

The Ministry does not carry out projects or programs, but finances activities of partner organizations and recipient governments. It is not itself involved in the implementation; bilateral government funds are implemented by executing agencies, e.g. FMO or NL Agency; the Ministry solely maintains links with implementing ministries on an administrative level.

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<sup>69</sup> Dutch Ministry of Foreign Affairs, Homepage, <http://www.government.nl/ministries/bz/about-the-ministry>

<sup>70</sup> Information Portal SEEK Development, Homepage, <http://donortracker.org/donor-profiles/netherlands/actors-decision-making>

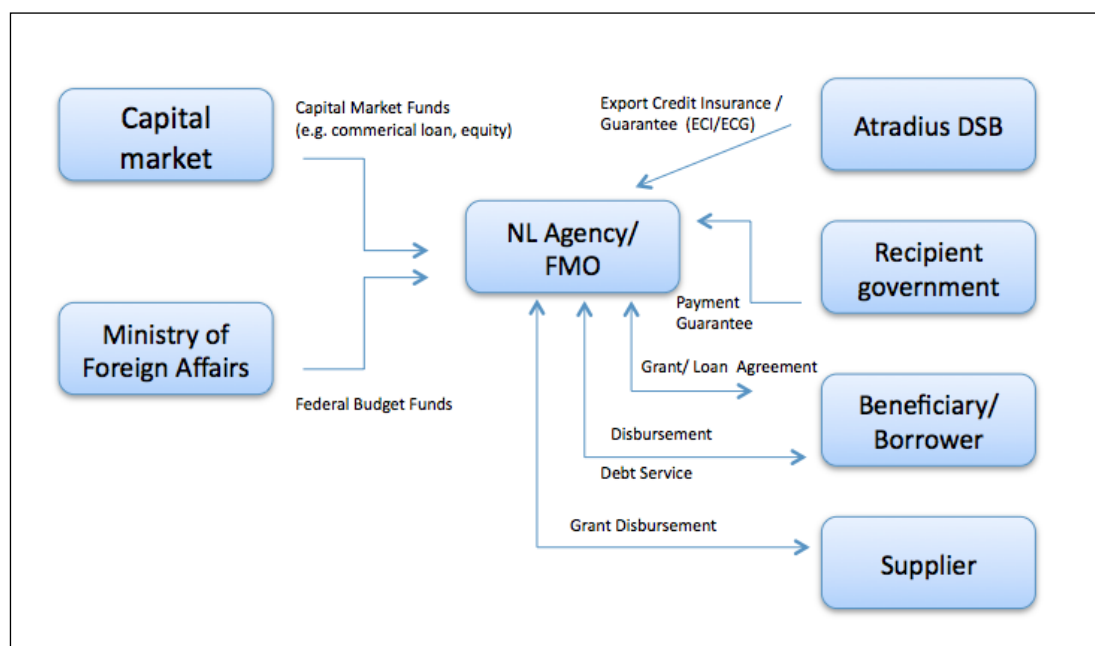
<sup>71</sup> Government of the Netherlands, Homepage, <http://www.government.nl/news/2010/10/14/rosenthal-and-knapen-new-government-members-at-foreign-affairs.html>

Dutch embassies and consulates-general are closely involved in the implementation of bilateral development cooperation funds. They select and implement development projects and also help to formulate a general approach.<sup>72</sup> Further, these so-called ‘Diplomatic Missions’ also have specific knowledge about foreign markets, which let Uri Rosenthal, former Minister of Foreign Affairs (2010-2012), to engage embassies more strongly in export promotion and foreign trade related activities (Interview D2).

An interviewee mentioned that the former minister did not see embassies in classical diplomacy terms, but rather as an additional instrument in order to promote Dutch exports. According to this person, the present Minister Timmermans slightly withdrew from this vision, nevertheless Dutch embassies were always aiding Dutch exports and Dutch enterprises when problems occurred or information was needed (Interview D2).

The following figure illustrates the institutional set-up of the Dutch Development Finance Scheme including its main actors and their linkages with each other.

**Figure 14: Institutional Set-up**



Source: Own elaboration

<sup>72</sup> Government of the Netherlands, Homepage, <http://www.government.nl/issues/embassies-consulates-and-other-representations/missions-of-the-kingdom-of-the-netherlands-abroad>

## **FMO – Entrepreneurial Development Bank**

Being part of the Netherlands Development Cooperation, FMO is the Dutch bilateral development bank. The bank finances companies, projects and financial institutions from developing and emerging markets and thus, supports “sustainable” private sector growth in these countries.<sup>73</sup>

FMO was founded in 1970 and is a public-private partnership; 51% of its shares are held by the Dutch State, the other 49% are held by commercial banks, trade unions and other private representatives. FMO has a solid capital base (AAA rating from Standard & Poor’s) which allows it to invest in higher risk markets; both with funds raised on the capital markets or on behalf of the Dutch government.<sup>74</sup>

In FMO’s focus are sectors in which Dutch development cooperation is able to provide knowledge and to contribute to sustainable and long-lasting projects: financial institutions, energy and agribusiness, food and water.<sup>75</sup>

Carrying out Private Sector Development concepts from the Dutch Ministry of Foreign Affairs, the development bank provides different services and products (e.g. equity, loans and guarantees; capital market transactions; mezzanine capital) for developing countries which often do not have any access to adequate financial services.<sup>76</sup>

FMO also implements FOM, a fund to stimulate Dutch companies to invest in emerging markets, and several government funds.<sup>77</sup> One of these facilities is the Infrastructure Development Fund (IDF) providing long-term financing for public infrastructure projects in low-income countries.<sup>78</sup>

## **Ministry of Economic Affairs**

The Ministry of Economic Affairs and the Ministry of Agriculture, Nature and Food Quality were merged into the new Ministry of Economic Affairs, Agriculture and Innovation between 2010 and 2012.<sup>79</sup>

Since autumn 2012, the ministry has again been renamed Ministry of Economic Affairs. Nevertheless, agriculture, livestock, energy, sustainable growth and innovation and business are important dossiers of the ministry.<sup>80</sup>

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<sup>73</sup> FMO, Netherlands Development Bank, Homepage, <http://www.fmo.nl/about-us>

<sup>74</sup> FMO, Netherlands Development Bank, Homepage, <http://www.fmo.nl/about-us>

<sup>75</sup> FMO, Netherlands Development Bank, Homepage, <http://www.fmo.nl/about-us/profile>

<sup>76</sup> FMO, Netherlands Development Bank, Homepage, <http://www.fmo.nl/about-us/profile>

<sup>77</sup> FMO, Netherlands Development Bank, Homepage, <http://www.fmo.nl/fom>

<sup>78</sup> FMO, Netherlands Development Bank, Homepage, <http://www.fmo.nl/idf>

<sup>79</sup> Government of the Netherlands, Homepage, <http://www.government.nl/issues/forming-a-new-government/news/2010/10/14/rutte-government-sworn-in.html>

Foreign Economic Relations are an important part of the ministry's activities. One of the main pillars of the ministry's strategy is to support Dutch business abroad through economic diplomacy and, for example, assistance via embassies and consulates.<sup>81</sup>

In terms of development policy, the Ministry of Economic Affairs has gained more influence during the last years than it had e.g. in the 1990ies when Jan Pronk was head of the Ministry for Development Cooperation (Interview D2, D1). When the first Rutte government installed the Ministry of Economics as a super-ministry, the influence got clearly visible.

### **NL Agency<sup>82</sup>**

The NL Agency acts upon a mandate of the Dutch government and is mainly responsible for promoting the international presence of Dutch companies in foreign markets and for supporting private sector development in emerging markets.<sup>83</sup>

The organization, which is working closely with the Dutch Diplomatic Missions and Netherlands Business Support Offices, provides information and advice regarding financing, networking and regulatory matters for businesses, knowledge institutions and government bodies.<sup>84</sup>

In particular, it provides Dutch companies with information and services in order to face opportunities in various foreign markets. Additionally, financial support is provided for Dutch activities contributing to sustainable private sector development in emerging markets.<sup>85</sup> Further, NL Agency provides detailed information regarding the Dutch economy.<sup>86</sup>

The NL Agency was established and became operational on 1<sup>st</sup> January 2010. It is a merger of three former agencies all under the Ministry of Economic Affairs – the Netherlands Agency for Sustainability and Innovation (SenterNovem), the Agency for International Business and Cooperation (EVD), and the Netherlands Patent Office (OctrooiCentrum Nederland).<sup>87</sup>

Being an agency of the Dutch Ministry of Economic Affairs, NL Agency carries out policy and subsidy programs which focus on sustainability, innovation, international business and

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<sup>80</sup> Dutch Ministry of Economic Affairs, Homepage, <http://www.government.nl/ministries/ez>

<sup>81</sup> Dutch Ministry of Economic Affairs, Homepage, <http://www.government.nl/ministries/ez/strategy>

<sup>82</sup> Important Note: In January 2014, NL Agency and the National Service for the Implementation of Regulations were merged into the Netherlands Enterprise Agency

<sup>83</sup> Information Portal of Agency NL, Homepage <http://www.hollandtrade.com/organization/about.asp>

<sup>84</sup> Consortium of Dutch Companies in the Food Sector, Homepage, <http://www.foodtechholland.nl/index.php/participants/public-stakeholders/nl-agency-nl-evd-internationaal>

<sup>85</sup> Agency NL, Netherlands Enterprise Agency, Homepage, <http://english.agentschapnl.nl/subsidies-programmes/psi>

<sup>86</sup> Official Portal of the Government of the Netherlands, Homepage, <http://www.hollandtradeandinvest.com>

<sup>87</sup> Voluntary Network of European Energy Agencies, Homepage, [http://www.enr-network.org/NL\\_Agency.html](http://www.enr-network.org/NL_Agency.html)



cooperation.<sup>88</sup> The Agency inter alia implements ORIO, the Facility for Infrastructure Development.

### **Atradius Dutch State Business**

Dutch exporters of capital goods or international projects are offered a wide range of insurance and guarantee products by Atradius Dutch State Business (Atradius DSB) when doing business abroad.<sup>89</sup>

Atradius DSB is a subsidy of Atradius, which is a private and international company working at an international level. Atradius DSB is mandated to provide export credit services on behalf of and for account of the Dutch state; thus, Atradius DSB is one of the implementing agencies of the Dutch government (Interview D9).

“Credit insurance on behalf of and for account of the state usually involves export transactions with credit periods or a completion time in excess of twelve months. They always involve the supply of capital goods such as machinery, ships or greenhouses.”<sup>90</sup>

An interview partner states that ‘Atradius DSB’ once was part of the Ministry of Economic Affairs and a semi-public organization until the ‘Nederlandsche Credietverzekering Maatschappij (NCM)’ was privatized in the 1980ies (Interview D9).

Nowadays, the Ministry of Finance (MoF) in terms of general policy guidelines commissions Atradius DSB. Therefore, the ministry has key responsibility and a special unit being in charge of export credit policies; they supervise the main Atradius DSB activities (Interview D9).

Corresponding Corporate Social Responsibility Issues (CSR) were dealt with at the BEB Department (DG BEB – “Foreign Economic Relations”) within the Ministry of Economic Affairs until autumn 2012. Under the current government, the DG BEB was moved to the Ministry of Foreign Affairs; thus since November 2012 Minister Ploumen, being responsible for Foreign Trade, has been in charge thereof (Interview D9).

### **3.2.2.4. Government Funds**

Apart from being concessional or a mechanism to blend grants, ORIO, IDF and DGGF have in common that they are government funds and form part of the development cooperation

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<sup>88</sup> Agency NL, Netherlands Enterprise Agency, Homepage, <http://english.agentschapnl.nl/home/about-nl-agency>

<sup>89</sup> Point of Single Contact for the Netherlands, Homepage, <http://www.answersforbusiness.nl/subsidy/export-credit-insurance>

<sup>90</sup> Atradius DSB, Netherlands Export Credit Agency, Homepage, <http://www.atradiusdutchstatebusiness.nl/dsben//index.html>

budget. They are intertwined with Dutch foreign trade, private sector development and the debate about (un-) tying, which will be analyzed more thoroughly in the following.

#### **3.2.2.4.1. Facility for Infrastructure Development (ORIO)**

ORIO is a Dutch government facility supporting governments in developing countries in their efforts to create major infrastructure in partnership with the international business community. In this way, ORIO mainly aims at stimulating human development as well as private sector development in developing countries.<sup>91</sup>

Additionally, ORIO aims at stimulating the involvement of international business in order to benefit from the private sector's expertise.<sup>92</sup> An interviewed stakeholder explains that companies are important drivers in such public infrastructure projects (Interview D7).

Until 2012 ORIO had slightly different objectives and focused on financing public infrastructure projects with a sustainable impact on economic growth and private sector development, thereby paying particular attention to promoting SMEs and the poor (pro-poor growth) (NL Agency/MfA 2011: 12-13).

ORIO has started in 2009 as successor of the ORET-program and was developed as a joint concept by the ministries of Foreign and Economic Affairs involving VNO-NCW, the Dutch employers' organization, and Verkapex (Capital Exporters' Association) (ViceVersa (n.d.): 2).

ORIO is funded by the Ministry of Foreign Affairs and implemented by NL Agency. Central governments of about fifty developing countries can apply for an ORIO grant for their infrastructure development projects.<sup>93</sup>

The grants are classified as Official Development Assistance (ODA), as defined in the DAC Guiding Principles of the OECD. In accordance with the OECD-DAC agreement on untied aid grants are awarded as untied aid. These grants are not subsidies as defined in General Administrative Law Act (NL Agency/MfA 2013a: 3).

ORIO does only grant a certain percentage of the project costs; the facility does not provide funding for the complete project costs. In order to stimulate 'ownership' of the recipients, it is their responsibility to arrange the financing of the non-ORIO part of the project costs. This part may be financed by the government budget, commercial loans or other donors (NL Agency/ MfA 2013b: 13).

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<sup>91</sup> Agency NL, Netherlands Enterprise Agency, Homepage, <http://english.agentschapnl.nl/subsidies-programmes/facility-infrastructure-development-orio>

<sup>92</sup> Agency NL, Netherlands Enterprise Agency, Homepage, [english.agentschapnl.nl/sites/default/files/2013/12/orio-engels\\_1.ppt](http://english.agentschapnl.nl/sites/default/files/2013/12/orio-engels_1.ppt)

<sup>93</sup> Agency NL, Netherlands Enterprise Agency, Homepage, <http://english.agentschapnl.nl/subsidies-programmes/orio-background-information>

According to an interview partner, recipients often lack the capacity to arrange part of the funding of a project. Thus, NL Agency supports recipient countries to find a form of financing which does fit their needs. Further, this person states that grants supplied by ORIO are very often blended with commercial loans which are provided by Dutch commercial banks (Interview D7).

The grant which is provided by ORIO may differ for the development phase of a public infrastructure project from the ORIO contribution for the implementation and maintenance phase. The list of eligible countries including the grant percentage is decided and reviewed semi-annually by the Ministry of Foreign Affairs and is based on the partner countries of the Dutch development cooperation in combination with some selected LDCs as well as emerging markets (view Annex for the latest country list).<sup>94</sup>

In order to prevent individual countries from receiving disproportionate amounts, the total maximum ORIO funding for a single country is limited to 25% of the ORIO budget available for the corresponding year.<sup>95</sup>

Typical public infrastructure projects eligible for ORIO funding are within the sectors water, environment, energy, transport and logistics, ICT, education and health care and civil works (NL Agency/ MfA 2013b: 3).

One of the formal requirements of any ORIO project is that it must be commercially non-viable. The commercial viability of projects is assessed using the OECD 'Ex Ante Guidance for Tied Aid'. As energy projects tend to be commercially viable, these kinds of projects are not allowed to be commercially viable within 12 years, even if sustainable energy projects are handed in for an ORIO grant.

If ORIO grants are combined with commercial loans to arrange funding for a public infrastructure project, then most of these transactions will be supplemented by export credit insurance.<sup>96</sup> An interview partner states that recipient countries have to comply with the country policies of Atradius DSB in order to obtain such insurance (Interview D9).

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<sup>94</sup> Agency NL, Netherlands Enterprise Agency, Homepage, <http://english.agentschapnl.nl/subsidies-programmes/orio/faq>

<sup>95</sup> Agency NL, Netherlands Enterprise Agency, Homepage, <http://english.agentschapnl.nl/sites/default/files/2013/12/EN%20factsheet%202013.pdf>

<sup>96</sup> Atradius DSB, Netherlands Export Credit Agency, Homepage, [www.atradiusdutchstatebusiness.nl/dsben/overheidsregelingen/ontwikkelingsrelevante\\_infrastructuur\\_ontwikkeling/index.html](http://www.atradiusdutchstatebusiness.nl/dsben/overheidsregelingen/ontwikkelingsrelevante_infrastructuur_ontwikkeling/index.html)

In addition, the recipient government has to provide an unconditional guarantee for repayment of the commercial loan in order to cover the export credit insurance.<sup>97</sup>

#### **3.2.2.4.2. Infrastructure Development Fund (IDF)**

The IDF fund provides long-term financing for private and commercially viable infrastructure investments that are relevant for the socio-economic development in developing countries. Being a revolving fund which provides risk capital, IDF is able to finance riskier projects than e.g. ORIO. In this sense, IDF is complementary to existing funds and/or facilities (Interview D5).

FMO is commissioned by the Ministry of Foreign Affairs to administer the Infrastructure Development Fund. The bank does not only draw upon IDF funds, but also garners interest from other financiers, e.g. acts as a gateway for additional private funds. Managing IDF on behalf of the Dutch government allows FMO to engage in projects that would otherwise be too risky to be prudently taken on by FMO's own capital (FMO Evaluation Unit 2013: 18). Types of funding include e.g. loans, equity, mezzanine and/or associated financing (Interview D5).

IDF provides financing for long-term projects (tenors of up to 20 years) for large infrastructure projects in areas such as power, agribusiness, water, transport, and environment. Loans are being provided of up to EUR 15.5 million; minority shares in equity investment of up to EUR 7.75 million as well as investments in international or multilateral funds in order to facilitate defined infrastructure projects. IDF also provides grants, e.g. to take on funding that governments are unable to provide, or to cover one-off investments integral to project realization but not to profitability.<sup>98</sup>

Funds are eligible for projects that positively impact the socio-economic development and/or lead to improvements in the corresponding areas. Furthermore, projects must meet FMO's standard criteria. Apart from financial-economic performance, projects are scrutinized in areas such as corporate governance, environmental impact and social policies and practices in order to ensure the sustainability of the investment.<sup>99</sup>

Projects typically have to be in line with the country's Poverty Reduction Strategy Papers (PRSPs); further projects must comply with local law and international guidelines, among others the World Bank Group's EHS Guidelines and IFC Performance Standards (FMO 2012: 1-2).

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<sup>97</sup> Atradius DSB, Netherlands Export Credit Agency, Homepage, [www.atradiusdutchstatebusiness.nl/dsben/overheidsregelingen/ontwikkelingsrelevante\\_infrastructuur\\_ontwikkeling/index.html](http://www.atradiusdutchstatebusiness.nl/dsben/overheidsregelingen/ontwikkelingsrelevante_infrastructuur_ontwikkeling/index.html)

<sup>98</sup> FMO, Netherlands Development Bank, Homepage, <http://www.fmo.nl/infrastructurefund>

<sup>99</sup> FMO, Netherlands Development Bank, Homepage, <http://www.fmo.nl/infrastructurefund>

FMO also reviews investment plans, market analyzes, due diligence studies, expected returns and the commitment level of management and co-financiers because IDF investments are based upon commercial terms and conditions (FMO 2012: 1-2).

The Infrastructure Development Fund was known as the LDC Infrastructure Fund until 2009 and is an offshoot of the ORET-program; currently it is invested in diversified assets with over EUR 230 million.<sup>100</sup> The IDF fund is one of four governmental funds managed by FMO that reflect the Dutch government's priorities in private sector development.<sup>101</sup>

#### **3.2.2.4.3. Dutch Good Growth Fund (DGGF)**

Initiated by the Dutch government, the Dutch Good Growth Fund (DGGF) will commence in July 2014. The DGGF is an important cornerstone in the development policy of the current Dutch government, which aims at building a bridge between efforts to support private-sector development and efforts to promote trade and investment (MfA 2013c: 1-2).

The main goal of the fund is to step up development-related investments in and trade with low- and middle-income countries, through intermediaries and to Dutch SMEs as well as to larger enterprises. The DGGF will provide financial support in the form of loans, guarantees and equity investments. Besides investment capital, there will also be funding for technical assistance (MfA 2013c: 1-2).

The Ministry of Foreign Affairs will be politically responsible for the DGGF, whereas different parties will be responsible for the implementation. Three pillars through which the objectives of the fund are implemented structure the DGGF. In terms of concessional financing and tied aid, the third pillar is of great relevance.

**Pillar 1:** The first of the fund's tasks is focused on promoting development-related direct investment of Dutch companies in low and middle-income countries. Therefore the fund will provide guarantees on loans and direct finance for loans or participations for Dutch SMEs which otherwise cannot be financed due to their high risk profiles. Being managed by NL Agency, EUR 175 million investment capital will be provided between 2014 and 2017 plus an extra EUR 18 million for technical support (MfA 2013c: 8-9; Action Aid/Both Ends/Somo 2013: 6).

**Pillar 2:** The second task aims at promoting the financing of SMEs in low- and middle-income countries. These will not be direct investments but will use new or existing investment funds, e.g. private investors and financial intermediaries. The fund's contribution in this track will not provide more than a minority share which could come along in equity

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<sup>100</sup> FMO, Netherlands Development Bank, Homepage, <http://www.fmo.nl/infrastructurefund>

<sup>101</sup> FMO, Netherlands Development Bank, Homepage, <http://www.fmo.nl/idf>

investments, first loss protection, guarantees and/or loans. Apart from the investment capital of EUR 175 million about EUR 26 million will be available for technical assistance between 2014 and 2017. The implementing partner for this pillar has not been decided upon yet (MfA 2013c: 9-11; Action Aid/Both Ends/Somo 2013: 6).

**Pillar 3:** The fund's third task is focused on stimulating finance for Dutch SMEs wishing to export in low and middle-income countries. This will involve exports of capital goods and services that ensure that better products can be made abroad, better services provided or production methods made more efficient. Therefore this part will focus on export transactions of up to EUR 15 million that are currently not covered by the market or regular governmental export credit insurance because of their high risks. Thus, additional ECI will be provided as well as guarantees for trade transactions. Atradius DSB will manage this part of the DGGF jointly with the Ministry of Finance (MfA 2013c: 12-13; Action Aid/Both Ends/Somo 2013: 6).

The DGGF will be a revolving fund, providing a budget at an amount of EUR 700 million. The projected annual expenditure will be as follows:

**Table 5: DGGF Annual Expenditure, 2014-2017**

Year	2014	2015	2016	2017	Total
Investment capital	50	100	250	300	700

Source: MfA 2013c: 4

An amount of EUR 175 million will be provided to each of the three parts. The remaining EUR 225 million will be kept separately in order to divide it on the basis of an interim evaluation at the end of 2015 (MfA 2013c: 4; Interview D6). Apart from the investment capital, additional EUR 75 million will be available for technical assistance which will not be financed from the fund, but from the regular private sector development budget (Action Aid/Both Ends/Somo 2013: 5-6).

All projects financed with DGGF funds must contribute to the development of low and middle-income countries. Thus, proposals will be assessed in order to determine whether and to what extent they contribute to (1) employment in low and middle-income countries; (2) the production capacity of local industry and (3) sustainable transfer of knowledge, skills and technology. Further, there will be a focus on businesses in fragile states, young entrepreneurs and female entrepreneurs (MfA 2013c: 5-6).

Activities have to (1) comply with the legislation of the country in question; (2) refrain from contriving arrangements designed to lower their profits or reduce tax in recipient countries

and (3) comply with international rules concerning strategic goods, human rights, etc. Furthermore, a single set of standards will be used to assess applications (IFC Performance Standards) (MfA 2013c, pp.6-7).

### 3.2.3. Scheme Performance

The Development Relevant Export Transactions program (ORET) was the predecessor of ORIO, the Facility for Infrastructure Development and one of the most important programs in which Dutch business has been supported in the last three decades. Thus, in the following not only data about ORIO shall be provided but also some figures about the ORET-program.

#### 3.2.3.1. ORET Budget and Expenditures

According to the authors of the ORET/MILIEV evaluation 1999-2004, the ORET-program actually started in 1992. Prior to 1992 the program was in fact still a Low Concessional Loans (LCLs) program providing EUR 99.5 million for loans in 1991. In 1992 the budget of ORET was about EUR 38.7 million, which rose to EUR 142.9 million in 1998 due to the merger of ORET and MILIEV (Berenschot/Seor/Ecolas 2006: 19).

In 2002 the budget was reduced due to the exclusion of the LDCs from the program, for which the new LDC Infrastructure Fund was established. Since 2002 the budget of ORET has been about EUR 104 million per year (Berenschot/Seor/Ecolas 2006: 19).

The following table illustrates the total ORET/MILIEV program budgets and expenditures worldwide, between 1992 and 2005.

**Table 6: Total ORET/MILIEV Program Budgets and Expenditures worldwide, 1992-2005**

Year	1992	1993	1994	1995	1996	1997	1998
Budget (EUR million)	38.7	63.2	68.2	72.9	74.9	84	142.9
Expenditures (EUR (million)	8.6	22.1	27	37.2	75.6	99.7	96.7
Year	1999	2000	2001	2002	2003	2004	2005
Budget (EUR million)	149.8	149.8	136	104	104	104	104
Expenditures (EUR million)	95.9	95.1	79	63	74.7	82.7	87.9

Source: Berenschot/Seor/Ecolas 2006: 19

The expenditures from the ORET/MILIEV-program have fluctuated over the years. Until 1996 the program did not spend its entire annual budget. The same phenomena have already occurred within the Mixed Credit program available at the end of the 1970ies. Annual

expenditures exceeded the annual budget in 1997, thus the program was closed for a certain time (Hoebink 1998: 189; Berenschot/Seor/Ecolas 2006: 19).

In 2005, the budget available was about EUR 100 million offered within the tied ORET-program, the untied facility for LDCs (a maximum of 30 % of the whole amount was reserved for the untied program) and the water facility (OECD/DAC 2005: 2).

In 2007 the budget was set to EUR 119 million. In August 2007, the period within which applications could be made for ORET grants was closed because applications made approximated three times the budget available (ORET.nl 2007: 1).

### 3.2.3.2. ORET Grant Scheme

The ORET-program offered within the first years a (minimum) grant percentage of 40 %. In addition, the costs of financing of the commercial loan were often subsidized up to a maximum of 5 % of the transaction costs, making the total grant percentage 45 % (Berenschot/Seor/Ecolas 2006: 19).

**Table 7: ORET/MILIEV Official Grant Percentages, 1992-2005**

Year	1992	1993	1994	1995	1996	1997	1998
Grant as % of total transaction	40 or 55+5	40 or 55+5	40 or 55+5	40 or 55+5	45 or 60+10	45 or 60+10	35 or 50
Year	1999	2000	2001	2002	2003	2004	2005
Grant as % of total transaction	35 or 50	35 or 50	35 or 50	35	35	35	35 or 50

Source: Berenschot/Seor/Ecolas 2006: 19

In 1993, as the MILIEV-program was launched, the grant percentage was 40 % of the transaction amount plus the costs of the credit (with a maximum of additional 5 %) and thus, quite similar to ORET. Certain projects got a higher percentage, e.g. if the environment component was only part of the transaction, it was decided to subsidize this part with 100 %. Overall, the grant percentages have been changed over time. Nevertheless, the ORET/MILIEV grant has equaled 35 % of the total value of the transaction, and 50 % for LDCs since 1998 (Berenschot/Seor/Ecolas 2006: 19).

### 3.2.3.3. LDC Infrastructure Fund

The Ministry of Foreign Affairs had expected that the disbursements within the LDC Infrastructure Fund would grow in four equal parts of approximately EUR 45 million per annum. This was not realistic because the Fund started slowly within the first years; a more



flexible approach increased the approved, contracted and disbursed amounts by the year 2005. The Ministry of Foreign Affairs had disbursed about EUR 139.7 million of its total commitment of EUR 181.5 million by the end of 2007 (IOB 2009: 37-38).

The LDC Infrastructure Fund mainly provided long-term financing for infrastructure projects (tenors of up to 20 years) through (1) loans up to 10 % (or EUR 20 million) of the total fund size; (2) equity investments up to lesser of 10 % of the total fund size (or EUR 20 million) or 20 % of the total transaction size or (3) grants for e.g. non-commercial elements of projects that are financed by FMO or the development/feasibility stage of identified projects (IOB 2009: 38).

**Table 8: LDC Infrastructure Fund, Investments (in Number and Value), 2002-2008**

Investments	2002	2003	2004	2005	2006	2007	2008
Number of approved investment*	3	3	3	11	5	5	6
Contracted	0	6	2	9	10	7	5
Amount approved (EUR million)	33.2	31.1	20.4	117.8	70.8	61.9	69.8
Amount contracted (EUR million)	0	22.0	19.1	51.9	97.5	49.3	55.1
Amount disbursed (EUR million)	0	22.0	28.3	40.9	73.3	41.4	43.0
Disbursements by the Ministry (EUR million)	22.4	27.3	6.2	10.9	54.9	18.0	23.2

\*New projects/first disbursements, not including grants (for approval)

Source: IOB 2009: 38

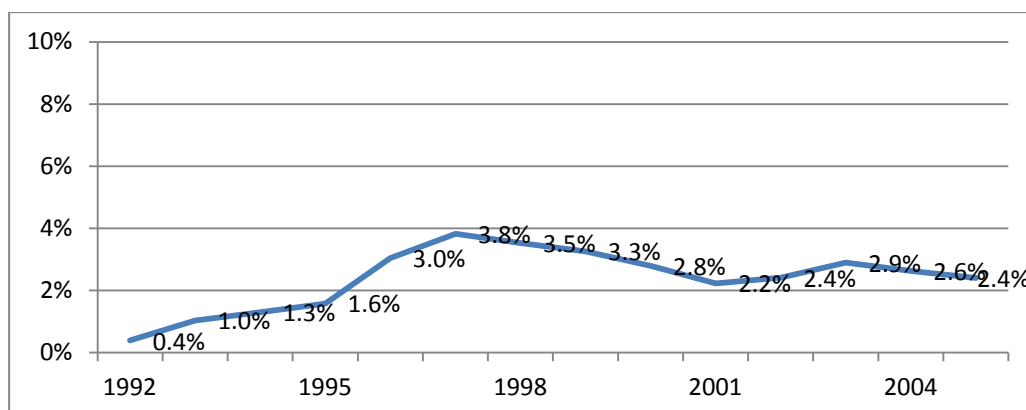
According to the authors of the evaluation of the LDC Infrastructure Fund, eleven projects had been financed with equity capital by the end of 2007; investments that had an average size of EUR 6.5 million including a number of smaller participations and two investments of approximately EUR 20 million. The Fund provided finance in the form of loans (16 loans with an average size of EUR 11.1 million. Furthermore, the Fund provided 27 grants with an average size of EUR 260,000 excluding two grants of more than EUR 1 million between 2003 and 2007 (IOB 2009: 38).

In general, the Fund has been open to several sectors in order to provide finance for social and economic infrastructure but in practice financial support has been concentrated in three sectors: energy production & distribution, immobile infrastructure and telecommunications. Major recipients were Tanzania, Mozambique, Bangladesh, Benin and Togo (IOB 2009: 40).

### 3.2.3.4. Share of ORET/MILIEV to Total ODA

The share of ORET/MILIEV including the disbursements of the LDC Infrastructure Fund (2002-2005) to total ODA varied between 0.4 and 3.8 % in the period 1992-2005. The following figure illustrates its highest peak in the years 1996-1999.

**Figure 15: Share of ORET/MILIEV/LDC Infrastructure Fund to Total ODA, 1992-2005**



Source: Berenschot/Seor/Ecolas 2006: 19; IOB 2009: 38; OECD/DAC statistics

### 3.2.3.5. ORIO Grant Scheme

ORIO started out as a program providing grants in the total amount of EUR 140 million in 2009. According to an interviewed person, this amount was later increased to EUR 180 million by ministerial decision in order to meet the great demand for projects (Interview D5).

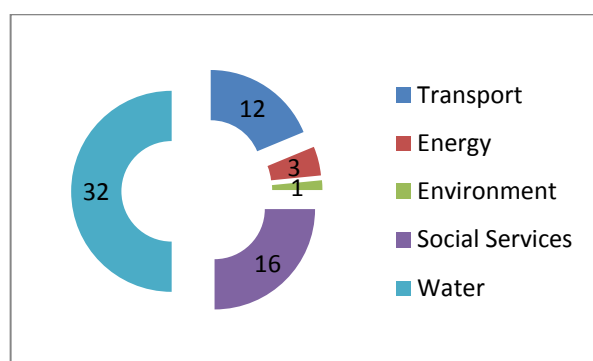
Thus, the total annual budget for ORIO was around EUR 180 million in the year 2012. Nevertheless, applications that had been accepted for appraisal exceeded the available budget which led to a waiting-list, opened by ORIO. In 2013, the available budget for projects financed with ORIO grants was again approximately EUR 180 million.<sup>102</sup>

One up to two Calls for Proposals had been published each year between 2009 and 2012. Altogether about 179 projects proposals were assessed against the eligibility criteria, of which 66 projects were selected for a grant. Two projects were withdrawn after selection, thus ORIO had 62 ongoing projects in spring 2013. Around 40 projects entered the Development Phase; the Grant Arrangement for another 16 projects will be signed by ORIO. In the year 2013, about six projects entered the Implementation Phase and the Operation & Maintenance Phase (NL Agency/ MfA 2013c).

<sup>102</sup> Agency NL, Netherlands Enterprise Agency, Homepage, <http://english.rvo.nl/subsidies-programmes/facility-infrastructure-development-orio>

The total project budget of granted projects including the non-grant part of each project was around EUR 2.1 billion by the end of 2013; total grants sum up to EUR 740 million if all ongoing projects were implemented. The maximum grant percentage is 35 %, 50 % for LDCs and 80 % for fragile states. The list of countries eligible for a grant, indicating the status and the maximum grant percentages is set out in the annex. The most popular sectors are the water sector, social services and transport (NL Agency/ MfA 2013c).

**Figure 16: ORIO Projects per Sector, 2009-2012**



Source: NL Agency/ Ministry of Foreign Affairs 2013c

According to a review regarding ORIO, published in autumn 2013, 28 of the selected projects are from LDCs, another 38 projects from MDCs. Moreover, 43 out of the 66 projects are located in Africa, followed by Asia (10 of 66 projects). Most projects are from Ghana, Vietnam, South Africa, Mozambique and Tanzania. The review highlights that a total of five projects have been stopped or withdrawn (Carnegie Consult 2013: 5).

### 3.2.4. Implementation of Programs

Being the key successor of the ORET-program, the following part of the Dutch country report is strongly focused on the Grant Facility for Infrastructure Development ORIO. Although the Infrastructure Development Fund IDF is also an offshoot of the ORET-program but focusing more strongly on private and commercial infrastructure activities in LDCs, this fund is not considered in the following.

For further information how FMO selects, monitors and evaluates projects, please view the ÖFSE-study about the comparative analysis of selected bilateral development finance institutions in Europe from Gössinger/Raza (2011) (Gössinger/ Raza 2011: 23-38).

The Dutch Good Growth Fund will be launched in July 2014, thus information about main procedures, criteria and decision-making is not yet available.

### **3.2.4.1. Project Eligibility and Application**

The governments of around 50 recipient countries may submit applications for ORIO projects. Applications can be submitted when the Call for Proposals is open. A standard ORIO project has three phases: (1) Development phase, (2) Implementation phase and (3) Operations & Maintenance phase (NL Agency/MfA 2013b: 3).

Before submitting an application form, NL Agency (NL EFD International) provides an intake form for interested parties who want to assess whether their project idea qualifies for an ORIO grant. This form is not considered as an official application but shall provide constructive feedback on project ideas.<sup>103</sup>

The intake form already asks for concrete project information, e.g. the project's effects on human development and private sector development and/or how the non-ORIO portion of the budget will be financed (NL Agency/MfA 2013d: 2-3).

The official project application includes a so-called project description, in which the applicant is asked to describe all elements of the project proposal in order to assess the project for ORIO financing. Apart from contact information, first questions have to be answered about the project budget and the project history. Information about the project history includes e.g. whether support programs or donor funding have been used to develop the project; whether the application concerns a former ORET application or an ORET project follow-up or whether the project has any other linkages to NL Agency or FMO programs (NL Agency/MfA 2013d: 2-3).

Furthermore, formal substantive information is required about the commercial non-viability of the corresponding project according to the OECD's Ex Ante Guidance for Tied Aid and the procurement modalities that will be used by the recipient must comply with international and the recipient country's legislation. The description of the project has to include information about the stakeholders, as well as information about the end users that are affected and/or involved. In addition, information about the economic, legal and institutional structure has to be provided; e.g. how the project fits into national, local and/or sector plans and strategies (NL Agency/MfA 2013d: 4-6).

As a consequence of the evaluation findings of the LDC Infrastructure Fund in 2009, ORIO does not only provide grants for the Implementation Phase and the Operation & Maintenance Phase, but also for the Development Phase, in which proposals are developed.

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<sup>103</sup> Agency NL, Netherlands Enterprise Agency, Homepage, <http://english.rvo.nl/subsidies-programmes/do-i-qualify-orio>

In contrast, applicants for the predecessor of ORIO, the ORET-program had to submit sound business and project plans at the time of applying for a grant (Interview D5).

The applicant has to clearly state for which phases of the project funding is asked for. If ORIO does not provide 100 % financing of the project it has to be specified how the other parts will be financed. The Development Phase generally includes feasibility studies, social and environmental impact assessment, preliminary project design, financial planning, project plan, project management, and monitoring & evaluation (NL Agency/MfA 2013d: 7-8).

Concrete project descriptions have to include information about the input & output, the effectiveness of the project (outcome), the project impact on human development and on private sector development, and have to be submitted for the Implementation Phase and Operation & Maintenance Phase. In order to assess the sustainability of a project, the applicant also has to provide information about the financial sustainability, suitability of the technology being used, social & environmental risks, involvement of end users and the project organization and structure (NL Agency/MfA 2013d: 9-16).

Ownership of the recipient country is key when it comes to developing and implementing new projects funded with government funds like ORIO. Nevertheless, an interviewed stakeholder points out that Dutch companies are important 'drivers' for the development of new projects as well as consultancies who assist the grant recipient throughout the whole project cycle (Interview D7).

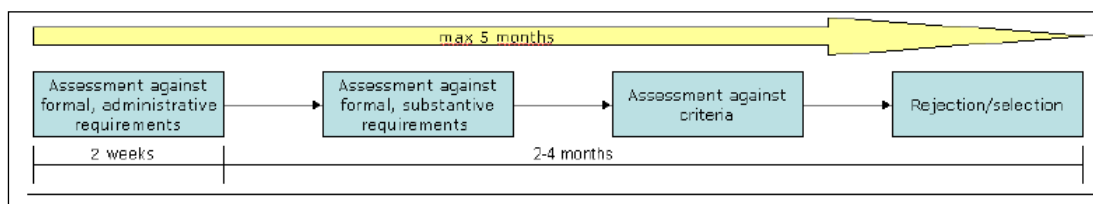
#### **3.2.4.2. Project Appraisal Process and Decision-Making**

All project applications are dealt with on a 'first-come, first-served' basis and are assessed against the formal, administrative requirements by NL Agency. The most relevant are the following:

(1) Applications must be submitted by the central government authority of a country on the ORIO country list applicable to the relevant application period; (2) Applications must be received by NL Agency during the application period; (3) Eligible project costs must be at least EUR 2 million and no more than EUR 60 million; (4) Project applications must deal with the entire life cycle and must comply with the OECD definition of a project (NL Agency/MfA 2013b: 10, 14).

Applications that do not fulfill the most relevant formal, administrative requirements are not considered further; in other cases, the applicant has the option of revising the application or providing additional information.

**Figure 17: Application Assessment Timeline**



Source: NL Agency/ Ministry of Foreign Affairs 2013b: 12

The following formal, substantive requirements are assessed: in order to receive an ORIO grant the corresponding project should not be commercially viable according to the OECD Ex-Ante Guidance for Tied Aid. Furthermore, goods, works and services for the project must be purchased in a transparent and efficient manner and must comply with international procurement practices provided by the OECD and/or ILO as well as with the recipient country's legislation (NL Agency/MfA 2013b: 12-13).

Applications that have already fulfilled the necessary formal, administrative requirements are then assessed against the formal, substantive requirements. Furthermore, a meeting is held in which a questionnaire is discussed between the applicant and the ORIO-Team (NL Agency/MfA 2013b: 12-13).

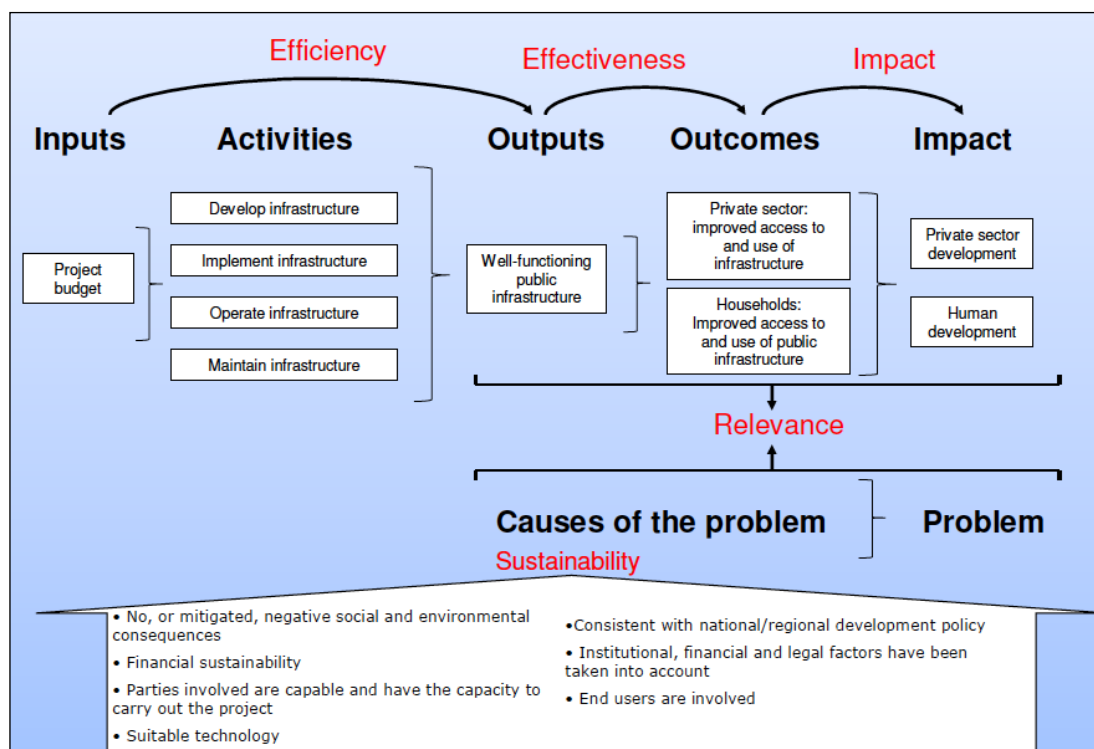
All information from both the application and the questionnaire is used to assess the application on the basis of five OECD/DAC criteria: (1) relevance, (2) effectiveness, (3) impact, (4) efficiency, and (5) sustainability. Each criterion is then either scored 'satisfactory' or 'unsatisfactory'. In order to be eligible for an ORIO grant, the score must be satisfactory for each individual criterion (NL Agency/MfA 2013b: 15; 17-27).

During this assessment procedure the NL Agency takes advice from the ORIO Advisory Committee (AC) named ACORIO, whose membership and procedures are decided by the Ministry of Foreign Affairs. This advisory board includes five stakeholders; among them are experts in the field of banking, science, contract law and engineering consultancy services (Interview D7).

The AC assesses twice, once before entering the Development Phase; here applications are assessed against formal requirements and the OECD/DAC principles. Before a given project enters the implementation and Operations & Maintenance Phase, the AC re-assesses once more and more thoroughly the respective project. Further, an interviewee explains that ACORIO advises on the basis of consensus (Interview D5).

If an application is accepted for assessment and found to meet all the formal requirements including the OECD/DAC criteria, then the project will be selected for a grant for the Development Phase as long as enough budget is available. Depending on the country, ORIO finances between 50 and 100 % of these costs. (NL Agency/MfA 2013b: 3,13).

**Figure 18: Project Result Chain linked to Criteria**



Source: NL Agency/ Ministry of Foreign Affairs 2013b: 16

The Grant Arrangement must be signed by the applicant and then returned to NL Agency. The arrangement comes into effect the day after it has been signed. NL Agency also could ask the Dutch Ambassador in the recipient country to sign the documents. Thereafter the corresponding embassy will organize the signing and initialing with the applicant. The first advance payment may be made (maximum of 15 % of the total grant of the Development Phase). In addition, the NL Agency may ask the applicant to come up with a guarantee of the contractor in order to provide financial security (NL Agency/MfA 2013b: 29).

The Development Phase includes conducting all necessary studies for implementing the project. Here NL Agency, the applicant, the competent authority and any private parties involved jointly work out the details including a round table in order to discuss specific matters that have emerged during the assessment, providing further information about the process, content and the project plan being the end result (NL Agency/MfA 2013b: 28).

The round table discussion will in particular address issues like the possible impact and risks that must be investigated, the project's social and environmental effects and institutional matters. Here ORIO will make use of the IFC Performance Standards, the OECD Guidelines for Multinational Enterprises and ILO conventions in order to consider matters like working conditions, community engagement, land issues, management of natural resources, pollution, waste management and supply chain management (NL Agency/MfA 2013b: 28).

The contracting out of work will also be discussed at this stage, in particular what tendering process will be followed, what type of contract is to be used and who will do that. In addition, a monitoring and evaluation plan has to be drawn up for each project (NL Agency/MfA 2013b: 29).

The applicant and the competent authority are responsible for the project during the whole process. Several interview partners pointed out that both their commitment and ownership are essentially important for the success of the project (Interview D7, D5).

Apart from a feasibility study, technical studies, a procurement plan, economic and financial studies result in a project plan, which must contain all necessary information for the decision on implementing the corresponding project. This project plan is then evaluated and includes that NL Agency will assess the need for and usefulness of the activities which have been set out in the input & output plan and whether they are in line with market prices (NL Agency/MfA 2013b: 3).

The Grant Arrangement may include go and/or no-go moments for those parts that are crucial to the feasibility of a project that NL Agency wants to have clarity before proceeding to make further advance payments.

NL Agency may ask the applicant to provide further information at any time during the assessment. For this reason, the applicant has to make direct contacts with relevant parties involved, e.g. consultants, financiers, credit insurers and suppliers (NL Agency/MfA 2013b: 31).

Further, NL Agency may also ask for advice from external experts, other relevant parties who are active in the corresponding sector, e.g. development banks, other bilateral donors and/or the Dutch embassy in the recipient country, which has an important advisory role (NL Agency/MfA 2013b: 31).

The Development Phase finally results in a detailed Project Plan, including all studies, letters and other matters agreed in the round table and described in the Input & Output Plan. The complete Project Plan is then reassessed against formal requirements as set out earlier:



In concrete, the Project Plan is assessed to determine whether the project is still relevant, efficient, effective and sustainable and has a significant impact on human development and private sector development. In addition, more emphasis is put on the formal requirements regarding the commercial non-viability and the procurement procedure (NL Agency/MfA 2013b: 31-33).

If the project meets the formal requirements, 'scores satisfactory' on the criteria and does not depart substantially from the key indicators agreed upon at the start of the Development Phase, it will be eligible for a grant for subsequent phases and the Grant Arrangement for the Implementation and Operation & Maintenance Phase will be signed (NL Agency/MfA 2013b: 3).

An interviewee states that from 179 project proposals which have been assessed on the eligibility criteria about 66 projects have been selected for a grant in the Development Phase. Further, this person points out that too much time is needed to develop projects because 3-5 years pass by in order to bring ideas from development to implementation. Because of these difficulties only a handful of projects were in the Implementation Phase in fall 2013 providing e.g. medical equipment or generators (Interview D7).

#### **3.2.4.3. Project Implementation, Tendering and Contract Management**

If financing agreements have been made and submitted by the Central Government authority or the corresponding authority in order to arrange the financing that is needed on top of the intended ORIO grant to implement the project, then the grant is disbursed by NL Agency (NL Agency/MfA 2013b: 36).

ORIO finances between 35 and 80 % of the costs for the implementation and Operation & Maintenance Phases (for up to a maximum of ten years), depending on the country (NL Agency/MfA 2013b: 3).

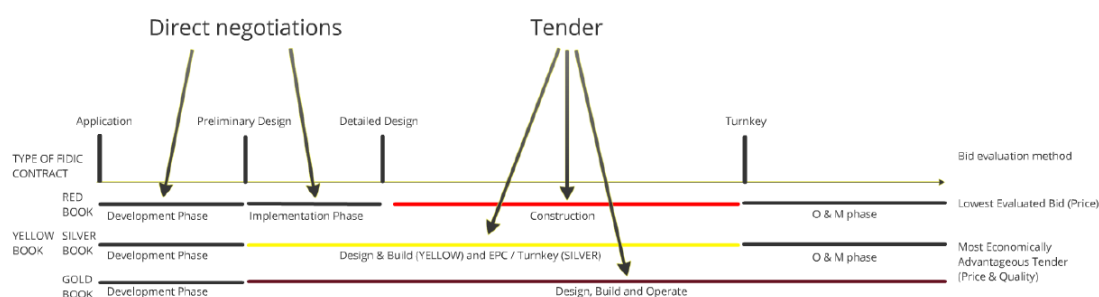
Once a project has been selected for the Implementation Phase, the detailed design is done in consultation with NL Agency, also in order to set up the basis for the tender. The procurement procedures may differ; they depend on the type of contract (NL Agency/MfA 2013b: 38).

Although the recipient country's government or the corresponding authority is responsible for the tendering and the contract management, NL Agency reviews the process for the procurement in order to ensure that the procurement of goods, works and services comply

with international and the recipient's procurement legislation and practices (NL Agency/MfA 2013b: 38).

Contrary to the fostering of the recipient country's ownership, the applicant e.g. has to submit the complete draft set of prequalification or tender documents to NL Agency for review prior to an invitation to prequalify or tender. Further, a detailed prequalification or tender evaluation report must be submitted to NL Agency for review prior to finalizing a prequalification list or awarding a contract. Moreover, the applicant has to submit the draft of the final contract including any amendments to NL Agency for review (NL Agency/MfA 2013b: 38). The figure below illustrates the key steps of the procurement process:

**Figure 19: Procurement Process**



Source: NL Agency/ Ministry of Foreign Affairs 2013b: 38

The figure illustrates that e.g. feasibility studies, social and environmental impact assessments or preliminary project designs are awarded in direct negotiations. Here various consultancies (e.g. engineering, project design & management) are typically considered. Depending on the procurement legislation in the recipient country, the contract for the detailed design may be awarded via direct negotiations to the same contractor that was responsible for the preliminary design (NL Agency/MfA 2013b: 38).

The tender procedure for the construction may be International Competitive Bidding (ICB), Limited International Bidding or National Competitive Bidding. According to an interview partner, ORIO has a strong preference for ICB tenders (Interview D11). If a component is negotiated directly, the local procurement clauses, the OECD Good Procurement Practices for Official Development Assistance as well as the ORIO procurement rules have to be considered (NL Agency/MfA 2013e: 8-9).

An interview partner points out the difficulties which are associated with International Competitive Bidding. According to him, a lot of companies do not participate in such bidding procedures because they do not have the necessary resources and/or do not see any

chance to be awarded with the delivery of goods and/or services. In addition, this person highlights that procurement costs are very difficult to estimate because of the recipient country's procurement legislation which has to be considered within ORIO (Interview D7).

As only a handful of projects are in the tendering phase for the construction, the award of contracts within ORIO has been particularly attractive to project developers, engineering firms and consultants, which have been involved in the development of identified projects. Because of informational and institutional advantages, Dutch consultancies have great advantages to be awarded a contract. Thus, although being officially an untied grant facility, ORIO is de facto procurement tied to goods and services from Dutch companies.

Once the contract has been awarded, the approved implementation plan can be carried out. This plan considers reporting duties by the applicant to NL Agency and includes how and by whom the implementation will be supervised. In many cases, monitoring and evaluation is outsourced to an independent engineer or employer's representative, who will report to the competent authority and NL Agency (and any other financiers) (NL Agency/MfA 2013b: 36).

The appointment of this consultant has to be submitted to NL Agency for a statement of no objection like all other contracts being awarded by the applicant.

#### **3.2.4.4. Payment Terms, Guarantee and Operations & Maintenance Phase**

The payment schedule as described in the Grant Arrangement will be adjusted after the allocation of the tender in order to align ORIO grant payments pro rata with payments of other project financiers. The grant payments do not go to the applicant, they will be made directly to the suppliers of works, goods or services after the awarding of the contracts have been done (NL Agency/MfA 2013b: 37).

After the final installment of the corresponding infrastructure project, the Operation & Maintenance Phase commences. In general, ORIO pays its grants for a period of no more than the first ten years of the Operation and Maintenance Phase (NL Agency/MfA 2013b: 37).

Although both phases are described in one Grant Arrangement, they may be tendered or outsourced separately; this depends on the project circumstances and the preference and capacity of the involved experts (NL Agency/MfA 2013b: 37).

In order to make successive grant payments a management and maintenance plan has to be drawn up including periodic checks, at least on an annual basis. An independent engineer or

employer's representative usually assesses the management performance (NL Agency/MfA 2013b: 37).

As stated above, the non-grant part of an ORIO funded project must be financed with other funds. ORIO grants are in many cases associated with commercial loans, for which export credit insurance (ECI) is available quite regularly. These ECIs are provided by Atradius Dutch State Business on the basis of their country policies. The recipient government usually has to cover the export credit insurance with an unconditional guarantee for the repayment of the commercial loan.<sup>104</sup>

According to Atradius DSB, the maximum transaction amount is limited to EUR 15 million; grant is excluded here. The limit per country is EUR 50 million including a maximum repayment period of 10 years. ORIO funds public infrastructure projects, thus they must meet the concessional requirements as agreed by OECD countries to promote sustainable lending practices.

### **3.2.5. Monitoring and Evaluation**

In order to facilitate the smooth implementation of projects NL Agency periodically undertakes field visits to speak to all stakeholders involved and to ensure the progress of projects. If available, the Embassy of the Netherlands may also assist in monitoring activities (Interview D5).

In general, the project implementation plan considers reporting duties by the Applicant to NL Agency and includes how and by whom the implementation will be supervised. In many cases, monitoring and evaluation is outsourced to an independent engineer or consultant, who will report to the competent authority and NL Agency (and any other financiers) (NL Agency/MfA 2013b: 36).

#### **3.2.5.1. Monitoring & Evaluation Plan**

The list of indicators to be monitored during the project is usually drafted by the applicant with support of the ORIO project consultant. The monitoring and evaluation plan considers indicators according to the project result chain including data about output (realized infrastructure), outcome (access and use of the infrastructure), impact (optional) and sustainability (financial, social and environmental and maintenance) (NL Agency/MfA 2013d).

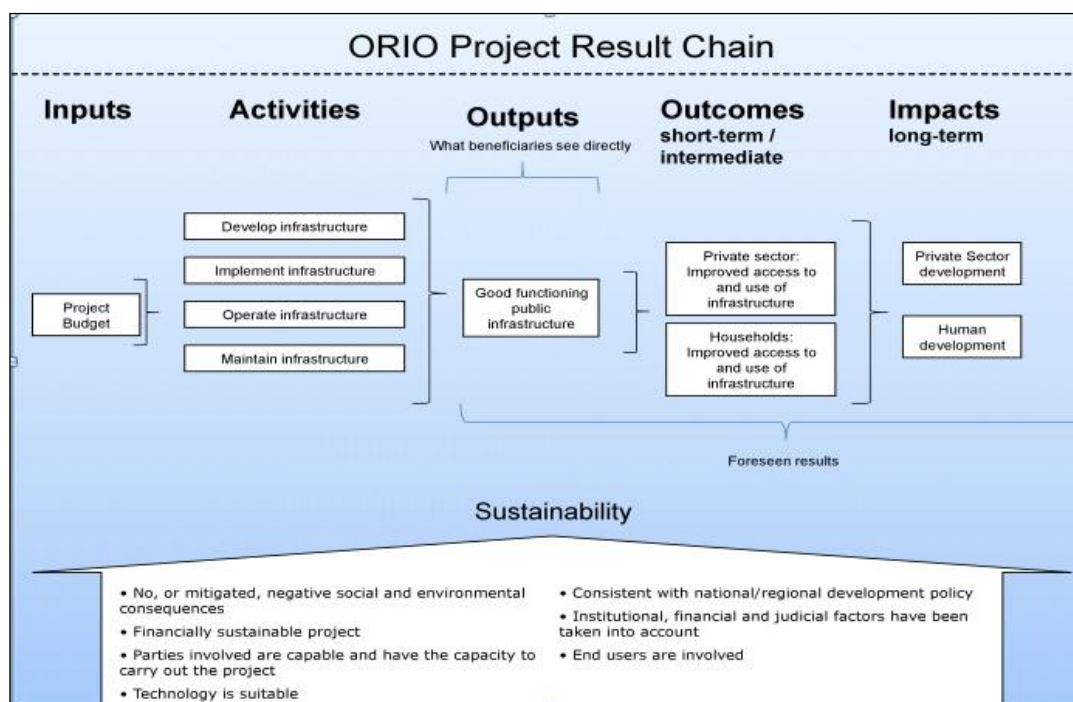
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<sup>104</sup> Atradius DSB, Netherlands Export Credit Agency, Homepage, [http://www.atradiusdutchstatebusiness.nl/dsben/overheidsregelingen/ontwikkelingsrelevante\\_infrastructuur\\_ontwikkeling/index.html](http://www.atradiusdutchstatebusiness.nl/dsben/overheidsregelingen/ontwikkelingsrelevante_infrastructuur_ontwikkeling/index.html)

This monitoring information has to be provided by the applicant at least once a year during the Implementation and the Operations & Maintenance Phase in addition to progress reports which have to be submitted at least every six months.

The following figure illustrates the logical steps leading from project inputs to the short- and long-term effects that projects intend to achieve:

**Figure 20: Project Result Chain Focusing on Short- and Long-term Effects of Projects**



Source: NL Agency/ Ministry of Foreign Affairs 2013b: 23

In the Development Phase, these progress reports have to include the current status of all deliverables and all financial conditions as described in the input & output plan as well as organizational or institutional issues. These matters consider major national or regional changes in the project context or changes concerning e.g. the applicant, and/or the involved consultants (NL Agency/MfA 2013g).

### 3.2.5.2. Impact Evaluations

About 10 to 15 % of all ORIO projects are subject to an independent impact evaluation. These projects should cover most sectors and countries, which form part of the ORIO program (NL Agency/MfA 2013f).

Ex-ante evaluations are done by NL Agency in order to attribute the results of a given project. In this case, the selected projects will start with a baseline study before the beginning of the implementation phase. Further, other intended and/or unintended effects of the project are taken into account by providing a control group. In general, the impact evaluations use a mix of qualitative and quantitative (statistical and econometric) methods.

Apart from impact evaluations, an independent evaluation party verifies all other projects on the outcome level. In general, the applicant should cooperate in project evaluations, e.g. must regularly report data on output and outcome during the Operation & Maintenance Phase (NL Agency/MfA 2013f).

According to an interview partner, the Policy and Operations Evaluation Department (IOB) of the Ministry of Foreign Affairs (MfA) has drawn up the monitoring & evaluation system for ORIO. Thus, all monitoring and evaluation data on project level will be used by IOB for periodic evaluations at program level (Interview D5).

Program evaluations are generally provided by IOB, whereas project evaluations are awarded externally by NL Agency. FMO, the Dutch development bank has its own evaluation unit, which provides evaluations at project as well as at program-level (Interview D4).

ORIO was reviewed in fall 2013 and will be reformed upon these recommendations provided by this review. An interview partner mentioned that this reform could mean that ORIO will provide in the future a combination of loans and grants and/or could be streamlined with other funds (PSI, DGGF) (Interview D7).

The ORET-program, whose phasing-out was in 2013, will be externally evaluated according to the latest policy rules from 2006/07 (Interview D5). In the case of external evaluations, very often consultancies (e.g. Carnegie) or consortia of consultants and research institutions have been awarded in the past.

### **3.2.6. Transparency and Accountability**

The Dutch Development Finance system generally includes FMO, the Dutch development bank and NL Agency being a department of the Ministry of Economic Affairs as main implementing agencies of Dutch funds and facilities.

An interview partner points out that NL Agency reports to the Ministry of Foreign Affairs on program level about ORIO. On project level there is day-to-day contact between the ministry, NL Agency as well as other involved actors, e.g. Dutch embassies or other financiers (Interview D5).

Most funds are disbursed by the Ministry of Foreign Affairs, which has reporting duties to the parliament through the regular budgetary cycle. FMO and NL Agency, both in turn have to report to the MfA on a regular basis (Gütermann 2011: 192-195).

### **3.2.6.1. Role of Parliament**

In parliament (Tweede Kamer der Staten-Generaal), the Parliamentary Committee for Foreign Affairs deals with development cooperation issues. The Committee mainly scrutinizes the government's development policy and budget allocation through oral and written consultations. Further, it has the right to introduce motions and can amend government bills. In addition, the Committee has the lead in the discussion of the budget of the Ministry of Foreign Affairs.<sup>105</sup>

Interestingly, the newly established Dutch Good Growth Fund (DGGF) was controversially discussed in parliament twice in 2013. Different stakeholders, inter alia development experts from universities and non-governmental organizations were involved in these debates. In the second debate in November, the opposition was acquiesced EUR 50 million by earmarking to poverty reduction, which reduced the Fund's total budget from EUR 750 to 700 million.<sup>106</sup>

The Senate's (Erste Kamer der Staten-Generaal) main duty is to pass or reject bills; thus it does not play an important role in development policy as it has no right to amend bills.<sup>107</sup>

Moreover, financial accountability is provided by independent consultancies, e.g. PricewaterhouseCoopers has been awarded by the Ministry of Foreign Affairs to administer the phasing out of the ORET-program (2007/2013) (Interview D5).

### **3.2.6.2. Civil Society**

Dutch civil society organizations are actively engaged in development cooperation and direct various advocacy activities towards the main actors. These activities do not only include the government and its relevant ministries – the Ministry of Foreign Affairs and/or the Ministry of Economic Affairs – in their role as the protagonists in policy formulation but also consider other stakeholders like the Dutch development bank FMO or Atradius DSB as implementing agencies of development relevant projects.

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<sup>105</sup> Information Portal SEEK Development, Homepage,  
<http://donortracker.org/donor-profiles/netherlands/actors-decision-making>

<sup>106</sup> Dutch Magazine for Development, Homepage,  
<http://www.viceversaonline.nl/2013/11/ploumen-krijgt-oppositie-nog-niet-warm-voor-dggf/>

<sup>107</sup> Government of the Netherlands, Homepage,  
<http://www.government.nl/issues/parliament/senate-and-house-of-representatives>

In October 2013, the Dutch government made it clear that the co-financing system in its present form will not be continued after 2014 (Spitz/Muskens/van Ewijk 2013: 33). Annual funding for civil society organizations will sharply decrease to EUR 219 million in 2015 compared to EUR 453 million in 2013. Most of this money will be streamlined to fewer Dutch development organizations. Further, more funds will be channeled via an accountability fund to finance CSOs in developing countries.<sup>108</sup>

Dutch civil society organizations heavily criticized these budget cuts as well as the general budget cuts in development cooperation. In addition, they lobbied against the Dutch Good Growth Fund mainly because of its strong focus on private sector development and the fund's procurement tied component (Action Aid/Both Ends/Somo 2013: 2-3).

Both Ends, a Dutch NGO also published a very critical report about the Dutch export credit insurance agency Atradius DSB, in which the screening procedure of projects was assessed as insufficient and not transparent (Both Ends 2013). An interview partner points out that regular monitoring is urgently needed but would be difficult to undertake in practice due to limited resources (Interview D9). As the procurement tied pillar of the Dutch Good Growth Fund will be implemented by Atradius DSB, transparency and accountability are even more topical now (MfA 2013c).

The influence of the Dutch business sector is demonstrated by the fact that its representatives have been advocating for the introduction of concessional financing in order to be competitive with other European companies, which have access to mixed credits (Werkgroep Exportfinanciering 2012: 38-45). As a result of these lobbying activities, the Dutch Good Growth Fund, which was mainly developed jointly with investment companies in 2013, has considered the Dutch business' interests by providing concessional loans for Dutch SMEs wishing to export in low and middle-income countries (MfA 2013c: 12-13).

In addition, this pillar of the DGGF is procurement tied to Dutch goods and services, which is sharply criticized by Dutch NGOs. Interestingly, the Dutch business representatives have never denied that they did not really want to give up the tied ORET-program, which was officially untied with its successor ORIO in 2009 (Werkgroep Exportfinanciering 2012: 7). Although VNO-NCW (the largest Dutch employer's organization) and Verkapex (Capital Exporters' Association) were involved in the design of ORIO, the government finally wanted to comply with the international discourse in untying aid (Interview D6).

Nevertheless, the Dutch business sector, namely VNO-NCW has strong ties to the government (e.g. Ministry of Economic Affairs), and in particular in the field of trade and aid.

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<sup>108</sup> Information Portal SEEK Development, Homepage, <http://donortracker.org/donor-profiles/netherlands/actors-decision-making>



Unsurprisingly, the Dutch business sector already played a catalyzing and leveraging role in the past (1960ies-1980ies) and demanded for instruments (e.g. mixed credits, ORET-program) which should generally help to promote the Dutch economy via the promotion of exports.

### **3.2.6.3. Transparency**

In order to increase insight into the implementation and effects of Dutch foreign policy, the Policy and Operations Evaluation Department (IOV/IOB) of the Ministry of Foreign Affairs (MfA) was established in 1977. IOB's mandate was extended from project and more comprehensive evaluations to cover the entire foreign policy of the Dutch government in 1996.<sup>109</sup>

IOB is an independent body, which also advises on the planning and implementation of evaluations that are within the responsibility of the ministry. IOB's evaluations provide targeted feedback and thereby enable the ministry to derive lessons for future policies. Furthermore, the ministry justifies to parliament its policies and the allocation of resources on the basis of these evaluations.<sup>110</sup>

An interviewed person confirms that IOB in general does a good job and thus, other stakeholders, e.g. universities, trade unions or other civil society actors have not done that much research and/or monitoring about mixed financing or tied aid in the past (Interview D2). In addition, it is important to note that the evaluations done by IOB are publicly available.

As IOB has its focus on impact evaluations, project evaluations are done by external agencies. NL Agency e.g. has contracts with several evaluation companies that monitor all ORIO-projects. Nevertheless, no civil society actors are involved at project-level (Interview D5).

The Dutch key implementing agencies FMO and NL Agency are rather reluctant to provide information at the level of concrete projects. Although e.g. FMO is not obliged to involve civil society stakeholder groups, the bank takes the view that it is important to make efforts to consider corresponding requests (Gütermann 2011: 192-193).

Civil society organizations still demand more transparency. Although various stakeholders have been consulted in the policy formulation phase of the Dutch Good Growth Fund, CSOs call for more stakeholder involvement in the realization of the fund. They point out that

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<sup>109</sup> IOB, Policy and Operations Evaluation Department of the MFA, Homepage <http://www.iob-evaluatie.nl/node/667>

<sup>110</sup> Dutch Ministry of Foreign Affairs, Homepage, <http://www.government.nl/ministries/bz/policy-and-budget/evaluation-of-foreign-policy-spending>

transparency and accountability are necessary, both on the project level and the decision-making level (Action Aid/Both Ends/Somo 2013: 3).

Furthermore, they would like to take the implementation of the DGGF as a starting point for a critical discussion about the goals, activities and impacts of bilateral development cooperation, in particular about the role of the private sector.

### **3.2.7. Conclusion and Outlook**

The Netherlands are a strongly export orientated country in which both foreign trade and development policy have always been important and intertwined policy fields. Their approach has also been described as a combination of 'the Merchant and the Clergyman', indicating that the Netherlands has a long colonial heritage, in-between trade and missionary zeal.

In the history of Dutch development cooperation, the Netherlands always had several motives for providing development aid. Using parts of its aid-budget to support Dutch business has until now always been a continuum. Therefore, the Netherlands have been providing mixed credits and/or low concessional loans for export transactions that were related to the development in the recipient country.

The establishment of the ORET-program mainly stopped these activities and provided grants instead of concessional financing from 1991 to 2007. This procurement tied program offered financing through a combination of ODA grants and officially guaranteed export credits. Although the Netherlands started reporting new commitments for ODA only for grants and not for loans in 1991, the resulting financing arrangement is similar to mixed credits or associated financing (Interview D5; OECD 2008: 14).

It is not a coincidence that the shift from loans to grants was proposed in the period of Jan Pronk, Minister for Development Cooperation between 1989 and 1998, who wanted to stop giving loans financed out of public funds and to restrict the Dutch development assistance to grants only. According to him, public debt of developing countries had grown out of proportions in the 1980ies so that debt refinancing took place out of development budgets which led to decreasing funds to be spent on social issues and direct poverty reduction (Interview D1).

Today, the Dutch Development Finance system is broadly drawn up by (revolving) funds and grant facilities. Most of these funds are commissioned by the Ministry of Foreign Affairs and implemented by FMO, the Dutch development bank. The officially not procurement tied grant facility ORIO, the successor of the ORET-program is implemented by NL Agency, a

department of the Ministry of Economic Affairs, and has been focused on financing public infrastructure projects by providing grants in combination with commercial loans since 2009.

The latest Dutch Development Policy document “A world to gain - A New Agenda for Aid, Trade and Investment” clearly points out that a greater emphasis will be placed on the economic view of development and the advantages of bilateral aid in terms of trading opportunities for Dutch businesses. The Ministry of Foreign Affairs is strongly targeted by these reforms because the Netherlands, which have traditionally provided a Minister for Development Cooperation, established a new cabinet-level post of a Minister for Foreign Trade and Development Cooperation in order to reinforce these two policy fields.

The establishment of the Dutch Good Growth Fund (DGGF), which will commence operations in July 2014, inter alia aims at stimulating finance for Dutch SMEs wishing to export to low and middle-income countries by providing loans, official export insurance as well as guarantees. The design of this procurement tied pillar indicates that the Dutch development policy is about to abandon the OECD-DAC agreement on untying aid (Action Aid/Both Ends/Somo 2013: 2-3).

The Dutch development cooperation has always had an outstanding credibility which was generally grounded in its responding positively to major challenges and in setting new trends. Thus, the Netherlands has also strongly committed itself to untie its development assistance within the last decade; in particular within the ORET-program they also have been providing an untied facility for LDCs from 2001/2 onwards.

Although the grant facility ORIO has officially been an untied program since 2009, Dutch companies have great informational and institutional advantages to be awarded a contract. As only a handful of projects are in the tendering phase for the construction, the award of contracts within ORIO has been particularly attractive to Dutch project developers, engineering firms and consultants, which have been involved in the development of identified projects (Carnegie Consult 2013: 7).

The fact that Dutch engineering consultancies often develop projects may finally lead to Dutch companies which will be awarded a contract after winning the International Competitive Bidding because the project including the tender documents could have been specified so as to facilitate the supply of Dutch companies' goods and services. In addition, final approval is given by ORIO asking for a statement of no objection before a company is being awarded by the project applicant.

ORIO generally emphasizes the ownership of the recipient country. Nevertheless, the idea of demand-driven projects is curtailed by numerous checks and balances ORIO asks for during

the whole life cycle of a given project. The grant payments e.g. do not go to the applicant of the given project, but are made directly to the suppliers of works, goods or services after the contract awarding (Interview D7). In addition, identified projects are very often developed by (mostly Dutch) companies and consultants. Obviously, frequently not recipient countries but private corporate actors are in the 'driver's seat' (Carnegie Consult 2013: 4).

The untied design of ORIO is not very appealing to an important part of Dutch business, in particular to suppliers of infrastructure. There are simply not enough companies participating in international tenders because of the resources needed for participation and the uncertainty of being awarded a contract (Interview D7).

A reform of ORIO was recommended in a review of the given program in fall 2013. One of the key recommendations is to streamline ORIO with other instruments, e.g. the Dutch Good Growth Fund (DGGF) and to align the interests with regard to development relevance with Dutch business and export financing. Further recommendations to reform ORIO e.g. include soft loans or direct loans as options (Carnegie Consult 2013: 8).

The recommendations of this review commissioned by the Ministry of Foreign Affairs and conducted by a consultancy suggest that the influence of the Dutch industry has not been reduced. Their lobbying had already been present within the ORET-program (1991-2007) and its predecessors (1979-1991). The establishment of the Dutch Good Growth Fund (DGGF) was also heavily accompanied by lobbying from the Dutch corporate sector:

In 2012, Dutch business representatives published a report about innovative export finance instruments. In this report, they state that the Ministry of Foreign Affairs was busy working on new instruments involving business development in the last years. They highlight that the ministry considered their commercial interests in the installment of new funds like the Infrastructure Development Fund (IDF) and the Access to Energy Fund (AEF) (Werkgroep Exportfinanciering 2012: 42).

Nevertheless, they clearly advocate the introduction of an effective and innovative instrument of concessional financing so that Dutch business will be able to compete with companies from other European countries, in which mixed credits are available. They argue that concessional loans particularly facilitate the financing of commercially non-viable infrastructure projects in civil engineering, which for the Dutch would be of particular relevance in the water sector (Werkgroep Exportfinanciering 2012: 38-45).

The Dutch civil society does not only heavily voice criticism about the recent general budget cuts in development cooperation but also argues that the demand for the new Dutch Good Growth Fund (DGGF) and its focus on private sector development have not been analyzed

thoroughly enough. Furthermore, the low transparency in the export credit insurance scheme (ECI) is criticized. As grants are often combined with commercial loans, for which the Dutch government provides ECI, civil society actors emphasize the urgent need for more transparency and accountability of sponsored projects (Interview D9).

Apart from human development, Dutch funds and facilities ultimately focus on contributing to private sector development and on stimulating the international business climate via infrastructure projects. Several NGOs have pointed out that development relevance should include more than enhancing employment, production capacity and foreign trade. Among them, strong doubts prevail whether businesses in developing countries and/or Dutch businesses should mainly be targeted as beneficiaries of bilateral aid (Action Aid/Both Ends/Somo 2013: 2-3).

Thus, Minister Ploumen's new portfolio which combines foreign trade and development cooperation makes transparency about the beneficiaries and the development relevance of the projects even more crucial in future. In sum, Dutch policy has changed dramatically and seems again to be oriented towards export finance.



## 4. Tabular Overview of the Case Study Results

Dimension	Germany	The Netherlands <sup>111</sup>
<b>Program Characteristics</b>	<p>The <b>Financial Cooperation</b> (FC) is part of Germany's official Development Cooperation. FC's main task is to support partner countries in the financing of projects or programs which have relevance for their development. The German Financial Cooperation provides various financial instruments for government or government-related enterprises in developing countries or emerging markets:</p> <p>Programs and projects are either purely financed from federal budget funds (non-repayable grants and/or loans at very advantageous standard conditions) or from a mixture of federal budget funds and loans raised at the capital market. These Development loans include Composite Financing, Low-Interest loans and Mixed Financing). In addition, loans at near-market conditions from pure capital market funds, so-called promotional loans, are offered.</p> <p>Contrary to the Technical Assistance, the Financial Cooperation is officially completely untied.</p>	<p>The Dutch Development Cooperation provides various <b>government funds and facilities</b> aiming to foster human development, private sector development and the involvement of international business.</p> <p>The Facility for Infrastructure Development (ORIO) is an untied grant facility that is "blended" by commercial loans, recipient's government funds or other donors' funds.</p> <p>The Infrastructure Development Fund (IDF) provides long-term financing for private and commercially viable infrastructure investments, e.g. in the form of associated financing.</p> <p>The Dutch Good Growth Fund (DGGF) which will start in July 2014, is a revolving fund providing loans, guarantees and equity investments.</p> <p>One of the three tracks of the DGGF is focused on stimulating finance for Dutch business wishing to export in low and middle-income countries by providing exports of capital goods and services.</p> <p>ORIO and IDF are officially untied programs since 2009 and off-shots of the former ORET program. However, ORIO grants are de facto procurement tied to Dutch goods and services.</p>

<sup>111</sup> Comparability with the German soft loan programs is limited by the fact that ORIO is officially a grant facility

Dimension	Germany	The Netherlands <sup>111</sup>
<b>Importance of the program in the development policy field</b>	<p>The Financial Cooperation is a highly important part of the German Development Cooperation. Apart from Technical Assistance (GIZ), FC instruments are the main pillar of bilateral cooperation.</p> <p>In 2012, in total EUR 4.9 billion funds were provided, which accounts for about 38% of total bilateral ODA. From this total sum, about EUR 1.6 billion are federal budget funds, delivered as grants or low-interest loans. The other EUR 3.3 billion are KfW funds which were raised at the capital markets. The share of Federal Budget Funds in total ODA – data is available from 2007 onwards – has only varied slightly; from 13.3% in 2007 to 16.3% in 2012.</p>	<p>The government funds of the official Dutch development cooperation are an important instrument in order to finance development related projects/programs/investments. In terms of money, ORIO provided EUR 90 million in the year 2013.</p> <p>IDF is a diversified revolving fund with over EUR 230 million assets in various infrastructure projects.</p> <p>The DGGF has a total investment capital of EUR 700 million, investing EUR 100 million in 2014 and 2015.</p> <p>In quantitative terms, these government funds are a comparatively small part of annual total bilateral ODA (2-4%)</p>
<b>Institutional Environment (entities politically responsible and in charge of administration; legal basis)</b>	<p>The Federal Ministry for Economic Cooperation and Development (BMZ) drives German development policy and financing. The KfW Entwicklungsbank (Development Bank), which works on behalf of the German federal government, is the executing agency of the BMZ and responsible for project appraisals and implementing projects under Financial Cooperation.</p> <p>Germany's Development Policy is not defined by law, but underpinned by the coalition agreement that covers each legislative period and the budget procedure. In addition, there are administrative rules and different policy documents that guide the BMZ, and the KfW Development Bank as executing agency.</p> <p>Intergovernmental agreements are signed by recipient countries and Germany and are the basis for further cooperation.</p> <p>Moreover, the federal government, represented by the Ministry of Finance guarantees for untied financial loans in the form of federal guarantees and sureties covering the</p>	<p>The Ministry of Foreign Affairs is politically responsible for the government funds ORIO, IDF and DGGF.</p> <p>The implementing agencies are FMO (Dutch Development Bank) and/or NL Agency. The latter is a division of the Ministry of Economic Affairs, which is another institutional key player.</p> <p>The Dutch ECA, Atradius Dutch State Business, provides export credit insurance.</p> <p>The Dutch development cooperation is not defined by law, but underpinned by the coalition agreement that covers each legislature period.</p> <p>The government facilities/funds are designed by the Ministry of Foreign Affairs in cooperation with various stakeholders (e.g. ORIO was designed together with the Ministry of Economic Affairs and the Dutch employer's organization VNO-NCW).</p>



Dimension	Germany	The Netherlands <sup>111</sup>
	risk of non-payment.	FMO and NL Agency are commissioned by the Ministry for Foreign Affairs; Atradius DSB is commissioned by the Ministry of Finance.
<b>Objectives of the Program</b>	<p>The German Financial Cooperation aims at supporting partner countries in the financing of large public infrastructure projects and programs that are relevant for their development and thus, based on country development and sector strategies and aligned with Germany's development policy including international agreements.</p> <p>In carrying out Financial Cooperation, Germany is engaged to strengthen the partner country's sense of ownership. In accordance with Germany's overarching development policy, the involvement of business actors and the focus on innovation, entrepreneurship and private sector development is clearly addressed.</p>	<p>The government funds ORIO and IDF aim at fostering human development and private sector development as well as stimulating the involvement of international business in order to benefit from the private sector's expertise.</p> <p>The DGGF puts its efforts in support of private-sector development and efforts to promote trade and investment</p> <p>The funds provide finance for projects/ programs for public infrastructure (ORIO), for private/commercial infrastructure (IDF) and development-related investments in and trade with low- and middle-income countries (DGGF).</p>
<b>Country Eligibility Criteria</b>	FC-Conditions are specified every beginning of the year by the Federal Ministry for Economic Cooperation and Development (BMZ) in coordination/consensus with the Federal Ministry of Finance (BMF), the Federal Ministry of Economics and Technology (BMWi) and the Federal Foreign Office (AA) with reference to the conditions set up by the World Bank.	The list of eligible countries including the ORIO-grant percentage is decided and reviewed semi-annually by the Ministry of Foreign Affairs and is based on the partner countries of the Dutch development cooperation in combination with some selected LDCs as well as emerging markets.
<b>Sector and Project Eligibility Criteria</b>	<p>German Financial Cooperation is based on the Programming of the Official German Bilateral Cooperation; in particular on the country strategies of the BMZ and therein formulated priority sectors (no more than three) and on the partner country's development strategies.</p> <p>Once a project or a program is proposed, the KfW Development Bank issues a brief statement of opinion (feasibility; economic viability; social, cultural and ecological aspects; developmental orientation of a potential project,</p>	<p>According to the formal requirements for an ORIO-grant projects must be commercially non-viable; which is assessed using the OECD 'Ex Ante Guidance for Tied Aid'. The project costs must amount to at least between EUR 2 million and must not exceed EUR 60 million per application. Further, e.g. the procurement of goods and services for the project must comply with the recipient country's legislation and international procurement practices.</p> <p>The project has to be (1) relevant; (2) effective; (3) an</p>

Dimension	Germany	The Netherlands <sup>111</sup>
	<p>possible risks).</p> <p>These brief statements of opinion are the basis for the intergovernmental agreements, in which the understanding on the maximum amount that may be available by the Federal Government and on what terms and conditions is signed by both parties.</p>	<p>impact on human development and/or private sector development; (4) efficient; (5) sustainable; (6) economically viable</p>
<b>Assessment of Expected Developmental Impact (Methodology)</b>	<p>On the basis of inter-governmental agreements and brief statements of opinions, the KfW Development Bank conducts on-site appraisals along internal and confidential guidelines which are similar to the audits done by the World Bank. The appraisal includes field trips and is generally done along the logframe matrix and corresponding indicators:</p> <ul style="list-style-type: none"> <li>(a) the proof of necessity of the given project or program; e.g. in the form of a sectoral or regional analysis</li> <li>(b) the conceptualization, the design and technical characteristics including opportunities to cooperate with the private sector</li> <li>(c) relevant legal basis; organization, management and economic conditions of the project executing partner</li> <li>(d) total costs and the financing of these costs, human and material supplies as well as financial contributions of each single stakeholder</li> <li>(e) Macroeconomic, socio-economic and socio-cultural impacts, gender aspects and environmental and</li> </ul>	<p>ORIO's application procedure includes an intake form, in which detailed information about the effects on human development and private sector development has to be provided for along the project results chain.</p> <p>In order to obtain an ORIO grant for the development phase, projects are assessed on the basis of five OECD/DAC criteria: relevance, effectiveness, impact, efficiency and sustainability.</p> <p>E.g. Sustainability considers (1) No, or mitigated, negative social or environmental consequences; (2) Financial sustainability; (3) Involved parties are capable and have the capacity to carry out the project; (4) Suitable technology; (5) Consistent with national/regional development policy; (6) Institutional, financial and legal factors have been taken into account and (7) End users are involved.</p>

Dimension	Germany	The Netherlands <sup>111</sup>
	social compatibility; economic aspects, operational and commercial risks, the target group's attitude towards the project	
<b>Project Approval</b>	Once the appraisal report is done and positively assessed by the KfW Development Bank, the country desks (Länderreferate) of the Federal Ministry of Economic Cooperation and Development (BMZ) normally approve the developmental criteria of the project appraisal as well as the proposal for funding. Here adaptations or changes regarding the developmental orientation of the project or the funding proposal could be called by the BMZ because the ministry gives the final approval for funding. The country desks' staff is public civil servants from the Ministry and thus, includes state-internal experts. No other (political) stakeholders are officially involved.	During this assessment procedure NL Agency takes advice from the ORIO Advisory Committee (AC) named ACORIO. This advisory board includes five stakeholders; among them are experts in the field of banking, science, contractors and engineering consultancy services. ACORIO in principle decides unanimously. Formally final approval is given by the Minister for Foreign Trade and Development Cooperation.
<b>Stakeholder Involvement</b>	Projects to be promoted with FC funds are devised jointly by the German government and the government of the partner country. Before these negotiations start or final approvals are given, the BMZ regularly invites civil society actors to stakeholder consultations in which individual partner countries are the subject for debate.	Dutch government funds do not provide for stakeholder consultations with the public or civil society on the level of concrete projects. Dutch embassies are strongly involved in consulting and informing the implementing agencies NL Agency or FMO. When new funds are about to be established, like the DGGF, then hearings take place in parliament.
<b>Role of the Partner Country in the System</b>	Ownership and Commitment of the partner country are pointed out as main principles in order to carry out German Financial Cooperation. Thus, in principle the recipients themselves propose projects and programs within the framework of bilateral negotiations and agreements. De facto no single FC-proposal is financed without an injection of own resources by the partner country. In addition, recipients are responsible for the tendering and the contract management. The involvement of the KfW Development Bank depends to a large extent on the capabilities of the given country. Nevertheless, key procedures are	Ownership of the partner country is key when implementing projects funded with government funds like ORIO. The recipient country's government or competent authority is project owner and obliged to finance the non-grant part. Recipients regularly need assistance in financing this part of a project. In general, (Dutch) companies are important drivers in proposing new projects. Although the recipient country is responsible for the tendering including the contract management, NL Agency supervises main procedures via their embassies or hired consultant engineers and has to be consulted regularly for a statement

Dimension	Germany	The Netherlands <sup>111</sup>
	supervised by a consultant and drafts of tender documents or contracts have to be sent to the KfW for review and for a statement of no objection.	of no objection in key decisions that have to be taken.
<b>Project Monitoring</b>	The KfW Development Bank monitors the progress of the measures financed with FC funds until the given project or program will be brought into service. The monitoring includes reviewing the progress of outstanding action and considers the latest development in the given sector; the impacts of the implemented actions; compliance with planning and financing; potential difficulties which have occurred during the implementation; potential modification of framework conditions and/or recommendations.	The Policy and Operations Evaluation Department of the Ministry of Foreign Affairs (IOB/IOV) has designed a monitoring & evaluation system for ORIO which has not been executed yet. Nevertheless, internal accountability is provided via reviews, semi annually and yearly reports about the progress of a corresponding project.
<b>Project-Level Evaluation (ex-post)</b>	<p>Two up to five years after a project or program has been implemented or has become operational, the KfW Development Bank generally conducts evaluations of these measures and activities.</p> <p>This so-called ex-post evaluation is carried out in order to analyze whether the expected developmental impacts of a given project have actually been achieved and whether they have initiated a sustainable development process. Aspects being evaluated consider the whole project cycle, the environment, the partner and involved agencies as well as the target group.</p> <p>The evaluations are done by the Evaluation Department of the KfW Development Bank or by assigned external consultants.</p> <p>The Evaluation Department moved away from assessing every single project in 2007; since then a representative sample of individual projects is submitted for ex-post evaluation. About two thirds of all evaluations are done by the KfW Development Bank; one third of the sample is conducted by external consultants.</p>	Evaluations are carried out or outsourced by NL Agency in cooperation with the recipient country.

Dimension	Germany	The Netherlands <sup>111</sup>
<b>Program-Level Evaluation</b>	DEval intends to conduct an overarching evaluation of all FC Funds in 2015 (which has been planned for 2013 but then postponed to 2015). In this first evaluation about FC, instruments of financial cooperation leveraging capital market funds by German state funding will be evaluated.	A program review of ORIO was done in autumn 2013 by Carnegie Consulting commissioned by the Ministry of Foreign Affairs. ORIO will be reformed upon these policy recommendations. Further, ORIO is being evaluated by IOB in the year 2015.
<b>Transparency and Accountability</b>	<p>In order to be transparent, overall press information about FC projects is published online by the BMZ after the intergovernmental agreements are signed. Further, information is publicly available to the public once the loan agreement of a concrete project has been signed.</p> <p>The KfW Development Bank recently made efforts to improve its transparency with the launch of an online transparency portal. The portal is complete since January 2014 and provides information about partner countries, sectors, sources of funding and evaluation results from 2007 onwards including a project database with details on projects signed since 2013. The portal is an important, but long overdue step. However, detailed development-related, e.g. concrete financing conditions, is not publicly available. The BMZ has reporting duties to the parliament. In addition, the Federal Court of Auditors regularly audits the financial management of the Federal government, its ministries and executing agencies. Thus, the BMZ and the KfW Development Bank are quite regularly monitored. The Bank is also continuously supervised by the private auditing company PWC.</p> <p>The role of the German civil society is more strongly focused on the export credit transactions. Here, the KfW IPEX-Bank, one of the KfW Banking Group's subsidiaries is regularly criticized.</p>	NL Agency is obligated to report the Ministry of Foreign Affairs about the progress of corresponding ORIO projects. The Ministry has reporting duties to the parliament. Within the House of Representatives, the Committee for Foreign Affairs deals with development cooperation and thus, scrutinizes the government's development policy in general, budget allocations as well as the concrete design of funds/facilities. Further, the parliament can amend governmental policies and has the right to introduce motions.



## **5. Analysis from a State-Theoretical Perspective**

Before concluding I will analyze the results of the case studies from Germany and the Netherlands from a state-theoretical point of view; mostly referring to Nicos Poulantzas on the state as a social relation and to Bob Jessop, who carried on with Poulantzas's ideas and developed his own approach of the strategic-relational selectivity of the state (see chapter 2).

Though 'soft loan policies' were mainly designed in order to finance public infrastructure projects in developing and transition countries, this instrument of development finance clearly addresses the needs of other stakeholders than the corresponding beneficiaries in recipient countries. One of research findings illustrates that concessional financing is embedded in an institutional environment that is characterized by a relatively strong influence of the business sector in both analyzed donor countries.

### **5.1. Between Export Promotion and Development Policy**

Apart from the 1990ies when Jan Pronk was Minister for Development Cooperation in the Netherlands, the influence of Dutch business on the Dutch development cooperation policy instruments has always been relatively strong. One of the main objectives of the ORET-program, the predecessor of ORIO, has explicitly been the promotion of Dutch exports. Though ORIO is officially an untied facility, Dutch business is closely involved in the development and implementation of projects (Interview D7).

From a state-theoretical perspective, the Dutch business sector forms part of the bourgeoisie which has to be organized by the state due to its constitutively divided character. Poulantzas explains that because of the economic relations of productions, all capitalists are in competition with each other, which in consequence makes the bourgeoisie unable to reign on its own (Jessop 1999: 47-48).

The unity of the bourgeoisie as reigning class is organized by the state and his agents in the power bloc, in which different fractions of the bourgeoisie form an alliance. In order to establish hegemony, the power bloc has to make material concessions towards the subordinated classes meaning e.g. Dutch labor unions and NGOs such as Both Ends, Action Aid and/or Somo.

These material concessions are conceptualized in the form of giving more say to NGOs and other stakeholders, e.g. development experts (science) as well as considering a certain developmental orientation in the development policy instruments. Although the Dutch development cooperation is undergoing remarkable changes towards export promotion, the

above-mentioned stakeholders regularly manage to raise their voice in parliamentary discussions (Interview D2, D9).

Nevertheless, an interviewed stakeholder confirms that critical remarks are only allowed to a certain degree because otherwise that person will not be consulted next time (Interview D2). To put it differently, power constellations are clearly in favor of the bourgeoisie, which are represented in Dutch development cooperation by Dutch business, its key representatives (VNO-NCW, Verkapex and Werkgroep Exportfinanciering) and the corresponding ministries (Ministry for Economic Affairs, Ministry of Finance).

In comparison, in Germany, fostering foreign trade policy was the principal motive that triggered Germany to provide development assistance back in the 1950ies. The Federal Ministry for Economic Cooperation, which was established in 1962, illustrates its main duty; 'Development' was only explicitly considered in 1993 as the Ministry was renamed into Federal Ministry for Economic Cooperation and Development.

Apart from the first years in the 1970ies when Minister Eppler succeeded in constituting development policy as a relatively autonomous policy field, German development cooperation has been subordinated to and exploited by economic and foreign policy; in recent years in particular defense and security policy was a major point of conflict.

In particular, Poulantzas considers the state as a 'strategic field' in which different apparatuses, sections and levels serve as power centers for different fractions or fractional alliances within a so-called power bloc and/or as centers of resistance for different elements among the popular masses (Jessop 1999: 48).

German companies and its representative associations form part of the bourgeoisie, which is divided in different fractions and alliances. Although the national bourgeoisie is rather represented by the associations DIHK and VBI, whereas BDI more strongly represents the internal bourgeoisie, these various fractions of the capitalist class as well as other powerful classes come together and form their long-term strategies and alliances in the so-called power bloc.

These alliances include that apparatuses such as the KfW Development Bank are strongly influenced by the bourgeoisie and their representatives. Members of the Board of Supervisory Directors include inter alia representatives of the corresponding ministries (BMW, BMF and BMZ), business associations (BDI, DIHK, DBV) and banks.

From a state-theoretical point of view, trade unions such as the DGB form part of the supervisory board of the KfW Group due to a compromise between representatives of employers and employees. This historical hard won compromise was extracted by German



trade unions in order to represent the interests of employees in the supervisory boards of German companies.

History reveals that this compromise has in turn led to situations in which trade unions' representatives, certain fractions, have partly been co-opted by the bourgeoisie. On the other hand, it has to be assumed that trade unions in general prioritize employment creation over development policy.

## **5.2. Dutch Agenda for Aid, Trade and Investment**

According to Poulantzas, the strategic selectivity of policies is shaped by interactions between apparatuses with very different interests and imperatives; in other words policy is not only strategic calculation but even more the result of a conflictual coordination of explicit and divergent micro-policies. Thus, soft loan policies must be conceptualized as the results not only of political developments beyond the state but also of often contradictory processes within it (Nelson 2013: 4-6).

The strategic-relational selectivity of the state may be illustrated by the latest strategic Dutch policy document titled 'A world to gain - A new Agenda for Aid, Trade and Development'. Considering this policy, which guides the Dutch development cooperation, a greater emphasis will be placed on an economic view of development and the advantages of bilateral aid in terms of trading opportunities for Dutch businesses in the coming years.

Although the Dutch Ministry of Foreign Affairs is the key actor and formally responsible for development policy formulation as well as their implementation via executing agencies, the power and influence of the Ministry for Economic Affairs has steadily grown within the last years. Importantly, the Ministry for Economic Affairs and the Ministry of Agriculture, Nature and Food Quality were merged in 2010 to one ministry, which increased its thematic scope (agriculture, livestock and energy) as well as its power and influence.

The influence of the Ministry for Economic Affairs and Dutch business is demonstrated by the fact that they both were involved in the design of ORIO as well as of the recently established DGGF which will become fully operational in July 2014. In addition, the Dutch business sector successfully managed to advocate for the introduction of concessional financing in order to be competitive with other European companies, which have access to mixed credits. In particular, the Topsector Water initiative has recently lobbied for funding of water related projects.<sup>112</sup>

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<sup>112</sup> Topsector Water, Homepage, <http://www.topsectorwater.nl/en/>

From a state-theoretical perspective, current policies of the state are not only a result of inner-state contradictions between the state apparatuses and branches, but are also a result of contradictions within these state apparatuses and branches (Poulantzas 2002: 165).

The Netherlands has exclusively had a Minister for Development Cooperation since the 1960ies; whereas the current Minister Ploumen has to align foreign trade and development cooperation because in 2012 the Dutch government decided to more strongly combine these two policy fields in the position of the Minister in charge of foreign trade and development cooperation.

Importantly, an interview partner confirms that the development expertise of the Ministry of Foreign Affairs' staff was higher earlier on. Further, this person states that not all employees agree with the new agenda on aid, trade and investment, which indicates that there are contradictions within the ministry and corresponding branches – development cooperation and foreign trade/promotion of exports – as well as between corresponding state apparatuses; namely the Ministry of Foreign Affairs and the Ministry of Economic Affairs (Interview D2).

The strategic selectivity of policies is further well illustrated by the implementing agency of the Dutch infrastructure facility ORIO. NL Agency, which is part of the Ministry of Economic Affairs, has been implementing ORIO since its establishment in 2009; a fact that tends to reinforce the impression that the economic view of development and the advantages of bilateral aid in terms of trading opportunities for Dutch businesses are becoming more important.

These findings are further confirmed by the number of international trade missions of Dutch companies which increased to 29 and thus marks a sharp increase on previous years when the count never rose to 20. According to a press release of the Ministry of Foreign Affairs, the strategic program of visits was tailored more closely than previously to the wishes of the business sector, in consultation with VNO-NCW and the SME association MKB-Nederland.<sup>113</sup>

Jessop argues that the access of single actors to the state, respectively state apparatuses is asymmetrical. Based on Poulantzas, Jessop confirms, that this access is inscribed into the material structure and the strategic orientations of the state. In short, particular interests are privileged. This strategic selectivity finally makes some regimes and policies more likely than others (Jessop 1999: 51)

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<sup>113</sup> Ministry of Foreign Affairs, Homepage, [www.government.nl/ministries/bz/news/2013/12/19/sharp-increase-in-trade-missions.html](http://www.government.nl/ministries/bz/news/2013/12/19/sharp-increase-in-trade-missions.html)

Considering Jessop's point of view, it has to be mentioned that Dutch development cooperation has recently undergone remarkable changes which are inter alia contrary to international efforts on untying aid and may partly be explained by the lobbying activities of Dutch business: One of the pillars of the newly established Dutch Good Growth Fund is tied to goods and services procured by Dutch companies.

Interestingly, Dutch business and their representatives never denied that they did not really want to give up the tied ORET-program, while its successor ORIO became untied in 2009. The establishment of ORIO was as well accompanied by VNO-NCW; nevertheless ORIO became operational as an untied infrastructure facility which helped the Dutch government to officially comply with the international discourse.

It can be suggested that the influence of the Dutch business sector in the design of the DGGF was successful because of the virulent problems of ORIO which became apparent with its review, done in autumn 2013 and thus improved the position of Dutch business and their representatives to influence the design of the DGGF.

### **5.3. German Financial Cooperation for Development**

Poulantzas points out that the strategic selectivity of the capitalist state favors the dominant class due to the hierarchy of interactions which establish "a whole chain whereby certain apparatuses are subordinated to others, and through the domination of a particular apparatus or branch (such as the military, a political party or a ministry) which crystallizes the interests of a particular hegemonic fraction." (Poulantzas quoted in Nelson 2013: 4).

Taking Poulantzas's ideas about the strategic selectivity of the state into account, it has to be stated that in Germany, the Ministry for Economic Cooperation and Development is de facto subordinated to the Ministry of Economic Affairs, which aims at fostering foreign trade, but also to the Ministry of Defense due to the German military and security interests.<sup>114</sup> Further, the German coalition negotiations between CDU/CSU and SPD in autumn 2013 underlined that development cooperation is not amongst the high priority issues; in the case of the BMZ it was not decided until the last few days which party will get this ministry.<sup>115</sup>

In the BMZ, the interests of the current hegemonic fraction were notably represented by the former Minister for Economic Cooperation and Development, Dirk Niebel (FDP, 2009-2013). Under Niebel's era, German bilateral cooperation had its focus on fostering economic development which included the aim to improve the relationship between foreign trade and

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<sup>114</sup> Die ZEIT, German Newspaper; Homepage, [http://www.zeit.de/2003/30/Entwicklungspol\\_](http://www.zeit.de/2003/30/Entwicklungspol_)

<sup>115</sup> Der SPIEGEL, German Magazine; Homepage, <http://www.spiegel.de/politik/deutschland/csu-politiker-gerd-mueller-als-entwicklungsminister-im-gespraech-a-939144.html>

development cooperation. The economic liberal orientation which development cooperation should pursue in the next years is clearly addressed in the latest strategic German development policy document, called 'Minds for Change' (BMZ 2011).

The professional background of the current Minister for Economic Cooperation and Development, Gerd Müller (CSU) illustrates that the interests of the bourgeoisie will continuously be represented in the years to come. Being honorary professor for International Agricultural Policy since 2009, he repeatedly highlighted the revenues which are earned by the German agro-industrial sector in foreign markets. This indicates that Müller may further strengthen the role of export promotion for German products in international agricultural policy rather than supporting smallholder farmers in partner countries.<sup>116</sup>

With regard to the strategic-relational selectivity, Jessop explains that "the state is an ensemble of power centers that offer unequal chances to different forces within and outside the state to act for different political purposes. How far and in what ways their powers (...) are actualized depends on the action, reaction, and interaction of specific social forces located both within and beyond this complex ensemble." (Jessop 2010: 37).

Considering Jessop's argument that power of the state apparatus is always activated through the agency of definite political forces in specific conjunctures it is important to note that under Niebel's era the BMZ was strengthened with the addition of 196 new jobs (this represents an unprecedented increase in the staffing level of 30%). German NGOs as well as parties from the opposition critically remarked that most of the hired employees were related to the FDP.<sup>117</sup>

Moreover, Niebel established so-called EZ-scouts in order to advise member companies of industry associations and chambers of industry and commerce about the services available to support development-related investment by the German private sector (BMZ 2013a: 17). On the other hand, German business representatives (BDI, VBI) were regularly consulted by the BMZ in order to discuss options regarding the greater involvement of German business in bilateral and sectoral development cooperation.<sup>118</sup>

German NGOs regularly criticized the strong(er) promotion of foreign trade in order to prevent fostering the involvement of Germany's business sector within the official German development cooperation. Nevertheless, the role of German NGOs is more strongly focused on monitoring the exports and projects which are financed by the KfW IPEX-Bank than the

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<sup>116</sup> DIE ZEIT, Newspaper, Homepage,

<http://www.zeit.de/politik/deutschland/2013-12/gerd-mueller-minister-entwicklungshilfe>

<sup>117</sup> DIE ZEIT, Newspaper, Homepage,

<http://www.zeit.de/politik/deutschland/2013-05/niebel-entwicklungsministerium-fdp-posten>

<sup>118</sup> VBI, Association for Consulting Engineers, Homepage,

<http://www.vbi.de/aktuelles/newsletter/news/bdi-arbeitskreis-entwicklungspolitik-unter-vbi-vorsitz/>

activities of the KfW Development Bank within German Financial Cooperation. Erlassjahr is one of the few NGOs, which started to monitor the mixed financing activities within Financial Cooperation (Erlassjahr 2013).

Poulantzas argues that instead of advancing their long-term political interests, subordinated classes such as NGOs and other social movements are able to force material and ideological concessions from the bourgeoisie which is in need of their consent in order to establish a hegemonic constellation (Poulantzas 2002: 174). It seems reasonable to assume that the fact that BMZ and the KfW started to consider the compliance with environmental and social standards more seriously results from a compromise between the dominant and subordinated classes (Interview C2).

Moreover, the transparency portal, which was recently launched by the KfW Development Bank may be interpreted as another material concession which finally enables the bourgeoisie to maintain their power via their fractions and alliances within the power bloc and to strengthen the current hegemonic constellation.

#### **5.4. Who profits from Dutch Development Cooperation?**

In order to understand the successful lobbying activities of the Dutch business sector it is important to note that from a state-theoretical perspective state power is not exercised by itself, but via its apparatuses, institutions and agencies. Moreover, it is crucial that always a set of politicians, state personnel and other political forces activate specific powers and state capacities inscribed in particular institutions and agencies (Jessop 2010: 37).

Approaching the current conjuncture in Dutch development cooperation, it has to be addressed that the room for maneuver of definite political forces such as the VNO-NCW and other representatives of Dutch business is facilitated by specific powers in state apparatuses such as ministries (Ministry of Foreign Affairs, Ministry of Economic Affairs) and essentially depend on the composition of the government (Prime Minister Rutte (VDA) in power since 2010, reelected in 2012) including key positions in corresponding ministries (state personnel).

The material concessions which are enforced by the subordinated groups ('subalterns', e.g. NGOs) are of main importance in order to establish hegemony. Gramsci argues that hegemony is a modus of exercising power, in which the consent of essential parts of the population, including the subalterns, to the prevailing power relations, has to be organized (Opratko 2012: 188-190).

From a state-theoretical point of view one could argue that the hegemonic constellation in the Dutch development cooperation has been oriented towards export promotion and foreign trade. This strategic selectivity is mainly a result of the materiality of the government and key state apparatuses such as the Ministry of Economic Affairs including the specific representation of particular interests within these apparatuses, in particular in the Ministry of Foreign Affairs.

Although the Infrastructure Facility ORIO is *de iure* an untied program, Dutch companies have great informational and institutional advantages to be awarded a contract. As only a handful of projects are in the tendering phase for the construction, the award of contracts within ORIO has been particularly attractive to Dutch project developers, engineering firms and consultants, which have been involved in the development of identified projects (Carnegie Consult 2013: 7).

Gramsci explains that hegemony always means the ability of the dominant classes to enforce their interests by establishing them as interests of general concern and in this way as interests of the subordinated classes. In the Dutch development cooperation, subordinated groups such as NGOs, labor unions and science representatives form part of the current hegemonic constellation via material concessions which they have forced from the bourgeoisie.

According to an interview partner, the general relatively good job, IOB, the Policy and Operations Evaluation Department of the Ministry of Foreign Affairs, did by evaluating ORET and other programs, contributed to the fact that universities, NGOs and other relevant organizations did not advocate and/or analyze Dutch facilities and funds in further detail (Interview D2). In addition, Dutch NGOs lack corresponding resources in order to seriously monitor the activities of the Ministry of Foreign Affairs' implementing agencies such as FMO or NL Agency (Gütermann 2011: 80).

Nevertheless, the changes, which have recently happened in Dutch development cooperation, led to sharp criticism by Dutch NGOs and development experts; in particular the design and establishment of the Dutch Good Growth Fund was heavily criticized. Additionally, the Dutch ECA, Atradius DSB and its activities have been under close scrutiny, which led the Dutch NGO Both Ends to point out that more transparency is needed in the field of foreign trade and promotions of exports.

In conclusion, Dutch business interests have gained much more influence in Dutch development cooperation within the last years. Although the current power bloc lost some of its dominance due to the 'centers of resistance' such as Dutch NGOs and development experts (science), the hegemonic constellation did not change considerably. While Dutch

trade unions are primarily focused on safeguarding and creating jobs, NGOs and science representatives are rather involved via parliamentary debates.

## **5.5. German Financial Cooperation – Enhancing (business) opportunities?**

From a state-theoretical perspective it is important to point out that although the German Financial Cooperation is officially untied to goods and services procured in Germany, approximately 60% of all project deliverables, which have to be tendered internationally, are awarded to German companies (Seebens 2012). Interview partners and official stakeholders in particular refer to the international competitiveness as the main reason for this high volume and add that a lot of project components, especially consultancy and advisory activities, need comprehensive know-how and sufficient experience (Interview C1, C4).

Importantly, Jessop argues that the nature and extent of state powers depend on structural relations between the state and its encompassing political system, strategic ties among politicians, state officials and other forces, and the complex web of structural interdependencies and strategic networks that link this state system to its broader social environment (Jessop 2010: 37).

One of the main findings of the German case study reveals that exactly these structural relations between the state and its encompassing political system and the strategic ties between parties, business associations, politicians, state officials and other forces constitute the German Financial Cooperation and thus, finally the German development cooperation.

In concrete terms, the German Financial Cooperation may officially be untied to goods and services from Germany. Nevertheless, several mechanisms are in place which facilitate the supply of goods and services from Germany or other industrial countries, mainly because of informational and institutional advantages which have nothing to do with the competitive advantage of the German or European Economy in general.

As a result of tight public budgets, within the German Financial Cooperation budget funds were extensively leveraged with funds raised at the capital markets in the last years. According to officials, this development policy orientation is based on the experience that giving loans instead of grants provides better incentives for structural reforms in debt-sustainable countries as well as the efficient and effective use of funds. In addition, they state that leveraging budget funds creates the financial leeway for providing pure grants for LDCs (AWZ 2010: 5).

The fact that these different forms of mixed financing are eligible to be counted as ODA has been comprehensively criticized on quite a few occasions at national and at international level. In addition, Germany's strategy to work more strongly with emerging economies has been sharply criticized by German NGOs. They stress that such a development policy which almost exclusively focuses on emerging economies – and on countries which graduated from 'soft loan financing' – will leave fewer funds for LDCs; and will prioritize export promotion rather than poverty reduction in partner countries (Reuke/Grohse 2013: 2).

Despite this criticism, innovative finance instruments will remain an important pillar within Germany's Financial Cooperation. Key stakeholders (BMZ, KfW Development Bank) prefer to foster innovative finance instruments, in particular with regard to the current discussions on Financing for Development in the context of the Post-2015 Development Agenda at UN level as well as the discussion on the future of ODA in the OECD/DAC.

In sum, the dominant role of private capital, the German focus on foreign trade and export promotion as well as the stronger cooperation with the private sector in general indicates a hegemonic constellation that is in favor of the bourgeoisie. Unlike the interests of the trade unions, which rather focus on creating and safeguarding jobs, NGOs are the fraction within the subordinated classes which resist. Nevertheless, they are more focused on monitoring export promotion activities than soft loans or more generally, concessional financing within the German Financial Cooperation.



## 6. Conclusion

The main aim of this diploma thesis has been to analyze the developmental orientation of soft loan policies, mainly from a state-theoretical perspective. In order to answer this study's research question, I will deal in conclusion with the importance of development goals in the soft loan policies of selected European countries, namely Germany and the Netherlands.

Soft loan policies and more general, concessional financing are mainly used to finance commercially non-viable projects in public sectors such as transport, water and sanitation, education, health, social welfare or public safety. Although this instrument is intertwined between export promotion and development policy, the analyzed programs officially exclusively aim at contributing to the economic and social development in recipient countries.

One of the main findings of this diploma thesis is that because of the lack of public resources and the graduation of key recipient countries of the programs, OECD donor countries have tried to reform their development finance instruments, including soft loans, with the aim of increasing the leverage of public funds with private capital. Both Germany and the Netherlands are part of this overall trend towards shifting the focus on the investment/involvement of the private sector within the official bilateral development cooperation.

In particular, within Germany's Financial Cooperation concessional financing and promotional loans have increasingly been used in recent years. The funds, which were raised by the KfW Development Bank at the capital markets, have dramatically increased the leverage of development loans. While the leverage ratio (total KfW funds to total budget funds) was 7:1 in 2009, the analysis suggests that the leverage nearly doubled to 13:1 in 2012.

This is partly a reflection of Germany's strategy to work with emerging economies and its development policy focusing on global public goods such as climate change. The fact, that these loans are eligible to be counted as ODA has been comprehensively criticized on quite a few occasions by German NGOs, and other critical voices (e.g. Richard Manning, former DAC chairman). This criticism in turn has triggered a debate on the future of ODA in the OECD/DAC which will have important repercussions also for soft loans, and more generally, for concessional financing.

Quite to the contrary, the official Dutch development cooperation is currently undergoing a more far-reaching reform. Considering the current development policy in the Netherlands, which is guided by the strategic policy document 'A world to gain - A New Agenda for Aid,

Trade and Investment' (2013) a greater emphasis will clearly be placed on an economic view of development and the advantages of bilateral aid in terms of trading opportunities for Dutch businesses in the coming years.

Although the historical analysis reveals that the Dutch industry and business sectors have continuously been involved in development cooperation in the past, it can be concluded that their influence on relevant state apparatuses has grown much stronger in recent years. As a result, the Dutch government established a new cabinet-level post of a Minister for Foreign Trade and Development Cooperation in order to strengthen the synergies of these two policy fields.

From a state-theoretical perspective it can be assumed that the design of the Dutch Good Growth Fund (DGGF) can be partly explained by the relatively successful lobbying from Dutch business and its representatives. In order to be competitive with other European companies, which have access to mixed credits, they advocated for concessional financing, which became the fund's third pillar.

Most surprisingly, the design of this procurement tied pillar of the DGGF indicates that the Dutch development policy is about to abandon the OECD-DAC agreement on untying aid. Whereas the Dutch government managed to untie the Infrastructure Facility ORIO in 2009 although Dutch business never denied that they would prefer the tied variant, the establishment of the DGGF was accompanied most heavily by key actors (e.g. Ministry for Economic Affairs, VNO-NCW and investment companies) who lobbied for the close synergy between foreign trade and development cooperation.

In sum, it has to be highlighted that ORIO and corresponding Dutch programs seem again to be oriented towards export finance. In order to assess the developmental orientation from a state theoretical point of view one has to consider the critique of Dutch NGOs which point out that development relevance should include more than enhancing employment, production capacity and foreign trade.

In more detail, the low transparency of the export credit insurance scheme is particularly criticized by Dutch NGOs. Due to the fact that the Netherlands currently provide grants which are often combined with commercial loans, for which the Dutch government provides ECI, NGOs emphasize the urgent need for more transparency and accountability of sponsored projects.

Among Dutch NGOs, which in their majority represent the subordinated classes in the current power bloc, strong doubts prevail whether Dutch businesses should be targeted as beneficiaries of bilateral development cooperation. From their point of view, more

transparency is urgently needed in order to prevent that development projects will be even more framed by economic views, export promotion and foreign trade interests.

In Germany, quite similarly to the Netherlands, the influence of national business sectors on development cooperation is large. Though the German Financial Cooperation is institutionally separated from export financing, German business is institutionally represented (BDI, VBI and DIHK) in different state apparatuses – corresponding ministries (BMZ, BMWi, BMF) and banks (KfW Group) – which enable them to influence relevant policies for their commercial benefit.

Unlike the Netherlands, one interviewee denies that German business has commercial interests in the official German development cooperation. Moreover, my impression is that German stakeholders and officials are rather reluctant to state that the German government and its corresponding ministries/agencies have created a range of services to encourage companies to make use of the opportunities for development policy engagement; in particular under the last Minister for Economic Cooperation and Development.

The German Financial Cooperation is de iure not tied to the procurement of goods and services from German companies. Nevertheless, about 60% of all project deliverables, which have to be tendered internationally, are awarded to German companies.

Stakeholders prefer to refer to the international competitiveness as the main reason for this high volume and add that a lot of project components, especially consultancy and advisory activities, need comprehensive know-how and sufficient experience. Importantly, another key finding of this study illustrates that informational and institutional advantages, which have nothing to do with the competitive advantage of the German or European Economy in general, facilitate the supply of goods and services from Germany or other industrial countries.

In the Netherlands, similar mechanisms are in place: Though the grant facility ORIO has officially been an untied program since 2009, Dutch companies have great informational and institutional advantages to be awarded a contract. The fact that Dutch engineering consultancies often develop projects may finally lead to Dutch companies which will be awarded a contract after winning the International Competitive Bidding because the project including the tender documents might have been specified so as to facilitate the supply of Dutch companies' goods and services.

Ownership of recipient countries is a key priority in both analyzed donor countries. Nevertheless, results of both case studies demonstrate that the idea of demand-driven projects is curtailed by numerous checks and balances for which the corresponding

programs ask for during the whole life cycle of a given project; e.g. the ORIO grant payments do not go to the applicant of the given project, but are made directly to the suppliers of works, goods or services after the contract awarding.

In Germany, NGOs are strongly focused on monitoring export financing, which is mainly implemented by the KfW IPEX-Bank, another subsidiary of the KfW Banking Group. Thus, German NGOs are not that much of a watchdog of development finance activities. Nevertheless, the BMZ including the KfW Development Bank as implementing agency have been sharply criticized for leveraging budget funds with private capital within German Financial Cooperation.

From a state-theoretical point of view, the dominant role of private capital (which is used to leverage budget funds), the focus on foreign trade and export promotion as well as the stronger cooperation with the private sector in general can be analyzed as a hegemonic constellation.

Further, it has to be assumed that subordinated classes in Germany are divided in fractions such as trade unions which are partly co-opted by the bourgeoisie. Unlike the interests of the trade unions, which rather focus on creating and safeguarding jobs, NGOs form part of the so-called 'centers of resistance' in order to oppose the current power bloc. Importantly, it has to be underlined that NGOs concentrate their monitoring activities on export promotion and foreign trade and not on Germany's Financial Cooperation.

Apart from the 1990ies, when Jan Pronk was Minister for Development Cooperation in the Netherlands and partly succeeded in reducing the influence of export promotion and foreign trade, development policy continuously served the interests of Dutch business. In particular, Dutch business has gained much more influence within the last years. Although the current power bloc lost some of its dominance due to the 'centers of resistance' such as Dutch NGOs and development experts (science), the hegemonic constellation did not change substantially.

In conclusion, it has to be pronounced that in order to prevent that development projects will be even more framed by economic views, export promotion and foreign trade interests, soft loan policies and more generally, concessional financing, have to re-consider transparency about the beneficiaries as well as the developmental relevance of new endeavors. If and to what extent these issues will be taken into account in the near future depends on the compromises that are negotiated between key stakeholders, or to put it differently, extracted by NGOs and other social movements.

## 7. Literature

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## 8. Annex

### 8.1. List of Interview Partners

Interview Partner	Institution/Position	Date
	<b>GERMANY</b>	
Sophie Kraume	Ministry for Economic Cooperation and Development (BMZ); Abteilung 2, Referat 221: Grundsätze, Verfahren der FZ, TZ-Gremien und Instrumentarium von KfW, DEG	23.09.2013
Stefan Russek	Ministry for Economic Cooperation and Development (BMZ) Lieferaufbindungsfragen Technische Zusammenarbeit	23.09.2013
Helmut Reisen	Head of OECD Development Centre until 2012, now CEO of Shifting Wealth, consultancy; Visiting professor at University of Basel	24.09.2013
Regine Richter	NGO Urgewald, Expert on Export Finance of KfW-IPEX Bank	24.09.2013
Martin Dorschel	KfW Development Bank, Abteilungsleiter of Evaluation Unit	26.09.2013
Klaus Peter-Pischke	KfW Development Bank; Leiter Grundsätze und Verfahren	26.09.2013
Thomas Reker	KfW Development Bank, Project Manager Bereich Förderpolitik, Promotional Instruments and Financial Products	25.09.2013
	<b>Telephone Conference</b>	
Jan-Henrik Petermann	dpa-Journalist; Dissertation about (Un)-tying Aid	August
Walter Ulbrich	NGO Erlassjahr; Expert on Development Finance	September
Stefan Russek	Ministry for Economic Cooperation and Development (BMZ) Lieferaufbindungsfragen Technische Zusammenarbeit	October
Almut Knop	Ministry for Economic Cooperation and Development (BMZ), Referat 414: OECD/DAC, ODA Statistik	November
Hedwig Riegler	Chair, OECD/DAC Working Group on Development Finance Statistics	December
	<b>THE NETHERLANDS</b>	
Wiert Wiertsema	NGO Both Ends, Expert on Export Credit Agencies and Capital Flows	20.09.2013
Mirco Goudriaan	Ministry of Foreign Affairs, Senior Policy Officer, Sustainable Economic Development Department, Business Climate and Markets	19.09.2013
Sandra Luiszoon	Ministry of Foreign Affairs, Policy Officer, Social Development Department & Sustainable Economic Development Department	19.09.2013
Andri van Mens	Ministry of Foreign Affairs, Senior Policy Officer - Private Sector, CSR and Infrastructure, Sustainable Economic Development Department	19.09.2013
Wim Bekker	Ministry of Foreign Affairs, Policy Advisor Infrastructure and Financial Sector Units, Sustainable Economic Development Department	19.09.2013
Theo Sande	Ministry of Foreign Affairs; Expert on OECD/DAC statistics	20.09.2013
Janse Joris	NL Agency, Unit Manager ORIO/ORET Ministry of Economic Affairs, Agriculture and Innovation	19.09.2013
Jan Pronk	Institute of Social Studies, Erasmus University Rotterdam; Professor, former politician and Minister for Development Cooperation	16.09.2013
Paul Hoebink	Centre for International Development Issues Nijmegen (CIDIN), Director of CIDIN and Professor at University of Nijmegen	17.09.2013
Paul Wolff	FMO - Entrepreneurial Development Bank, Senior Investment Manager Emerging Markets Fund (FOM)	18.09.2013
Stan Stavenuiter	FMO - Entrepreneurial Development Bank, Senior Policy Officer Evaluation Unit	18.09.2013

## **8.2. English Abstract**

'A world to gain - A new Agenda for Aid, Trade and Investment' is the title of the latest strategic development policy document from Dutch development cooperation, which representatively indicates that soft loan policies, and more general, concessional financing in OECD donor countries have been designed between export promotion and development policy.

These characteristics of soft loans as an instrument of development finance as well as the current discussions on the future of ODA in the OECD/DAC are taken as the starting point of this diploma thesis in order to analyze the developmental orientation of the implementation of corresponding programs of Germany and the Netherlands from a state-theoretical perspective.

Main findings include that due to the lack of public resources and the graduation of key recipient countries of the programs, both countries have tried to reform their development finance instruments with the aim of increasing the leverage of public funds with private capital. Germany and the Netherlands are therefore part of the overall trend towards shifting the focus on the involvement of the private sector within the official bilateral development cooperation.

### **8.3. German Abstract**

Das letzte Strategiepapier der niederländischen EZA 'A world to gain: A new Agenda for Aid, Trade and Investment' deutet stellvertretend an, dass konzessionelle Finanzierungen, im Besonderen Soft Loan Politiken, in OECD Geberländern von entwicklungspolitischen und außenwirtschaftspolitischen Interessen geprägt sind.

Der Ausgangspunkt dieser Diplomarbeit bilden diese unterschiedlichen Interessen, die sich in der Ausgestaltung von Soft Loans als Finanzierungsinstrument niederlegen, sowie die aktuelle Diskussion über die Zukunft der ODA innerhalb der OECD/DAC. Der Kern dieser Arbeit ist daher die staatstheoretische Analyse der entwicklungspolitischen Orientierung nationaler Soft Loan Politiken in Deutschland und den Niederlanden.

Zentrale Ergebnisse zeigen, dass aufgrund mangelnder öffentlicher Ressourcen sowie der Graduierung von Schwerpunktländern in den jeweiligen Programmen, beide Länder versucht haben, ihre Entwicklungsfinanzierungsinstrumente zu reformieren und dabei verstärkt privates Kapital einsetzen, um die Hebelwirkung der eingesetzten öffentlichen Mittel zu erhöhen. Die Analyse ergibt, dass sowohl Deutschland als auch die Niederlande Teil des internationalen Trends sind, den privaten Sektor stärker in die offizielle bilaterale EZA einzubinden.

## 8.4. Curriculum Vitae

<b>Personal information</b>	
First name / Surname	<b>Mag. Manuel Schuler</b> schuler.m@gmx.at
<b>Education</b>	
Dates	March 2004 – April 2014
Principal subjects/ occupational skills covered	International Development Major in Development Cooperation and Development Finance Diploma Course
Name and type of organization providing education and training	<b>University of Vienna</b>
Dates	March 2006 – September 2012
Principal subjects/occupational skills covered	Economic Sciences - Socioeconomics Major in Public and Non-Profit Management Diploma Course
Name and type of organization providing education and training	<b>Vienna University of Economics and Business</b>
Dates	February 2012 – August 2012
Principal subject/occupational skills covered	History, Politics and International Relations Graduate Exchange Program
Name and type of organization providing education and training	<b>Universidad Torcuato di Tella, Buenos Aires</b>
Dates	June 2002
Principal subjects/occupational skills covered	Matura (Austrian A-levels)
Name and type of organization providing education and training	Bundesgymnasium Dornbirn