

# Corporatism and Development Cooperation Policy in Germany

Kozo Kato

## I. Introduction

German policy in a field of development cooperation has evolved flexibly, with little alteration during the entire postwar period, reflecting the interests and values of domestic actors such as labor, churches, and non-governmental organizations (NGOs) in policy formulation and implementation. Political analysis of German domestic institutions works well to explain the stable pattern of development cooperation policy. Peter Katzenstein, for example, argues that German policies, domestic or foreign, tend to display continuity, rather than change, because the power of the decentralized German state has been tamed by a centralized society that exercises influence through three institutional nodes: political parties, para-public institutions, and cooperative federalism.<sup>(1)</sup> The German term 'self-help' (*selbsthilfe*), one of key words in German development policy, exactly reflects this societal influence on policy-making. German development cooperation, both in Germany and overseas, emphasizes the importance of fostering strength within a

---

(1) Peter J. Katzenstein, Policy and Politics in West Germany: The Growth of a Semisovereign State (Philadelphia: Temple University Press, 1987).

social relationship of mutual interdependence. The ultimate goal is to help the Germans and local people in developing countries create a civil society. Thus the government does not hesitate to use German foreign aid to further the mixed policy goals of domestic economic interests and humanitarian goals. For example, German foreign aid has been frequently used to save jobs for the German people by tying the aid to German exports and humanitarian aid for disaster relief and educational programs often subordinates economic development to democratization. <sup>(2)</sup>

## II. Corporatism and German Policy-making

German domestic institutions are rightly characterized as corporatist. They are rule-driven and have institutionalized political opportunities for centralized societal actors to participate in state policy-making and assure political compensations and subsidies for parties affected by external forces. These corporatist institutions,

- 
- (2) Interviews, Bonn, Nos.28 and 33, June 1 and 20, 1994; Organization for Economic Co-operation and Development (OECD), Aid Review 1993/94: Memorandum of Germany, 1 February 1994 (unpublished paper), p.40. The logic of development is reversed in the Japanese analysis, so that democracy follows economic growth. Thus, the Japanese tend to define the concept of self-help (*jijo doryoku*) in a macro-economic, Rostownian sense, and provides economic assistance to help "self-help efforts of developing countries toward economic take-off." Consequently, Japan's implementation of is adjusted according to the development stage of the recipient country. Japan's Official Development Assistance Charter (pamphlet), p.1; The Ministry of Foreign Affairs (MOFA), Japan's ODA, 1994 (Tokyo: Association for Promotion of International Cooperation), p.7.

like Japanese information-rich institutions, reduce risks and uncertainties (transaction costs).<sup>(3)</sup>

The general argument that corporatist arrangements are organizational responses to the rapidly expanding societal needs of advanced capitalism in the late twentieth century holds for Germany.<sup>(4)</sup> German corporatist institutions provide societal actors with a reliable safety net that protects them from exogenous economic shocks. The safety net has been based upon the ideology of the social market economy *Soziale Marktwirtschaft*, which advocates avoiding "both unregulated market competition and total government planning."<sup>(5)</sup> The risks and uncertainties involved in social in-

---

(3) Peter J. Katzenstein, "Stability and change in the Emerging Third Republic," in Katzenstein ed., Industry and Politics in West Germany: Toward the Third Republic (Ithaca: Cornell University Press, 1988), p.346.

(4) Philippe C. Schmitter, "Still the Century of Corporatism?" in Philippe C. Schmitter and Gerald Lehbruch, eds., Trends toward Corporatist Intermediation (London: Sage Publication, 1979), pp. 7-52 ; Peter J. Katzenstein, Corporatism and change: Austria, Switzerland, and the Politics of Industry (Ithaca: Cornell University Press, 1984) ; Jonas Pontusson, "Labor, Capitalism, and Industrial Policy: The Swedish Case in Comparative Perspective," Comparative Politics 23, 2 (January 1991), 163-79. Corporatism, according to Schmitter, "can be traced primarily to the imperative necessity for a stable, bourgeoisie-dominant regime, due to processes of concentration of ownership, competition between national economies, expansion of the role of public policy and rationalization of decision-making within the state to associate or incorporate subordinate classes and status groups more closely within the political process." (pp.24-25)

(5) Katzenstein, Between Power and Plenty, p.316; Policy and Politics in West Germany, p.86.

initiatives have been minimized by concerted action *Konzertierte Aktion* between the state and society in policy formulation and implementation. In the process of concerted action, "affected groups trade their advance commitment to live by a particular set of rules regarding policy implementation against the assurance that their political demands will be heeded in the process of policy formulation."<sup>(6)</sup> German societal demands, usually centralized around peak associations, have been injected into decision-making in the decentralized state through (i) political parties that usually form some sort of coalition government; (ii) cooperative federalism that links national, state, and local government; and (iii) parapublic institutions that promote political exchanges between state and society. The legislative process in parliament is less important than direct cooperation between interest groups and the ministerial bureaucracy. Among advanced industrial countries, the German arrangement is most similar to the democratic corporatism of European small states, and is quite unlike policy formulation in the United States or Japan. Because political stability is the ultimate objective of German policy making, the policy produced usually emphasizes continuity, rather than change, and when change occurs, it is slow and incremental.<sup>(7)</sup>

---

(6) Katzenstein, Policy and Politics in Germany, p.384.

(7) Peter J. Katzenstein, Policy and Politics in West Germany, pp.3-82; Katzenstein, Small States in World Markets, p.200; Michael Kreile, "West Germany: The Dynamics of Expansion," in Katzenstein, ed., Between Power and Plenty, pp.198-200. For a detailed discussion of German cooperative federalism, see Jeffrey J. Anderson, The Territorial Imperative: Pluralism, Corpo-

This conservatism has been prominent in both industrial and development cooperation policy in Germany. It has often been pointed out that the federal government keeps its hands off troubled firms, leaving rescue operations to banks or regional governments.

Federal government intervention has been a last resort, and, when action has been necessary, the government has shunned ownership solutions in favor of indirect measures.<sup>(8)</sup> However, when domestic industries meet foreign competition and request state assistance, German industrial policy shifts from a liberal market-oriented policy toward a corporatist social policy. In the 1970s, for example, the shipbuilding industry, facing losses due to competition from developing countries, sought compensation in order to delay any costly adjustment to the international division of labor. As a result, all German foreign aid related to shipbuilding was tied to procurement from German suppliers. To summarize, in Germany societal interests and ideologies are allowed to predominate in or-

---

ratism, and Economic Crisis (Cambridge: Cambridge University Press, 1992), pp.144-86.

- (8) Jeffrey A. Hart, "West German Industrial Policy," in Barfield & Schambra, eds., The Politics of Industrial Policy (Washington, DC: American Enterprise Institute for Public Policy Research, 1986), pp.161-86. In the same vein, Kreile also maintains that the social market economy "implied a clear-cut separation of powers in the economic sphere: the economic process was essentially to be left to the self-regulating mechanism of the market. The state had to lay down the rules of the game to assume some responsibility for the growth in general," Michael Kreile, "West Germany: The Dynamics of Expansion," in Katzenstein, ed., Between Power and Plenty, p.198.

der to maintain domestic political stability. In other words, Germany sacrifices economic efficiency in exchange for stability.

### III. Development Cooperation Policy in Corporatism

Corporatist institutions in Germany, which decentralize the policy-making process while centralizing the representation of societal actors, have contributed to the continuity in German policy.

Societal involvement in development cooperation policy-making is a precondition for the stability of German politics, rather than a supplement to the state's international cooperation policy. That participation has transformed foreign economic policy into social policy intended to realize societal interests and values.<sup>49</sup> Thus, German international cooperation is less a response to structural change in the international economy than the fruit of societal needs both in Germany and internationally.

In the following, I will examine (1) in what way the Ministry of Economic Cooperation (BMZ) and other development cooperation agencies are decentralized; (2) to what extent societal actors such as development NGOs, churches, political foundations, labor organizations, and business associations are centralized and heavily involved in the policy-making process; and (3) how the German financial system transfers costs associated with interdependence with developing countries to state financial institutions.

---

(9) For a similar view, see Manfred Glagow and Uwe Schimank, "Korporatistische Verwaltung: Das Beispiel Entwicklungspolitik," Politische Vierteljahresschrift, 24, 3 (October 1983), 253 - 274.

**A. State and Society**

**(1) Decentralized State-Ministry of Economic Cooperation (BMZ)**

The decentralization of development cooperation is most observable in the encroachments of other ministries on the Federal Ministry of Economic Cooperation (BMZ). Two-thirds of German ODA disbursements come through the BMZ budget. Seemingly the single point of responsibility for development cooperation policy and a model of an integrated executive office--and often mentioned as such by Japanese critics of their own government's lack of coordination--the BMZ is, in fact, institutionally weak and only semi-independent.<sup>(10)</sup> Before the creation of BMZ, 16 departments, with 231 offices were in charge of German development assistance. Far from streamlining this bureaucratic complexity, these departments and offices were not closed down but remained in several ministries. The ministers of the BMZ have not been powerful enough to effect administrative reform. Since its inauguration, allocation of the ministerial position has been regarded, in the words of Karl-Heinz Sohn, Parliamentary Secretary of State of the BMZ, as "little more than a piece of coalition juggling."<sup>(11)</sup> Furthermore,

---

(10) White, German Aid, pp.34-40; Schulz and Hansen, Aid or Imperialism, p.9; Development Assistance Committee (DAC), Germany, Policy Review Series, no.9 (Paris: OECD, 1995), p.15.

(11) The ministerial position was granted to the coalition's minority partners, to the FDP during the 1960s, the CSU in the 1980s and 90s. The exception was the 1970s when the SPD was the ruling party. White, German Aid, p.34; Kornfeld-Ulmet, "West German Foreign Aid," pp.48, 50; Intereconomics, September

the timing of the creation in the early 1960s suggests that the BMZ was subordinate to the Ministries of Finance and Economics. In 1961, the German government confronted a choice between inflation and revaluation of the mark. The Central Bank Council recommended export of capital to developing countries, rather than adjusting the discount rate, as a means of reconciling external equilibrium and domestic stability.<sup>(12)</sup> While the Japanese bureaucracy has found a center of gravity in managing economic vulnerability, its German counterpart has developed export promotion as a shared national goal that can override different policy turfs.

The Foreign Office, the Ministry of Finance, and the Ministry of Economics exercise strong influence on policy formulation and implementation and the allocation of budgetary resources. They do so through inter-ministerial committees that restrain the power of the BMZ in most areas of development cooperation policy. For the first three years after the establishment of the BMZ in 1961, each of these ministries had veto power over all BMZ decisions. In 1964, the federal cabinet reviewed the ministry's jurisdiction and apportioned the responsibilities for development issues among the ministries. The Foreign Office was to have final authority in deciding all political questions connected with development aid; both the Minis-

---

1970, p.273; Burghard Claus and Hans H. Lembke, "Doitsu no Kaihatsu Kyoryoku Seisaku [Development Policy in Germany]," in Ipei Yamazawa and Mitsuru Hirata, eds., Nihhon, Amerika, Yoroppa no Kaihatsu Kyoryoku Seisaku [Development Policy in Japan, America, and Europe] (Tokyo: Ajia Keizai Kenkyujo, 1992), p.235.

(12) Kreile, "West Germany," pp.213-15.



try of Economics and the Foreign Office were to be consulted and involved both in creating general principles and programs and in coordinating specific projects; ultimate responsibility for planning and implementing individual capital-aid projects was to be left to the Ministry of Economics, which was to seek advice from other agencies when necessary. The BMZ retained the last word in overall policy making but held sole responsibility in the field of technical assistance. The BMZ also lost all influence over military assistance, which has been dominated by the Ministry of Defense, the Ministry of Interior and the Foreign office. <sup>(13)</sup> These principles of jurisdiction were accepted by the Grand Coalition (CDU/CSU-SPD) in later years. <sup>(14)</sup>

In Germany, a remarkably wide range of development issues are covered by inter-ministerial committees through which various ministries and interested societal actors exert influence. These inter-ministerial committees have worked as “parapublic institu-

---

(13) Hofmeir and Schultz, “German Aid,” p.231.

(14) Holbik and Myers, West German Foreign Aid, pp.128-29; Jürgen Dennert, Entwicklungshilfe geplant oder verwaltet? : Entstehung und Konzeption des Bundesministeriums für wirtschaftliche Zusammenarbeit (Bielefeld: Bertelsmann Universitätsverlag, 1968), pp.49-77; White, German Aid, p.36. BMZ’s weakness was revealed in the debt crisis. Germany needed the United Kingdom’s back up to convince the German Ministry of Finance of the necessary level of funds for international debt relief. Barbara B. Crane, “Policy Coordination by Major Western Powers in Bargaining with the Third World: Debt Relief and the Common Fund,” International Organization, 39,3 (Summer 1984), 399-428.

tions” that connect centralized societal organizations with decentralized state organizations and serve as “both actors who participate and arenas that facilitate a stable accommodation of conflicting objectives.”<sup>(15)</sup> Between 1958 and 1960, before the creation of the BMZ, three inter-ministerial committees were formed in an attempt to coordinate development aid. Later, such committees became institutionalized and expanded their influence over aid policy. The more important inter-ministerial committees include the Interministerial Committees for Development Aid, for Educational and Social Aid, for Development Policy Research, for Public Relations, for Development Aid Statistics, for Coordination of Federal, Länder, and Communal Aid, for Coordinating Committee for Town Partnership Matters, and for Export Guarantees and Securities (the Hermes Committee). The Hermes committee, which approves export and investment insurance, consists of members from the Foreign Office, the Ministry of Finance, the Ministry of Economics, the BMZ, and other related public and private groups such as the Bundesbank, KfW (a governmental export credit and official aid organization), AKA (similar to KfW), industry associations, banks, and export associations.<sup>(16)</sup> In addition to inter-ministerial committees, there are also cabinet level councils such as the Advisory Council for Development Aid *Beirat für Entwicklungspolitik*, which was established in

---

(15) Katzenstein, *Policy and Politics in West Germany*, p.80.

(16) Kornfeld—Umlet, “West German Foreign Aid,” p.46; Schulz and Hansen, *Aid or Imperialism*, p.10; Hichert, *Staatliche Exportabsicherung*, pp.196-97. Decisions on insurance coverage for small and medium sized companies are made only by the Ministries of Economics and Finance.

1963 and reorganized in 1970 as the German Forum for Development Policy *Deutsches Forum für Entwicklungspolitik* under the chairmanship of the Federal President. <sup>(17)</sup>

Decentralization is increased by the BMZ's heavy reliance on staff loaned from other ministries and related organizations. As is usual for relatively new ministries, the BMZ has had to borrow officials on a secondment basis from other ministries, churches, universities, and development NGOs, in order to fill staff positions. Although detailed personnel data is not available, as of the early 1990s at least 300 specialists, out of a total of 680 BMZ employees, were on loan. <sup>(18)</sup> Decentralization is also enhanced by distribution of staff over more than 60 sections, resulting in fewer than 10 employees in most sections. Overseas, the BMZ has had to station its representatives, on a temporary basis, in German embassies, international organizations, and overseas offices of governmental implementing agencies, which are all under the jurisdiction of other ministries. For example, German embassies in developing countries have over 200 diplomatic staff working in the area of development, but only 25 are seconded from the BMZ. <sup>(19)</sup>

Reflecting the ministerial level decentralization, no government-

---

(17) Shaw, "West German Development Aid," pp.95-97.

(18) The number of staff is from Claus and Lembke, "Doitsu," p.266. In this line, the German BMZ resembles the Japanese Prime Minister's Office.

(19) Arnold, Implementing Developing Assistance, pp.44; Yoshio Maruya, "Nishi Yoroppa Shokoku no tai Raten Amerika Keizai Seisaku o Meguru Shomondai," in Maruya, ed., Obei Senshin Shokoku to Raten Amerika: Keizai Enjo o meguru

tal agency that implements German development cooperation policy is under the control of a single, dominant ministry. Even semi-governmental organizations involved in technical cooperation, over which the BMZ is supposed to exert larger influence, are jointly administered by various federal ministries, state governments, and business organizations. <sup>(20)</sup> Implementation of technical cooperation

---

Shomondai [The United States and European Assistance Policies toward Latin America] (Tokyo: Ajia Keizai Kenkyujo, 1989), pp.84-85; Kornfeld-Umlet, "West German Foreign Aid," p.63; DAC, Germany, pp.17 and 21; Kokusai Kyoryoku Jigyodan (JICA) and Kokusai Kyoryoku Sogo Kenshujo, "Senshinkoku Enjo Kikan, Kokusai Kikan ni okeru Kaihatsu Chosa Jisshi Hoho ni kansuru Chosa Hokokusho," February 1987, p.41.

- (20) These technical cooperation organizations were established in the early 1960s after creation of the BMZ. They are so many that it is impossible to comprehend which organization is responsible for what: *Deutsche Gesellschaft für Technische Zusammenarbeit* (GTZ, the governmental technical cooperation organization, as a result of merger between *Deutsche Förderungsgesellschaft für Entwicklungsländer* [GAWI] and *Bundesstelle für Entwicklungshilfe* [BfE] in 1974), *Deutscher Entwicklungsdienst* (DED, German volunteers service), *Deutsche Stiftung für Internationale Entwicklung* (DSE, training of developing countries' technicians and information service), *Deutsches Institut für Entwicklungspolitik* (DIE, post-graduate education research and consultant), *Carl-Duisburg Gesellschaft* (CDG, training for foreigners), *Bundesamt für Gewerbliche Wirtschaft* (BAW, cooperation with GAWI), *Zentralstelle für Arbeitsvermittlung* (ZAV, placement of foreign trainees), the Otto-Benecke-Foundation (OBS, university and vocational training courses for refugees), the Federal Agency for Foreign Trade and Information (information service), *the Goeth Institute* (language training), *Deutscher Akademischer Austauschdienst* (DAAD, exchange of students), the German Voluntary Service (GVS, sending young specialists to developing countries); *Arbeitsgemeinschaft für*

has to pass multiple checks set both by these organizations and by federal ministries. For example, technical training programs usually begin as plans made by the Foreign Office, which is in charge of cultural and language programs, and the BMZ, which provides funds. A draft plan is then submitted to an inter-ministerial committee of the Foreign Ministry, the BMZ and state governments.

Once a proposal has been approved by the committee, the BMZ and the participating state government execute the project with technical help from the Federal Ministry of Labor, the CDG, the DSE, the Central Labor Exchange, the Office for Unemployment Insurance and the Goethe Institute, if language training is necessary.<sup>(21)</sup> Project evaluation is also decentralized, even though there is an evaluation unit within the BMZ, and involves the related ministries, governmental implementation institutions, and even political foundations.<sup>(22)</sup>

Foreign aid loans provided by KfW follow a similar procedure. The Inter-ministerial Committee for Capital Aid exercises discre-

---

*Entwicklungshilfe* (AGEH); *Christliche Fachkräfte International* (CFI); *Dienste in Übersee* (DÜ). For a concise description of German technical cooperation, see DAC, Germany, pp.40-41.

(21) For details of procedures and operations being carried out by these semi-governmental organizations, see Shaw, "West German Development Aid," pp.100-125; White, German Aid, pp.175-179; Erhard Eppler, "Chance and Obligation for Germany," Intereconomics, September 1969, pp.276-80.

(22) Stefan A. Musto, "Evaluation Policy Performance in the Federal Republic of Germany," in Olav Stokke, ed., Evaluating Development Assistance: Policies and Performance (London: Frank Cass, 1991), pp.127-148.

tionary power at various stages of the process. Compared to Japan, state authority over foreign aid has been remarkably diffused through institutional arrangements.<sup>(23)</sup>

Where Japan depends on a small number of highly mobile generalists to implement policy, German development policy relies on a large number of extra-governmental experts in development issues. For example, about 2,000 development consultants work along with 800 headquarter staff of the KfW (roughly 40 percent of whom are engaged in development cooperation). In the GTZ more than 6,000 project-staff, including overseas staff, development consultants and experts in local economies, supplement the headquarter's staff of 1,300.<sup>(24)</sup> To educate these development experts, the Federal government established the Development Institute (DIE) in 1964, which offers a one-year course for postgraduates.<sup>(25)</sup> Thus, the German

---

(23) Klaus Bodemer, Entwicklungshilfe--Politik für wen?: Ideologie und Vergabepaxis der deutschen Entwicklungshilfe in der ersten Dekade (München: Weltforum Verlag, 1974), p.374; Association for Promotion of International Cooperation, A Guide to Japan's ODA (Tokyo: APIC, 1989), p.87.

(24) Claus and Lembke, "Doitsu," pp.271-279; Manfred Glagow, Roland Hartmann, Ulrike Menne, Renate Pollvogt, Uwe Schimank, Die deutschen Entwicklungsbanken: Zur Organisation und Tätigkeit der Kreditanstalt für Wiederaufbau (KfW) und der Deutschen Finanzierungsgesellschaft für Beteiligungen in Entwicklungsländern (DEG) (Saarbrücken, Germany: Breitenbach, 1989), p.115.

(25) Similar educational institutions for development experts, such as the Foundation for Advanced Studies on International Development (FACID) and the Advanced Development School within the Institute of Developing Economies, emerged in Japan in the early 1990 s, three decades after their German counterparts.

state is in fact as decentralized as the Japanese state, maybe more so, and decentralization can allow dramatic change or stifle it, so we need to look at the role of societal actors in this particular sort of decentralization to understand Germany's policy continuity.

While the German state is decentralized, German societal actors are organized into centralized peak institutions at the federal level. Labor, business, churches, political parties, and other non-governmental organizations are able to insert their political interests and values into policy through institutionally-guaranteed, strong participation in the making of German development cooperation policy.

Societal actors participating in German development cooperation policy can be roughly grouped into two: value-oriented groups such as churches, political foundations, and other voluntary NGOs on the one hand, and groups motivated by economic interests such as labor unions and business associations on the other. Both groups have a common willingness to take advantage of political opportunities to participate in state policy-making and incorporate their development values and economic interests into political outcomes. The value-oriented groups seek to realize the "international social market economy," in which assistance must be designed to promote self-help in communities within developing countries and realize the peoples' independence both politically and economically. This notion of self-help developed in successive social movements during the 1960s, when many self-help organizations such as rehabilitation groups, handicapped groups and senior citizens groups were estab-

lished. While Japan sees self-help as Rostownian macro-economic take-off, the Germans goal is to help communities provide “non-commodified goods and services” for themselves. <sup>(26)</sup>

Economic interest groups, on the other hand, tend to emphasize protection and enhancement of their economic interests, but, like the value-NGOs, they rely on the ideology of the social market economy. Business associations and labor organizations argue that the impact of interdependence with developing countries on German exports and employment poses a threat to social justice. Thus, by their logic, economic losses resulting from competition with industries in developing countries must be compensated for by the state. Therefore, for German business and labor, development cooperation policy should be nothing less than aid policy for the domestic victims of trade. In the following, I will examine institutional arrangements that guarantee social actors, both value-oriented NGOs and economically motivated business and labor, a role in policy-making and implementation.

## (2) Political Foundations

German political foundations and churches are among the most centralized of German value-oriented NGOs.<sup>(27)</sup> The political foun-

---

(26) Jost Halfmann, “Social Change and Political Mobilization in West Germany,” in Katzenstein, ed., Industry and Politics in West Germany, p.75. The definition of self-help was originally cited from Peter Gross, “Der Wohlfahrtsstaat und die Bedeutung der Selbsthilfe-Bewegung,” Soziale Welt 33 (1982), 28.

(27) About 70 German NGOs that belong neither to party foundations nor churches are centralized around the Central Agency



dations have been involved in state policy-making through the political parties with which they are affiliated. All five major political foundations are backed by political parties: the Friedrich Ebert Stiftung (FES) by the Social Democratic party (SPD); the Konrad Adenauer Stiftung (KAS) by the conservative Christian Democratic Union (CDU); the Friedrich Nauman Stiftung (FNS) by the liberal Free Democratic Party (FDP); the Hanns-Seidel Stiftung (HSS) by the right-wing Christian Social Union (CSU); and the Rainbow Foundation by the Green Party.<sup>(28)</sup> Although these foundations claim to be independent of the political parties, major party members are directors and trustees of the foundations, showing a close linkage between foundation and party. The Green Party may be an exception. In line with party philosophy, the Greens have opted to support a wide range of decentralized NGOs that are committed to environmental and social change.<sup>(29)</sup> One detailed study of the political foundations explained that:

[as of 1984] Over two-thirds of the directors and one-fifth of the trustees of the Friedrich Ebert Stiftung, for example, are SPD politicians. They include three current or former Länder prime ministers, the party gen-

---

for International Development, which was established under the initiative of the BMZ.

(28) Only the FES was created before the war. The founding years of these political foundations are as follows: the FES in 1925, the FNS in 1958, the KAS in 1958, the HSS in 1967, and the Rainbow Foundation in 1986. Friedhelm Mensing, Grassroots Help for the Grassroots: German Non-Governmental Organizations Assist around the World (Bonn: Inter Nations, 1994), p.9.

(29) Schulz, "Development Aid and Trade," p.253.

eral secretary, the current leader of the SPD, Hans-Jochen Vogel and Willy Brandt. The board of trustees also includes leading trade unionists and directors of companies such as Daimler Benz, Henkel and Horten. In the case of the Konrad Adenauer Stiftung, 80% of the board of directors are leading CDU politicians including Chancellor Kohl. It has no board of trustees but of its 40 members 85% are CDU politicians including four Federal ministers and a prime minister of a provincial state. Similarly 77% of the board of directors of the Hanns-Seidel Stiftung is composed of CSU politicians including Franz-Josef Strauss. Siegfried Lengl, who was chief executive officer of the HSS for 9 years until October 1982, is now Secretary of State in the Federal Ministry for Economic Cooperation. The HSS has no board of trustees but, of its 25 members, 60% are CSU politicians. The Freidrich Naumann Stiftung is equally closely linked to its political party although the pattern is rather different: the main political heavyweights (such as former President Walter Scheel and development cooperationount Lambsdorff) are on the board of trustees, 54% of whose members are FDP politicians; the board of directors, of which Ralf Dahrendorf is chairman, includes only lesser known FDP politicians.”<sup>(30)</sup>

Strong connections with major political parties have enabled the German foundations to extract substantial financial support from the BMZ. For example, while ordinary German NGOs have to raise 25 percent of total project costs by themselves, the political

(30) Veronica Forrester, “The German Political Foundations,” in Stevens and van Themaat, eds., Pressure Groups, Policies and Development, p.43.

foundations have been able to receive full support from the ministry for their projects. This is a political decision taken by the parliament, on the grounds that the political foundations are independent and have no source of income other than federal support. In this line, even the administrative costs of managing the foundation's headquarters in Bonn have been covered by the ministry, an exceptional benefit allowed only for political foundations. All of these grants have been counted as German ODA and have been reported to the OECD. In 1992, DM 360 million was disbursed for projects carried out by the 5 political organizations.<sup>(31)</sup>

The financial support from the BMZ for German foundations is awarded on a fixed ratio of 2(FES):2(KAS):1(FNS):1(HSS) in cases of socio-political and education projects, and 3:3:2:2 for social projects.<sup>(32)</sup> A change of governing parties, hence, offers little opportunity for the new government to make decisive changes in development cooperation policy. Coalitional change have caused shifts in emphasis, as was the case when the SPD government focused on humanitarian aid, in contrast to the CDU/CSU's emphasis on effects on the German economy. But even then, the SPD's Minister for Economic Cooperation in 1969, Hans-Jurgen Wischniewski, identified himself from the onset of his ministerial duties with the work of his FDP predecessor, Walter Scheel:

---

(31) Forrester, "The German Political Foundations," p.45; Organization for Economic Co-operation and Development, Aid Review 1993/94: Memorandum of Germany, unpublished paper, 1 February 1994, p.27.

(32) Forrester, "The German Political Foundations," p.45.

Let me say, first of all, that since I already cooperated indirectly on the parliamentary level in making the blueprints for German development-aid policy, no basically new direction will be taken in German development-aid policy, although now in the administration we are in the process of conducting an inventory, in order to consider what can possibly be improved. <sup>(33)</sup>

This broad consensus among political parties tends to be formulated out of the public eye, and, as a result, legislative action is less and less important in the discussion of development issues. <sup>(34)</sup> Karl-Heiz Sohn, Parliamentary Secretary of State in the BMZ, answered a journalist's questions by saying that "both the aim and the scope of our development policy have never been a bone of contention fundamentally between the Government and opposition parties."<sup>(35)</sup> As a matter of fact, few questions about the activities of the German foundations were raised in parliament. During 1976-80, two questions were raised, 1980-83, three questions, 1983-84, six questions. <sup>(36)</sup> The parliamentary Development Aid Committee (*Der Bundestagsausschuss für wirtschaftliche Zusammenarbeit, AWZ*) composed of 25 members from major political parties, has generally served as a rubber stamp not only for budget allocations, which are under the control of the Budget Committee, but for the master plan for development policy, which is not usually made public. <sup>(37)</sup> Only

---

(33) Claus and Lembke, "Doitsu," p.244. Quotation is from Holbik and Myers, West German Foreign Aid, p.130.

(34) Claus and Lembke, "Doitsu," p.246.

(35) Intereconomics, September 1970, p.274.

(36) Forrester, "The German Political Foundation," p.55.

(37) Kornfeld-Ulmet, "West German Foreign Aid," pp.85-86.

the Greens have made even occasional open attacks in the Bundestag on BMZ policies such as the mixed financing policy that combines aid and export credits. While a “watch” group to monitor parliament, called the *Bundeskongress Entwicklungspolitischer Aktionsgruppen* (Buko), acts as a focal point for 200 action groups in Germany,<sup>(38)</sup> its influence has been marginal.

The German political foundations have emphasized education and training, because, domestically, the German Basic Law assigned the political parties the mission of providing political education to the Germans. When a 1966 court decision suspended the provision of federal funds for political parties’ educational activities, the foundations took over the educational role. Based upon this court decision, the Ministry of Internal Affairs in 1966 began to provide financial support to the political foundations for educational activities that promote democracy in Germany.<sup>(39)</sup> The Ministry of Economic Cooperation followed suit and decided to extend financial support to the political foundations for the purpose of promoting democracy in developing countries. For example, during the 1980s, about 70 to 80 percent of government funds disbursed to the four major German foundations was used for political education, technical training, and social research that aimed at promoting democracy and self-help in

---

(38) The Buko launched three major national campaigns in the 1980s, challenging the marketing strategy of the pharmaceutical industry, the role of German agribusiness corporations, and the export of military equipment. OECD, *Voluntary Aid*, p.118.

(39) Katzenstein, *Policy and Politics in West Germany*, pp.380-81; Forrester, “The German Political Foundations,” p.44.

local communities. Because, political education to strengthen democracy has often caused conflict with authoritarian governments in developing countries, German foundations tend to be highly secretive about their activities.<sup>(40)</sup>

The government's "watering-can" discipline, which is intended to avert regional bias in the distribution of official aid (see Chapter Two), reflects the international political and economic goals of the foundations. The regional preferences of one foundation, such as KAS's concentration of about 50 percent of government grants in Christian Latin America, are balanced by the different focus of another, such as the HSS's direction of about 40 percent of its funds to Africa. As a result, government grants provided through the political foundations, and the regional staffs of the foundations, tend to be distributed with about 30 percent going to Africa, 30 percent Asia, 30 percent Latin America, and 10 percent Europe.

The regional biases of the political foundations have been shrinking as their international networks have expanded. For example, following the FES's cooperation with the Socialist International, which elected German Chancellor Willy Brandt Chairman in 1976, and the KAS's link with two Christian Democratic Internationals, the International Christian Democrats based in Rome and

---

(40) Forrester, "The German Political Foundations," pp.40 and 50; Michael Pinto-Duschinsky, "Foreign Political Aid: The German Political Foundations and Their US Counterparts," International Affairs 67, 1 (January 1991), 38-39. In Japan's economic cooperation, the most hard-to-get data is that related to MITI's insurance.

the International Democratic Union based in London, the development activities of both organizations became global, irrespective of German economic interests or bilateral relations.<sup>(41)</sup>

### (3) Churches

German churches, both Catholic and Protestant, have also supported highly centralized, value-oriented NGOs. As Chancellor Helmut Kohl congratulated his nation, "There are few other countries where the public--both as tax-payers and as donors through, say, the churches--do so much for the people of the Third World." In the same context, the Chancellor also noted that "Development aid is not the responsibility of the government alone but of society as a whole... Let me say a special word of thanks to the churches, which have helped to create a high degree of sensitivity in our country to distress in the Third World."<sup>(42)</sup> Like the political foundations, German church NGOs are centralized around peak NGOs at the federal level. Those peak associations are *Misereor* for Catholic churches and *Brot für die Welt* (Bread for the World) for Protestant Churches. Just as they have had a decisive influence on social policy within Germany, churches have determined a basic direction of

---

(41) Forrester, "The German Political Foundation," pp.48-49, 52, and 56; Holbik and Myers, West German Foreign Aid, pp.105-106; Maruya, "Nishi Yoroppa," pp.38-39; Pinto-Duschinsky, "Foreign Political Aid," 37.

(42) Statements & Speeches, July 18, 1986, p.8, and March 23, 1987, p.13. About the importance of German churches in public life, see Katzenstein, Policy and Politics in West Germany, pp.74-76.

the Federal Republic's humanitarian aid policy.

While churches' social activities within Germany have been largely funded through transfers of public resources such as a "church tax" (equivalent to 5 percent of the income tax) and social insurance funds, church NGO activities in developing countries have used both donations from German citizens and financial support from the BMZ, but donations from ordinary citizens have provided a major part of church expenditures in developing countries. Private donations make German society one of the most generous in the OECD. Private grants by German NGOs to developing countries amounted to about \$550 million, one sixth of the total DAC private grants in the mid-1980 s. Even measured as a percentage of GNP, German private grants have exceeded those made by Japanese NGOs by a factor of between five and seven since the 1970 s. In 1990, Germans contributed an average of \$12 per capita to private grants extended by German NGOs, while the Japanese gave \$0.8 through NGOs.<sup>(43)</sup> The BMZ injects substantial additional capi-

---

(43) Germany's ratio of private grants to GNP was 0.05 in 1975, 0.05 in 1980, and 0.07 in 1985, while Japan's ratio has been between .00 and .01 during the same period. OECD, Voluntary Aid, PP.147-48 and 152; OECD, Directory of Non-Governmental Environment and Development Organizations in OECD Countries (OECD: Paris, 1992), p.44. According to the German Central Institute for Social Questions *Deutsches Zentralinstitut für soziale Fragen*, the Germans donated about DM 4.1 billion (\$2.4 billion) to charitable causes in 1992, almost five times German donations to developing countries. This Week in Germany, January 7, 1994, p.5.



tal by subcontracting implementation of humanitarian aid to German churches. Federal assistance to the church NGOs increased from DM 50 million in the 1960s to DM 210 million in 1985 (almost equal to the assistance given to the political foundations, DM 225 million), and to DM 294 million in 1992. On a cumulative basis from 1962 to 1985, the federal government paid church NGOs DM 2.5 billion, surpassing the DM 2.1 billion given to the political foundations.<sup>(44)</sup>

In order to disburse these funds, both the Catholic and Protestant churches have founded special organizations--the German Catholic Bishops' Organization for Development Cooperation (KZE) and the German Protestant Association for Cooperation in Development (*Evangelische Zentralstelle für Entwicklungshilfe*, EZE). In 1981, through these organizations, 66 Catholic and 42 Protestant institutions contributed DM 340 million and DM 290 million respectively to developing countries.<sup>(45)</sup> The financial effort is supported by ample human resources. Major church NGOs, like the political foundations, can afford to hire staffs of more than 100, an astonishing number when compared to the fewer than 20 employees of the alleged Japanese umbrella NGO in Tokyo, JANIC.<sup>(46)</sup> Education,

---

(44) Schulz, "Development Aid and Trade," p.255; Katzenstein, Policy and Politics in West Germany, p.76; Mensing, Grassroots Help, p.5.

(45) The Development Center, OECD, The Role of Non-Governmental Organizations in Dc, New Series, No.10 (OECD: Paris, 1983), p.53.

(46) Kokusai Kyoryoku Suishin Kyokai (APIC), Shuyo Senshinkoku no NGO Shien Taisei Chosa [Survey on Supporting System for

health, and agricultural development have been the foci of these funds. For example, in the agricultural field, 26 organizations, including the church organizations, founded TransFair Association, which has succeeded in having more than 17,000 German supermarkets stock coffee which pays small farmers in Latin America and Africa almost twice as much as the market price. In education, the Personnel Agency of the German Catholics for International Cooperation (AGEH) in Cologne and the Protestant Services Overseas (DU) use specialists who have returned from developing countries to provide educational services to trainees from developing countries.<sup>(47)</sup>

Despite the substantial support they receive from the government, the church NGOs have maintained a “complementary” mutual independence with the government, in contrast to the supplementary status of Japanese NGOs.<sup>(48)</sup> Project implementation by German church-related NGOs has not been strictly supervised, and they are required to submit budget reports only after projects have been accomplished.

Two special sections within the Third Bureau of the BMZ deal with German foundations and churches and convene meetings with

---

NGOs in Major Industrialized Countries] (Tokyo : APIC, 1991), p.89. Interview, No.8, Tokyo, June 17, 1993.

(47) Schulz, “Development Aid and Trade,” p.252 ; Mensing, Grass-roots Help, pp.6-7.

(48) Interviews, Nos.32, 33 and 34, Bonn, June 20, 1994 ; Yayori Matsui and Ronald Luprecht, eds., NGO, ODA Enjo wa Dareno Tameka : Nihon to Doitsu to Daisan Sekai [NGO and ODA Aid For Whom? : Japan, Germany, and the Third World] (Tokyo : Akashi Shoten, 1992), pp.96-109.

their respective NGOs on a regular basis. About 30 officials in these sections work to arrange co-financed programs to be implemented in cooperation with more than 600 German NGOs.<sup>(49)</sup> These institutional arrangements facilitate participation by the NGOs in policy. For example, the joint conference of German churches on development issues can usually submit memoranda to the government before international meetings such as the UNCTAD. And they have done so, especially regarding human right issues. Also, the German Protestant Churches directed federal humanitarian aid toward national liberation movements in Africa.<sup>(50)</sup>

Political foundations and church-related NGOs constitute a minority among German development NGOs. There are more than 2,000 NGOs of various sizes and memberships concerned with development cooperation, while only 150 NGOs are financially supported by the federal government. Among those supported are *Deutsche Welthungerhilfe* (DWHH), *Terre des Hommes*, *Weltfriedensdienst*, *Bensheimer Kries*. In the early 1990 s, all German NGOs together collected roughly \$800 million in private contributions, almost twice

---

(49) Maruya, "Nishi Yoroppa," p.85; Kokusai Kyoryoku Suishin Kyokai, Shuyo Senshinkoku, p.85; Clause and Lembke, "Doitsu," p.247; OECD, Voluntary Aid, p.80; and Knusel, West German Aid, p.88.

(50) Gerhard Grohs, "The Churches and Human Rights," in Rainer Tetzlaff, ed., Human Rights and Development: German and International Comments and Documents (Stuttgart: Eine Welt, 1993), pp.151-60; Manfred Nitsch, "Rich Country Interests and Third World Development: The Federal Republic of Germany," in Cassen Jolly and Wood, eds., Rich Country Interests and Third World Development (New York: St. Martin's Press, 1982), p.223.

the amount of federal support. In 1990, some 90 organizations which have no links with either the churches or the political parties received DM 43 million from the federal government.<sup>(51)</sup> These German citizen NGOs are embedded not only in Germany but also in Europe. Intra-regional cooperation in Europe among citizen NGOs is strongly institutionalized. There exists a Code of Conduct for European NGOs, and about 50 German NGOs are part of an EC-NGO Liaison Committee.<sup>(52)</sup>

#### (4) States and communities

German states *Länder* and municipal communities *Gemeinden* are also deeply involved in development cooperation policy-making and implementation. Their participation has been institutionalized through centralized inter-state organizations that coordinate state and community development programs with those of the federal government. Like German NGOs, the local governments are highly influenced by humanitarian values. As party foundations have focused on political education in developing countries because political education is their responsibility within Germany, local governments emphasize academic and cultural education because education in general is their responsibility. More than half of the 85,000 foreign students studying at German universities are from develop-

---

(51) Development Center, OECD, The Role of Non-Governmental Organizations, p.53; OECD, "Aid Review: Memorandum of Germany," 1 February 1994, p.27; DAC, Germany, pp.23-24.

(52) Interview, No.33, Bonn, June 20, 1994; UNESCO, Guide to the Information Activities of European Development Networks (Paris, UNESCO, 1991), p.13; DAC, Germany, p.23.

ing countries.<sup>(53)</sup> In 1985, more than 2,000 scholarships were awarded by states to students from developing countries to study in Germany. The cumulative foreign aid, except scholarships, provided by the states from 1962 to 1991 amounted to almost DM 2 billion, and in 1991 alone it was DM 140 million (\$93 million). In contrast, in 1993, Japanese ODA provided by local governments was roughly Y 1,100 million (\$11 million).<sup>(54)</sup>

Educational aid extended by the states is coordinated by an inter-governmental and inter-ministerial special commission, called the State Commission for Development Aid *Länderkommission für Entwicklungshilfe*, established in Stuttgart in 1962 to assure the best use of the modest resources German states have available for developing countries.<sup>(55)</sup>

Similarly, community-level economic cooperation with developing countries has been centralized around the Secretariat for Communal Partnership with Communities in Developing Countries *Secretariat für Kommunale Partnerschaften mit Gemeinden in Entwicklung-*

---

(53) The number of foreign students in Germany far exceeds than that in Japan, about 50,000 in 1993.

(54) Rud-Schloz, The Federal Republic of Germany, p.86; BMZ, Drucksache 12/4096, Taelle 19; Claus and Lembke, "Doitsu," p.240; MOFA, Japan's ODA, 1994, p.230; Nihon Keizai Shimbun, March 5, 1994, p.23.

(55) Holbik and Myers, West German Foreign Aid, p.61; Shaw, "West German Development Aid," p.134. In addition to educational cooperation, the state governments were granted by the federal government authorization to permit supplier export credits to the USSR in 1964. Stent, From Embargo to Ostpolitik, P.150.

*sländern*, which was established by the German Community Council *Deutscher Gemeindetag* in cooperation with the Federal Foreign Office and the BMZ.<sup>(56)</sup>

### (5) Labor Unions

German labor and business interests in the field of development cooperation have also centralized representation in federal level labor unions and business associations. German labor unions have advocated the use of development cooperation to delay structural adjustment, while seeking compensation from the German government for the loss of both domestic and overseas markets for German products. While labor unions did establish a centralized organization to seek the betterment of working conditions in developing countries, called *Wir Helfen* (We Help), such value-oriented activities have been secondary to labor's economic interests. For example, the textile and clothing trade union once proposed a "recycling" plan, in which the German government would levy high tariffs as a "social duty" on textile and garment imports from developing countries and transfer the collected tariffs back to developing countries in order to develop economic and social infrastructure.<sup>(57)</sup>

This protectionist attitude derives from the German economy's international position. Put simply, Germany is unused to competi-

---

(56) Shaw, "West German Development Aid," pp.135-136.

(57) Werner Olle, "Trade Union Policy in the Textile and clothing Industry," in Stevens and van Themaat eds., Pressure Groups, Policies and Development, p.93 (original source of this information was BMZ, Die Quelle, no.2/80).

tion from developing economies, which has been increasing rapidly, even in Europe, since the 1970s. As a consequence, successful competition from the South is largely to blame for the fact that employment in challenged sectors in Germany has declined faster than, for example, in Japan. Imports of manufactured products from developing countries to Germany, as a percent of GDP during 1970-85, increased about 1.2 percent, more than twice Japan's 0.5 percent. During the same period, the German manufacturing sector's share of employment declined 7 percent, while Japan's lost only 2 percent.<sup>(58)</sup>

Although German employment associated with exports to developing countries has been declining steadily, severely damaged industries such as textiles, shipbuilding and locomotives needed to take collective action to acquire compensation from the government for their losses. Instead of forcing structural change, the government has no choice but to follow the ideology of the social market economy and make up the losses. Compensation to labor has taken the form of tied aid and mixed credits (ODA and export credits) as export subsidies. In 1984, while some 1 million workers, most of them in manufacturing, relied on exports to developing countries, German aid was estimated to employ 8,300 workers per billion DM disbursed to developing countries. In the late 1970s, German development aid was said to protect some 30,000 jobs. In 1991, Germany provided DM 10 billion in aid, saving roughly 80,000 jobs. Shipbuilding has received the greatest subsidy from foreign aid. Five

---

(58) Adrian Wood, North-South Trade, Employment and Inequality (Oxford: Oxford University Press, 1994), p.206.

percent of workers in the shipbuilding industry were dependent on German tied aid in the late 1980s, followed by 1 percent of mechanical engineering workers.<sup>(59)</sup> In sum, German labor has succeeded not only in delaying structural adjustments but in acquiring compensation from the state by transforming development aid into protectionist subsidies to domestic industries.

#### (6) Business Associations

German business's economic interests in development have been systematically realized through peak associations at the federal level. This has been particularly conspicuous for small-and medium-sized (S&M) companies. In Germany, S&M multinational companies spread all over Germany have dominated business with developing countries, while in Japan, big global corporations concentrated in Tokyo and Osaka have been the main vehicles of development business. German S&M multinationals outnumbered their Japanese counterparts by a factor of two: 7,000 vs. 3,500, and German S&M companies are independent suppliers *Zulieferer* and gain high profits, while their Japanese counterparts are subordinated to parent companies as subcontractors *Shitauke*.<sup>(60)</sup>

---

(59) Intereconomics, May/June 1981, p.124; May, et.al., Overseas Aid, p.200-209, 212. The depressed Japanese shipbuilding industry was also supported by ODA-financed orders. However, instead of saving jobs, the orders had to be shared with the United States in order to reduce the trade surplus. Arase, Buying Power, p.78.

(60) The Economist, July 30 th, 1994, p.58; The World Bank, World Development Report 1994, p.4; Hiroichi Demizu, Nichi Doku



These German multinationals long ago succeeded in incorporating themselves into policy implementation, especially the process related to aid finance. As we saw in Chapter Two, this deep involvement has enabled German business to turn nominally untied German ODA into effectively tied aid. Generally, three-quarters of orders channeled through the GTZ, the Agency for Technical Cooperation, are given to German S&M companies. Also more than 80 percent of DEG (the German Development Company) business has been given to S&M companies. The German aid process, like the Japanese, starts with an official request from a developing country.

Like the Japanese trading firms, German S&M multinational firms identify suitable projects, conduct feasibility studies, and write draft proposals which are officially submitted by the local developing countries to the Bonn government for financing. However, as an informed aid expert described it, "The formal request to the Federal Government for aid is often the last step in a long process of private negotiation over which the Federal Government itself has exercised little control, and the contract is more or less promised before the granting of aid has been officially approved."<sup>(61)</sup> While the federal government provides information about development projects and supply and service opportunities through the Federal Institute for Foreign Trade Information *Bundesanstalt für Außenhandelsinformation*-BfAI), and the BfAI publishes a daily "*Nachrichten für Außenhandel*" as well as a weekly "*Mitteilungen für*

---

Keizai Hikakuron [Comparative Analysis of Japanese and German Economies] (Tokyo: Yuhikaku, 1981), pp.102-103.

(61) White, German Aid, p.47.

*Weltwirtschaftliche Zusammenarbeit*” in which prospective development projects are listed, these procedures are nominal.

What makes German S&M firms different from Japanese trading firms is that the former exert political pressure through a centralized business association that represents their economic interests. Like German labor, the centralized organizations of the German business community have played an essential role in coordinating the economic interests of the tremendous number of small- and medium-sized multinationals and negotiating with the federal government in order to obtain financial terms favorable to development projects organized by German companies.

The most important peak association for German S&M firms in the development field is the Association for Development Aid *Arbeitsgemeinschaft für Entwicklungsländer*. The umbrella organization, which maintains close information ties with overseas German chambers of commerce, negotiates over specific projects not only with the federal government but also with German embassies located in developing countries.<sup>(62)</sup> The association also includes the major peak associations of German business, including the Confederation of German Industry (BDI), the Federation of German Chambers of Industry and Commerce (DIHT), and Bundesverband Deutschen Banker. Membership in the regional branches of the DIHT is compulsory for German S&M companies, and DIHT played a major role in establishing a Trusteeship for Interzonal Trade *Treuhandstelle für den Interzonenhandel* in the 1950s, and the president

---

(62) White, German Aid, p.46.

of DIHT, Otto Wolff von Amerongen, was also a chairman of the Eastern Committee (*Ostauschuß*). During the recession of 1973-74, the DIHT influenced the Hermes interministerial committee's decision to change insurance guarantee conditions to promote German exports. Similarly, BDI also exerted political pressure on Federal ministries and the insurance committee as they shaped the Development Tax Law in 1964.<sup>(63)</sup>

Technical cooperation provided by the German business community has been centralized by these peak associations. For example, the Senior Expert Service, established in 1983, is operated by a partnership of BDI, DIHT, the Carl Duisberg Sponsoring Group and the Central Association of German Trades (ZDH). In 1992, the BMZ provided DM 1.6 million, which paid for half of its missions.<sup>(64)</sup>

Overall, one consequence of active participation by German societal actors in development cooperation policy can be seen in its relatively high cost. The average ratio of German ODA to GNP during 1965-89 was 0.4 percent, compared to Japan's 0.26 percent.<sup>(65)</sup> Although the German ratio is lower than that of the Scandinavian countries, it is relatively high among large industrialized countries. The comparison of Germany and Japan demonstrates that

---

(63) Shaw, "West German Development Aid," pp.153-54; Kreil, "West Germany," p.208; Gerard Braunthal, The Federation of German Industry in Politics (Ithaca: Cornell University Press, 1965), p.333; Interview, No.31, Bonn, June 14, 1994.

(64) OECD, "Aid Review: Memorandum of Germany," 1 February 1994, pp.32-35.

(65) Lumsdaine, Moral Vision, p.133, Table 4.6.

without strong societal participation, Japan's foreign aid, though it now accounts for the largest share of world aid, does not impose high costs on the economy. As the SPD's political foundation once articulated, "The North-South conflict is the social issue of the 20th century. (emphasis in original)" <sup>(66)</sup>

### B. Risk-Transferring Financial System

The German system has worked to transfer risk, with the government acting to insulate private business from the risks and uncertainties associated with interdependence with developing countries. Just as it has used public funds to compensate German labor and industries for the costs of structural adjustment, the government, through the financial system, has provided a safety net for German multinationals. Because the banks, in spite of their reputation for universal banking, have kept financial transactions with developing countries at arms-length, German industries, especially small- and medium-sized firms, have had to rely on official coverage of risks. Using national and state budgets as sources of finance, the federal government has extended cheap loans and credits to German multinationals on favorable terms. Thus, the high risks associated with developing countries are transferred to the government with little sharing of costs.

---

(66) The Friedrich Ebert Foundation, North South, back page of the cover.

(1) **German Banks**

Germany has the longest sustained tradition of strong industrial banking among industrialized countries. The first German industrial bank, the Darmstader, was established in 1852. The 1870s saw the creation of the current three major German banks--the Deutsche, Commerz and Dresdner Banks. These banks developed as universal (commerce and industry) banks and have been heavily involved in management. The economic power of German banks has its base in their legal right to own large shares of German industry and to exercise proxy votes for other shareholders in the supervisory boards of German companies. While Japanese banks are allowed to own only a 5 percent equity share of any Japanese corporation, German banks are permitted directly to take unlimited equity positions in other companies. It is often reported that, since the 1970s, almost 60 percent of most German companies' shares were either owned by or deposited with banks.<sup>(67)</sup> German banks are also free from the central bank of Germany, while Japanese bank lending is under the strict guidance of the Bank of Japan. The role of the Bundesbank as regulator is secondary to its function as spokes-

---

(67) Andrew Cox, "State, Finance and Industry in Comparative Perspective," in Andrew Cox, ed., State, Finance and Industry: A Comparative Analysis of Post-War Trends in Six Advanced Industrial Economies (New York: St. Martin's Press, 1986), pp.27-30; Frank Vogl, German Business After the Economic Miracle (New York: Halsted Press, 1973), pp.43-45; Kenneth Dyson, "The State, Banks and Industries: The West German Case," in Cox, ed., State Finance and Industry, pp.129-130; The Wall Street Journal, February 5, 1991, p.A 22.

man for the German banks.<sup>(68)</sup> Spindler was correct in pointing out that: “German governments have hesitated to intervene directly to influence the behavior of German banks in specific transactions. . . . The mechanism leaves banks ultimately free to make their own credit and portfolio decisions, in keeping with the liberal tradition that has long played a key role in German finance.”<sup>(69)</sup>

However, the independence and initiative in industrial banking does not hold true for international banking, especially in development finance. While Japanese banks have been compelled to share the risks of development cooperation, German banks, whose international business has focused on Europe, have seen economic transactions with risky developing countries as a matter of choice. Generally speaking, they have chosen to emphasise security, asking first about assets and real estate, not about business plans or products, when making lending decision. Since the early 1980s, especially since 1984 when foreign banks were allowed to establish German subsidiaries, German industries have criticized their own banks for their inability to assess risks associated with international capital transactions and their failure to provide adequate banking services for international business. German banks even hesitated to invest in eastern Europe in the early 1990s, until the situation became stable.<sup>(70)</sup> The German share of the total value of assets of the

---

(68) Dyson, “The State, Banks, and Industries,” p.124.

(69) Spindler, The Politics of International Credit, p.116.

(70) M. Donald Hancock, West Germany: The Politics of Democratic Corporatism (Chatham, NJ: Chatham House Publishers, Inc. 1989), p.139; and Clodwig Kapferer, “How to Extend Ger-

world's top 25 banks has been declining from 15 percent in 1974-77 to 4 percent in 1983-85. In contrast, the share of Japan's rapidly growing banks has risen from 21 percent to 48 percent. The German banks' share of the international market has been shrinking, while their financial clout in Europe has grown, and they have become increasingly prominent in their control of major leadership positions in stock and financial derivatives.<sup>(71)</sup>

In general, German banks have felt that development finance without state guarantees is out of the question, and their networks in developing countries, including subsidiaries, affiliates, and representative offices, consisted of only 105 entities in 1985, while Japanese banks were responsible for 300.<sup>(72)</sup> The German banks have participated in development policy-making in order to extract subsidies from the government to maintain the financial solvency of in-

---

man private Investment in Developing Countries," Intereconomics, No.10, 1966, p.13; Dyson, "The state, Banks, and Industries," pp.301-302; Herbert Oberbeck and Martin Baethge, "Computer and Pinstripes: Financial Industries," in Peter J. Katzenstein, ed., Industry and Politics in West Germany: Toward the Third Republic (Ithaca: Cornell University Press, 1989); Jeffrey A. Hart, Rival Capitalists: International Competitiveness in the United States, Japan, and Western Europe (Ithaca: Cornell University Press, 1992), p.187; Jeremy Edwards and Kalus Fischer, Banks, Finance and Investment in Germany (Cambridge: Cambridge University Press, 1994).

(71) UNCTC, Transnational Banks and the International Debt Crisis (New York: UN, 1991), p.119; Glenn Whitney, "Big Frankfurt Banks Concentrate Power," The Wall Street Journal, May 12, 1994, p.A 10.

dustries involved in developing countries. They do so because of their institutionally guaranteed presence in public decision-making bodies such as the Hermes (insurance) or the Reconstruction Loan Corporation (KfW) that deal with development finance. According to Spindler :

Although voting rights on this (the Hermes international) committee extend only to senior civil servants representing the Ministry of Economics, Finance, Foreign Affairs, and Economic Cooperation, bankers and export industry representatives participate in committee sessions as advisory members. Bankers also sit in an advisory capacity on the interministerial committee handling insurance for direct foreign investments. The boards of public institutions, such as the KfW, provide bankers further organized access to foreign policy formulators. Prominent bankers as well as industrialists also frequently sit on formal advisory councils to the federal ministries. The most important such body with respect to foreign economic policy has been the Foreign Trade Advisory Council of the Ministry of Economics, whose forty-one members recently included five bankers and seventeen directors of export-oriented industrial corporations.<sup>(73)</sup>

This corporatist mechanism, permits the German banks to induce the government to provide a safety net for domestic industries which are engaged in business with developing countries while sharing the risks much less than is the case in Japan.

---

(73) Spindler, The Politics of International Credit, p.33.



**(2) The Reconstruction Loan Corporation (KfW)**

While public financial institutions in Japan have served as mediators of international capital re-distribution, their German counterparts have assumed the domestic re distributional function of transferring tax-payers' money to German exporters engaged in developing countries. German ODA and export credits provided by the KfW Kredit anstalt für Wiederaufbau and trade and investment insurance underwritten by the Hermes have been available to German industries that face risks and uncertainties derived from doing business with developing countries.

The KfW uses federal and state budgets to finance German development cooperation toward developing countries. The KfW was established in 1948 to finance the reconstruction of Germany's post-war economy by means of low interest investment loans. These domestic activities were expanded in 1955 when the KfW started to finance German exports, and in 1961 when development loans and grants for developing countries were added to KfW's activities. In this sense, the KfW combines functions of three Japanese official financial institutions: the OECF, which extends ODA loans to developing countries, the Exim Bank, which provides export credits and investment loans, and the Japan Development Bank, which makes investment loans for domestic research and development. In general, the financial resources for implementing all German foreign aid, which includes ODA loans, grants, contributions to multilateral organizations, and technical cooperation, consist of federal (both Ordinary and Extraordinary) and state budgets, which together account for about 75 percent of total ODA. The rest is provided

through special funds such as the Volkswagen Foundation (funds from the privatization of V.W.), the Industrial Loan, and European Recovery Program (ERP) Counterpart Funds, which the aid-implementing agencies are obliged to repay.

Borrowing makes up a much smaller portion of ODA in Germany than it does in Japan, where the FILP contributes around 40 percent of total ODA. The KfW's capital fund to provide ODA loans and buyers' credits, which was DM 1 billion as of 1991, has been filled by the Federal government (80 percent) and by the states (20 percent). The funds from the ERP Special Fund, which accrues interest and is administered by the Federal Ministry of Economic Affairs, have been used only for financing domestic investment projects in Germany and for long-term export transactions. Borrowing from the ERP has made up only about 20 percent of KfW's export credits since 1960. Since 1979, ODA loans have depended exclusively on the federal and state budgets, and before that, only around 10 percent of German aid loans was replenished by the ERP. Thus while Japan's Exim Bank and OECF have relied on borrowing for almost half of their financial activities, German export credits and ODA have shown a very low dependence on borrowing.<sup>(74)</sup>

The interest of the German private sector, especially banking,

---

(74) KfW, Functions and Activity, (Frankfurt: KfW, May 1991); United Nations, Exports Credits, 1967, pp.21-23; Kaigai Keizai Kyoryoku Kikin (OECF), Keizai Kyoryoku Binran, 1990 (Tokyo: OECF), pp.282-301; OECD, The Export Credit Financing System, 1970, pp.55-61, 1982, p.107, 1990, p.57; Glasgow, et al, Die deutschen Entwicklungsbanken, pp.92-94.

in expanding exports is reflected in the KfW's board of directors. The fact that Herman Abs of the Deutsche Bank became the first chairman of the KfW demonstrates the corporatist networks between the banks and the government.<sup>(75)</sup> The board represents the interests of federal ministries (6 members), state governments (5 members from the Bundesrat), the Bundesbank, and the private sector (16 members from commercial banks, industry, agriculture, crafts, trade, and trade unions).<sup>(76)</sup> The private sectors' influence has been reflected in various policies of the KfW. For example, as of June 1980, the list of developing countries both recognized by the KfW and receiving substantial credits to purchase German exports was also a list of those with which German business maintained strong relations, such as Algeria, Argentina, Brazil, Columbia, Greece, Indonesia, Malaysia, Mexico, Morocco, Peru, the Philippines, Portugal, Rumania, Spain, Syria, Taiwan, Thailand, Venezuela, and Yugoslavia. Especially when the economy was in recession, as in the early 1980s and 1990s, the board of the KfW legitimated the increased use of mixed credits that combined ODA and export credits to promote German exports. Partly due to these mixed credits, the share of tied aid in bilateral German ODA increased to over 50 percent in the early 1990s.<sup>(77)</sup>

---

(75) Dyson, "The State, Banks, and Industries," p.130.

(76) The chairman and vice-chairman of the board of management are appointed by the Federal Chancellor, and the board appoints the management.

(77) Spindler, The Politics of International Credit, pp.52-55; OECD, Export Credit Financing Systems, 1990, pp.57-58; DAC, Germany, pp.35-36.

**(3) The Export Credit Joint Company (AKA)**

The Export Credit Joint Company (*Ausfuhrkredit Aktiengesellschaft*, AKA) is a private corporation established in 1952 by the big three private banks--the Deutsche Bank, the Dresdner Bank and the Commerzbank--nine other private banks, and eleven regional, state and local government banks for the purpose of financing medium-term supplier credits. As of the late 1980s, AKA comprised 54 commercial banks. Since the KfW emphasizes buyer credits, unlike AKA's supplier credits, these financial institutions have been regarded as mutually supplementary. As in the case of KfW, AKA resources for exports to developing countries depend to some extent on federal money. Of the three types of loans offered, funds for one are obtained from a rediscount ceiling granted to the AKA by the Deutsche Bundesbank. Approval must be obtained from the central bank in advance of loan commitment. A total of DM 5 billion was made available through this facility in the late 1980s. In contrast, the Exim Bank of Japan cannot borrow from or rediscount with the Bank of Japan. This credit line can therefore be regarded as a cheap, government-assisted source of refinance that reduces private sector risk. <sup>(78)</sup>

**(4) The German Development Company (DEG)**

Like the KfW, the German Development Company *Deutsche Investitions und Entwicklungsgesellschaft*, DEG) has been entirely feder-

---

(78) OECD, Export Credit Financing Systems, 1987, pp.188-89, 1990, 58-59.

ally supported. The DEG was established in 1962 in order to encourage FDI by German small-and-medium-sized companies in developing countries, especially in Africa. While the DEG seems similar to the Japan Overseas Development Corporation (JODC), which furnishes part of the capital to Japanese small-and medium-sized companies when they establish joint ventures in developing countries, the DEG is one of the main arms of German development cooperation while the JODC is clearly subsidiary to MITI. In terms of importance, the DEG seems to closer to the Exim Bank of Japan, though that institution focuses on big business. Unlike either Japanese institution, the DEG makes a rule of granting investment loans to foreign companies that construct joint ventures with German partners. The increased risks resulting from direct lending to foreign borrowers have been shouldered by the federal budget.

#### (5) Hermes and Treuarbeit

Since 1919, official export-credit and investment insurance has been provided by two private companies, Hermes *Hermes Kreditversicherungs AG* and Treuarbeit *Deutsche Revisions und Treuhand AG*. They are authorized to provide and manage the insurance business in the name of and for the government. The Hermes has been primarily concerned with export credits, while the Treuarbeit has handled investment insurance.<sup>(79)</sup> The Hermes, which is be-

---

(79) Since 1956, two insurance companies have offered purely private export credit insurance: *Gerling Konzern Spezielle Kreditversicherungs AG (GKS)* in Cologne and *Allgemeine Kreditversicherungs AG (AK)* in Mainz.

lieved to be more important to development cooperation, is privately owned by large insurance companies, while about 70 percent of the *Treuarbeit* is owned by the Federal government and the remaining 30 percent by some states of the Federal Republic. Applications for guarantees are ruled on by an inter-ministerial committee, which was established in 1949 and is composed of representatives of all the ministries concerned, business, and the big banks. Hermes exchanges contracts with potential investors and exporters in the name of and on behalf of the German government.<sup>(80)</sup> Unlike MITI's universal contracts, most of the coverage is given for single transactions, allowing the private sector to buy insurance only for highly risky transactions. Although the ratio of insured exports to total exports has been much lower in Germany than in Japan (10 percent vs. 40 percent), if only exports to *developing countries* are considered, German coverage has in fact been much higher than has Japanese. Hermes' philosophy is that German businessmen should take risks in the international market, and Hermes should offer coverage only for the extremes. For the Germans, who are unaccustomed to development business, interdependence with developing countries has belonged to "the extremes." Since the 1970s, German

---

(80) Peter Schlechtriem, "Export Credit Guarantees in the Federal Republic of Germany," in Ho Peng Kee and Helena Chan, eds., Current Problem of International Trade Financing (2nd Edition) (Singapore: Butterworths, 1990), p.289. Export credit insurance must first be bought as a condition for receiving the KfW's official export credits. While this condition is not applied to AKA's credits, insurance is usually obtained anyway.

insurance for exports to developing countries has accounted for about 70 to 80 percent of the total insured volume, while exports to communist countries account for around 10 percent. The share of industrialized countries has been less than 10 percent. Among developing countries, Asia has had the largest share, accounting for around 30 to 40 percent, followed by Africa, 20 to 30 percent, Latin America, 10 to 20 percent, and Europe less than 10 percent, although the latter has, since 1989, skyrocketed to take up 30 percent of insured lending.<sup>(81)</sup>

Such an insurance operation should not be sustainable, unless the insurance company charges premiums that are highly responsive to risks. However, the Hermes does not follow even this most basic principle of the insurance business. While MITI's insurance adjusts premium rates depending on country risks, Hermes does no such thing. After the debt crises in the early 1980s, when risks associated with foreign investment in, and long-term export transactions with, the debt-ridden countries increased unprecedentedly, only the Hermes continued to charge one premium for all countries, even the most heavily indebted Latin American countries, where German pri-

---

(81) Schlechtriem, "Export Credit Guarantees," pp.306-307; Ade, "Die Systeme der Exportkreditversicherung," p.130; Hichert, Staatliche Exportabsicherung, p.292; Schulz and Hansen, Aid or Imperialism, p.10; Albert Eiden, "Staatliche Exportkreditversicherung als struktur- und außenpolitisches Instrument: Darstellung der bundesdeutschen Praxis und Übersicht zu ausländischen Regelungen," Diplomarbeit zur Erlangung des Grades Diplom-Kaufmann, Rheinisch-Westfälischen Technischen Hochschule Aachen, 1993, p.70.

vate business found its closest business partners in the developing world. Hermes acted as the last resort for German exports to high-risk markets. <sup>(82)</sup>

#### IV. Conclusion

German corporatist institutions bring society, whether German society or society in developing countries, to the forefront of German policy related to development cooperation. There has been no distinction in Germany between the economic interests of labor or business and the development values of NGOs; both have to be satisfied with the public resources of federal and state governments; the Germans have been provided with political opportunities to participate in the formation of economic policy toward developing countries and transform it into international societal policy.

---

(82) OECD, Export Credit Financing Systems, 1990, pp.62 and 217; G. G. Johnson, Matthew Fisher, and Elliot Harris, Officially Supported Export Credits: Developments and Prospects, World Economic and Financial Survey (Washington, DC.: International Monetary Fund, 1990), p.6.