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Economic Self-Interest in German Development Policy: What Might That Look Like?

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Summary

Calls for development policy to place greater emphasis on national self-interest are growing louder in many donor countries, including Germany. There are indeed good reasons to dovetail Germany's international policies more effectively. Synergies between development cooperation (DC), foreign trade promotion and research partnerships have not been harnessed systematically to date, yet they could serve the interests of both Germany and its partner countries alike. Moreover, Germany is facing geopolitical competition from actors who have long been using their DC proactively to pursue strategic interests.

We advocate adopting a development policy that pursues German and European interests in those areas in which they are compatible with development policy objectives. Instead of focusing on the interests of individual companies, it is important to identify long-term 'win-win' potential, for example through a more strategic approach to planning DC offers that involves the private sector and ministries more actively prior to intergovernmental negotiations with the partner countries.

At the same time, we warn against subordinating DC to foreign economic policy objectives. Conditions such as tied aid provisions that link financial cooperation to business contracts for German/EU companies are expensive, inefficient and counterproductive in development terms. In addition, this approach would risk losing sight of Germany's overarching interest in solutions to global problems, such as peacebuilding and climate and biodiversity protection.

We set out five guidelines for a development policy strategy that takes due consideration of Germany's own interests without harming the partner countries:

1. **Avoid strict tied aid provisions.** These would be inefficient in development terms and would be of little benefit to German companies. As an export nation, Germany should comply with freedom of contract rules.
2. **Pursue the interests of German society as a whole where they align with DC objectives.** We distinguish between Germany's global interests and those of individual companies. DC projects should align economic interests with the common good in the partner country.
3. **Develop offers strategically prior to intergovernmental negotiations.** The most effective synergies are generated if the private sector and other ministries are involved in preparing DC initiatives at an early stage. To do so, Germany needs to define joint national goals, coordinate ministerial instruments to achieve these goals and evaluate contributions by the private sector in advance.
4. **Create strategic partnerships that serve as models.** Germany has established a number of bilateral partnerships, especially on energy, raw material security and migration. None of these is exemplary in terms of effective interministerial coordination, private sector involvement or demonstrable benefits for both of the countries involved. At least one flagship project in each of the areas mentioned would make Germany attractive as a credible partner.
5. **Expand minilateral formats with European states and influential third countries.** Triangular and quadrilateral cooperation with 'global partners' and donor countries that share the same or similar interests can help advance Germany's interests in international development for the common good.

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Which self-interest? Which synergies?

Chancellor Merz has repeatedly stated that development policy should be more strongly oriented towards the national self-interest of donor countries and should thus help promote prosperity, security and development within the donor country itself. This objective is one to which most of the large bilateral donors subscribe. The coalition agreement signed by the new German Government reflects the trend towards national self-interest in that the section on development cooperation begins by stating that the Government's development policy is driven by both values and interests. The latter refer to Germany's foreign, security and economic policy interests. Better integration of such policy is designed to take account of the current shifts in the global order and to promote Germany's competitiveness. In terms of economic policy, one of the goals set out in the coalition agreement is that contracts for state-funded financial cooperation (FC) projects should predominantly be awarded to companies from Germany and the EU. This is in line with the demands that German business associations have been making for some time now, namely that DC should be tied to supply contracts for German businesses (e.g. Federation of German Industries – BDI, 2024) and that the refinancing advantages of the *Kreditanstalt für Wiederaufbau* (KfW), enabled by federal guarantees, should also be leveraged to promote German business interests. Critics point out that considerably fewer contracts funded by official development assistance (ODA) are awarded to domestic firms in Germany than in other OECD countries (2016 data: OECD, 2018b).

In view of the often conflicting demands of a) a development policy geared towards the interests of the partner countries and b) the calls to align cooperation with Germany's self-interest, we propose that German DC should focus more heavily on topics that enable **both** positions to be reconciled. The potential for synergies is considerable and could be significantly increased if DC offers were strategically prepared with the private sector and ministries in Germany prior to intergovernmental negotiations with the partner countries. In contrast, it is not expedient to impose conditions that tie FC to procurement contracts for German businesses. Subordinating DC to the goals of foreign trade promotion is too short-sighted – not only in terms of tackling global challenges such as the climate and biodiversity crises but also from the perspective of Germany's self-interest. Tied aid harms the partner countries and does not solve the problems of the German economy, as we explain below.

However, there are good reasons to dovetail Germany's international policies, including DC, more effectively. Firstly, there are obvious synergies between the policy areas if, for example, companies use their technology, investment and market access to create new development options for partner countries or if DC improves the investment climate there. Equally, long-term synergies are generated if trust-building cooperation channels are established that enhance Germany's reputation, provide expertise on other countries and hence boost its foreign policy soft power.

Secondly, we must recognise that other countries, particularly China and the United States under the Trump administration, gear their foreign policies heavily towards their own economic interests. European partners such as France are in direct competition with Germany and German DC, for instance in Morocco, yet in other partner countries they are indispensable consortium partners in European initiatives.

China, in particular, has managed to secure long-term access to resources and hence control the value chains of most of the critical raw materials. It is also acquiring most of the infrastructure commissions in the Global South, including those financed by public funding through multilateral development banks or KfW. In times of geopolitical rivalries in which trade, energy and resource policies are deployed as political weapons and huge subsidies for national businesses are distorting global trade, it is difficult – in view of declining public support for development policy –

to explain why Chinese companies regularly win contracts for measures (co)financed by Germany while German companies rarely do so. Against this background, Germany and Europe would do well to review their foreign policy instruments to identify how they can counter the self-interest-driven policies of competing countries.

However, there is a conflict between pursuing national self-interest and upholding the original objectives of DC. The goal of ODA as defined by OECD is to promote the economic development and welfare of developing countries. Over the years, other goals have become important, such as climate action, conservation of biodiversity and peacebuilding measures. In the Paris Declaration on Aid Effectiveness adopted 20 years ago, donors agreed that their funding was most efficient if they geared their entire support to promoting national development strategies determined by the partners themselves. As part of this process, the members of the OECD Development Assistance Committee agreed to untie bilateral commitments from procurement restrictions that benefit the donors' own companies, at least for all poor and heavily indebted countries (OECD, 2018a). The more conditions donors impose that require projects and programmes to be geared to their own interests and goods and services to be supplied without competition by their national businesses, and the less they coordinate their activities because of self-interest, the less efficient and less transparent support for the partner country becomes (see also Heidland et al., 2025).

In the following, we propose **five guidelines** for German DC to take greater account of Germany's own interests without detracting from the original objectives.

Avoid strict tied aid provisions: they harm both the partners and Germany alike

In today's geopolitically instrumentalised global economy, Germany should seek to raise its profile as an advocate of a rules-based, multilateral global order – not only to counter tariffs and subsidies but also because many donors are reducing their development financing and their contributions to multilateral institutions.

For Germany as an export nation, international freedom of contract is of particular importance. Open, transparent tender procedures ensure that competitive firms can assert themselves in the market and clients profit from the best cost-benefit ratio. International agreements such as the aforementioned OECD agreement on untied development aid are thus in the interests of a country with a strong export economy.

One of the objectives set out in the coalition agreement is that the large majority of contracts for government-funded FC projects should be awarded to companies from Germany and the EU. It does not specify how this should be achieved. This has prompted a debate about how DC can be used more effectively to benefit the German economy. One option favoured by business associations is tied aid, in other words financial aid granted on the condition that it be used to procure goods and services in the donor country. Strict tied aid provisions would have a number of disadvantages, however, and should thus be avoided, even if they could be enforced under procurement law.

Firstly, tied DC is only necessary if goods and services from Germany or the EU are more expensive than those of competitors. This creates a disadvantage for the partner country, because the same amount of ODA is needed to deliver fewer development outputs in areas such as poverty reduction, climate action or other goals. Tied aid is estimated to lead to 15–30% higher costs (Ministry of Foreign Affairs of the Netherlands, 2014). Secondly, tied aid runs counter to the objective that goods and services should increasingly be supplied by local firms. Thirdly, it restricts freedom of contract, one of the central tenets of a market economy. Fourthly, the lower return flow of loans into the order books of German companies – compared to China, France and the United States, for example – is primarily due to the fact that in the infrastructure areas typically financed by FC (such as road construction, water supply and sanitation), Germany has no sizeable internationally active companies that could act as general contractors. Thus, the limited gains anticipated for the German economy stand in stark contrast to the considerable inefficiencies involved.

If tied aid is nevertheless considered, it should meet the OECD-DAC criteria in that it is only applied to middle-income countries that are not heavily indebted, and it should also be open to all European countries. This is mandatory under procurement law and also creates an incentive for European cooperation arrangements, for example between Southern European project developers and German plant engineering companies. Moreover, for development policy reasons, it should also be open to suppliers from the partner countries. This approach could challenge the supremacy of Chinese suppliers. That could also be achieved by agreeing contract clauses with the partner countries on good practice in environmental, social and governance (ESG) areas. Such an approach would comply – at least to a large extent – with the OECD-DAC agreement that countries should not favour their own firms.

Even without tied aid, it is possible to pursue Germany's economic self-interest without abandoning the objectives of DC. To do so, we propose the following approach.

Pursue the interests of German society as a whole where they are compatible with DC objectives

Different types of self-interest need to be distinguished. Firstly, Germany and Europe have an interest in a politically and economically stable, peaceful and environmentally sustainable world. This is in the **global interest** of donors and recipient countries of ODA alike, regardless of the fact that they may have differing ideas about priorities and solutions. International cooperation aims to create the relevant conditions, e.g. peacebuilding measures, climate action and a rules-based global economy, in which all countries can benefit from the advantages of the international division of labour.

Secondly, **Germany has general interests of its own** that are important for the country's overall prosperity (e.g. strengthening its competitiveness, securing its own imports of raw materials and attracting skilled workers from abroad). Germany's foreign policy instruments can be used to promote these interests too. In the case of DC, however, it should be remembered that Germany's own economic interests are not always fully compatible with those of its partner countries or may even be in direct conflict to them, for example concerning the way in which value added is distributed in global supply chains or whether conditions are imposed on foreign investors. Development policy should only provide support where both sides benefit, e.g. when investments in green hydrogen reduce the cost of decarbonisation in Germany while creating new jobs and sources of foreign currency in the partner country.

Thirdly, the **interests of individual actors** (e.g. winning a contract for a project) need to be differentiated. These interests, too, may benefit German society, for example by preserving jobs and generating higher tax revenues. This justifies measures to promote foreign trade. When considering the use of the development budget to finance measures, it is particularly important to demonstrate their contribution to development in partner countries.

DC is increasingly facing criticism for being too altruistic, and public support is also gradually diminishing (DEval, 2024). It is on this basis that there have been calls for a greater emphasis on Germany's self-interest. It should be borne in mind – and emphasised in public communication – that a very large part of DC benefits Germany directly or at least indirectly. The German economy profits from DC in a wide variety of ways:

- measures that increase political and economic stability in partner countries generate growth and create markets for German products;
- trade promotion increases global trade, which benefits Germany as an export nation;
- increasing the standard of living in partner countries reduces migration driven by poverty;
- measures that curb climate change and preserve biodiversity safeguard the very foundations of the German economy and create new markets for environmental technologies, eco-products and related services, which benefits German companies;
- recognition of Germany as a reliable political partner and an advocate of multilateralism and the Sustainable Development Goals (SDGs) promotes bilateral relations at company level.

DC can thus strengthen all these aspects in view of its economic self-interest without compromising the quality of its development contributions to partner countries. Moreover, there are good arguments for continuing to provide altruistic aid, irrespective of whether a direct benefit for Germany is immediately evident – for humanitarian reasons and in light of Germany's historical responsibility.

The following guidelines explain how the German (and European) economy can benefit even more directly from DC without imposing conditions on the partner countries that distort competition.

Strategic preparation of cooperation offers in advance

Prior to intergovernmental negotiations with partner countries, offers could be elaborated jointly with the private sector and complementary ministries to involve possible contributions by the private sector and other German partners (e.g. technology institutes, German Academic Exchange Service – DAAD) more systematically right from the start. As overall service packages, these could be even more attractive options for the partners compared with traditional TC/FC offers.

This requires a political sequence in which the group of German ministries responsible for foreign policies first define the overarching national interest (for society as a whole) in cooperating with particular countries. This will differ considerably from country to country: some are important for securing raw materials and energy supplies, for example, others for attracting skilled workers or curbing illegal migration, and still others for expanding trade relations or engaging in research cooperation. Foreign policy instruments should then be combined to achieve these goals. No convincing whole-of-government strategies of this kind have been developed to date and there is not enough coordination between the different specialist institutions.

The German Ministry for Economic Cooperation and Development (BMZ), together with its implementing organisations, would then have the task of integrating this self-interest into offers that make sense from a development policy perspective for the intergovernmental negotiations. The overarching strategic interests could also contribute to sharpening the focus of portfolios for individual countries. At present, most of the portfolios are overloaded with too many topics and are thus almost impossible to steer, including in terms of engaging the German private sector. If two to three strategic areas were prioritised, interested German businesses and other ministries could be consulted on possible contributions before (!) intergovernmental negotiations take place and offers are prepared. This could be included in BMZ's FC/TC Guidelines as a mandatory requirement. Particular attention should be paid to close integration with foreign trade promotion under the German Federal Ministry for Economic Affairs and Energy (BMWE), scientific and technological cooperation under the Federal Ministry of Research, Technology and Space (BMFTR), and climate action measures by the Federal Ministry for the Environment, Climate Action, Nature Conservation and Nuclear Safety (BMUKN). Political support at the highest level is equally important, which is why the Federal Chancellery and the

Federal Foreign Office should be involved at an early stage. Although other ministries currently issue ex-post statements on the country portfolios negotiated by BMZ, they do not play an active role in shaping these portfolios.

This could be the key role of the 'joint contact point for foreign trade promotion and development co-operation for the German private sector', as referenced in the coalition agreement: proactively developing synergistic service packages at the interface between German self-interest and the development policy interests of its partners. An interministerial steering group could be responsible for coordinating activities between the different ministries. The new coordination body could be considerably more effective than a reactive 'point of contact' for any kind of enquiries from businesses. Table 1 shows some examples to illustrate this approach.

Once such bundled offers have been negotiated, the develoPPP programme could then launch special tenders tailored to these offers to involve further German companies. Focus topics under the develoPPP programme have been defined very generally so far (e.g. for 'climate and environmental protection') in order to reach as many companies as possible. If, however, the German Government were to establish strategic dialogues with the private sector on strategic topics (such as securing resources or skilled labour migration), in which support approaches coordinated between ministries were presented, this would ensure that develoPPP attracts interest from a wider range of businesses. Conference formats such as the Hamburg Sustainability Conference could be put to more systematic use to advance these partnerships.

This kind of strategic preparation of cooperation offers prior to negotiations is hardly feasible for all partner countries. It is especially important in countries where Germany has a particular interest, e.g. in tapping into new markets, securing access to resources or promoting orderly migration, such as in Brazil, India or Morocco. The more long-term, more stable and more focused the list of partner countries is, the more promising the synergies are between development policy interests and economic self-interest. The coalition agreement states that BMZ aims to move away from the country list in order to be able to respond more flexibly to the needs of German and European businesses. This potentially conflicts with the need to negotiate integrated long-term cooperation programmes with key partner countries.

Like the coalition agreement, the EU's new work programme – the Clean Industrial Deal – also provides for more effective integration of foreign trade promotion and development finance. German DC should thus explore synergies with the range of tools created by the Clean Industrial Deal, such as new financial products to support investments in upstream raw material supply chains in third countries, which KfW can help shape, and the Trans-Mediterranean Energy and Clean Tech Cooperation Initiative, which outlines an active role for businesses. Germany has innovative, agile small and medium-sized enterprises (SMEs) in the field of energy project development that, unlike many multinational corporations, are unable to finance such investments through equity alone.

Table 1: Examples of integrated approaches with the German private sector to the mutual benefit of both sides

Common interest	DC offer	German businesses and institutions that can be involved in preparing the offer
Securing resources	Value creation partnerships that include long-term supply contracts in exchange for technology transfer and environmentally and socially responsible implementation, flanked by scientific and technological cooperation (e.g. with Fraunhofer institutes), IPEX financing and FC/TC measures for sustain-able and socio-economically relevant design	Technology suppliers such as indurad, processing companies such as Aurubis and AMG Lithium, IPEX, KfW Development Bank, Helmholtz centres and Fraunhofer institutes
Avoiding carbon 'lock-in' in expanding megacities	Environmental transformation of cities as an employment and economic stimulus programme, systems consulting + FC, supplemented by private-sector know-how and, where appropriate, partnerships with universities of applied sciences	Architectural and urban planning firms with experience in designing green cities (e.g. in China), devel-opers of innovative building materials and construction methods (peer learning and new business models with companies in partner countries), and lead companies such as Siemens Mobility and SIG
Establishing carbon-free value chains for the steel and automotive sectors and avoiding CBAM conflicts	Cooperation aimed at establishing carbon-free supply chains, encouraging investment in steel intermediates (such as direct reduced iron) and motor parts, and supporting CBAM-compatible certification	German steel and automotive industry, management consulting firms that support CBAM certification on the basis of the ETS, TÜV Süd, H2 Global, KfW Development Bank (PtX Platform)
Preventing migration driven by poverty, attracting skilled workers	Training programmes in the partner country designed to train skilled workers for the partner country itself **and** for recruitment to Germany, with a focus on occupations in which there is a shortage of workers in Germany (carers, medical assistants, IT) and on contributing to structural change in partner countries	Hospital operators, chambers of skilled crafts, technical colleges and professional associations, medical and dentistry associations
Opening up partner countries for business process outsourcing (BPO) for German companies, creating broad-based employment	Using integrated sectoral approaches to promote BPO as a labour-intensive sector in partner countries and establishing networks with German clients	Companies outsourcing IT and other service functions, established German BPO providers, GIZ as a systems advisor in the partner countries, and the German Chambers of Commerce Abroad acting as intermediaries

Abbreviations:
CBAM = carbon border adjustment mechanism
IPEX = international project and export financing
ETS = EU Emissions Trading System

Strategic partnerships: creating initial flagship projects

Germany has initiated a large number of partnerships in recent years with a view to working with partner countries to improve the framework conditions for various policy areas. Most of these are designed as bilateral partnerships, for example in the field of climate, energy, hydrogen, securing resources and migration. In addition, there are several plurilateral partnerships, such as the Just Energy Transition Partnerships designed to provide social and structural support for the transition away from fossil fuels. Partnerships of this kind create the basis for strategic, overarching coordination of the respective policy areas across multiple ministries. The coalition agreement states that, 'in light of our interests', the Government aims to place strategic priorities on securing access to resources, addressing the root causes of displacement and promoting cooperation in the energy sector.

These partnerships need to meet three criteria in order to be effective:

1. They need to be effectively coordinated across ministries in order to align the different ministerial interests and to put policy instruments to the best possible use.
2. They should ensure partner-country ownership, which requires the country itself to be able to derive tangible benefits from them.
3. They should demonstrably deliver concrete improvements for both sides.

In practice, however, particularly with regard to bilateral partnerships, none can be seen as exemplary, efficiently coordinated models that embrace cooperation and generate demonstrable successes. For example, migration partnerships are designed to link the legally secure immigration of skilled workers with training opportunities that benefit the country of origin and with the removal of rejected asylum seekers; to this end, they aim to coordinate areas such as training, the issuing of visas, placement of workers and returnee programmes. In practice, this is often unsuccessful due to a lack of coordination between ministries, for example because training in the partner countries is not aligned with placement in Germany or because the visa departments of the embassies are hugely under-resourced. There are currently no partnerships that have the desired effect of steering migration, and ownership by the partners thus remains limited.

The situation is similar in the field of raw materials: Germany is heavily dependent on imports of critical raw materials and is highly concerned about China's control of numerous strategic supply chains. A bilateral raw materials partnership, for example with Brazil on lithium or with Indonesia on nickel, could aim to secure Germany's supply in the long term in exchange for investments, technology transfer and accompanying environmental and social measures. Here, too, an exemplary model is lacking, while China has already signed a large number of deals on raw materials in return for investments. In view of its lack of mining companies with international operations, Germany will have to either launch a company to procure and mine critical raw materials (possibly as part of an alliance with interested European corporations) or organise itself in other stable European partnerships in order to secure its supply of raw materials. The German Government will need to push for long-term supply contracts, which it could make more attractive by leveraging the full range of German foreign policy instruments: IPEX for investment financing, low-interest credits from KfW for environmental and socio-economic support projects, and scientific partnerships, for example with Fraunhofer institutes and technical colleges.

Moreover, a number of climate, energy and hydrogen partnerships have been set up under the leadership of BMWK (now: BMWE) (BMWK, 2023), but Germany has not managed to establish strong partnerships or initiate significant economic cooperation arrangements in these areas either. Despite numerous memorandums of understanding and extensive dialogues, here, too, Germany's foreign policy instruments are not as effectively coordinated as they could be. On a positive note, the creation of H2Global has provided a key tool to accelerate the market rollout of low-emission hydrogen to benefit the domestic industry, which has at least managed to mobilise its first supply contract (Schwarz, 2024).

It would be important for Germany's credibility and in its own interest to begin by **establishing at least one partnership as a model** in each of these strategic policy areas that could be presented as a good example of a 'win–win' solution. In order to enhance the impact of the partnerships, it is crucial to attract large companies to join these partnerships, such as steel companies (hydrogen), energy utilities (energy), metal processing companies (raw materials) and hospital operators (migration).

Developing integrated approaches with the German private sector in the mutual interest of both sides along with strategic partnerships requires specialist expertise, e.g. an in-depth understanding of the global division of labour in the energy transition or international raw material policy, and an awareness of which interventions would be of benefit to both sides; moreover, a good knowledge is needed of the range of instruments available to various German ministries and European Directorates-General alongside a familiarity with the business landscape in Germany and Europe. BMZ's current staffing model prioritises generalists over specialists and provides for regular task rotation. In order to be successful in designing the details of sectoral priority areas of cooperation, **BMZ should employ more experts and at the same time concentrate its portfolio in terms of the topics it addresses**.

Expanding minilateral formats with European states and influential third countries

Minilateral formats can be a useful supplement to bilateral partnerships in order to pursue Germany's interests. With regard to foreign policy, the coalition agreement mentions increased cooperation between the E3 (the United Kingdom, France and Germany). We suggest including influential partner countries from the Global South to a greater extent in minilateral formats, such as those classified by BMZ as 'global partners' (Brazil, China, India, Indonesia, Mexico, Peru, South Africa and Viet Nam).

Geostrategic triangular and quadrilateral partnerships with influential countries such as Brazil and India help to stimulate global transformation processes that benefit Germany and Europe but have currently taken a back seat due to the political direction followed by the United States; examples include the creation of green lead markets for climate-friendly steel and basic chemicals. At the same time, this kind of cooperation helps respond to competition from China.

Germany could use the G4 format (with Brazil, India and Japan), for example, to drive a coordinated carbon border adjustment mechanism (CBAM). This mechanism protects climate pioneers in industry and promotes harmonisation of regulations and standards. In this context, Germany should also see itself as a voice for the partner countries by ensuring that debates on topics such as the inclusion of Scope 2 emissions are constructive and are communicated at European level. An important factor here is coordination with the EU's newly founded International Carbon Market and Carbon Pricing Diplomacy Task Force, which is designed to boost the development of carbon pricing and markets across the globe; German DC could submit proposals concerning new product groups, efficient monitoring, dealing with possible industry relocations, etc.

China should also be involved in these kinds of minilateral formats wherever there are common interests. Involving China is particularly important in international climate action due to the country's dual role as both the largest emitter of greenhouse gases and the most successful driver of environmental technologies. China could also be included in partnership formats as part of Germany's efforts to strengthen global development financing. For example, KfW could team up with the China Development Bank and other influential international partners, including its French and Brazilian counterparts, to advocate establishing a **strong network of national development banks**. Such banks are important in order to channel financial flows into socially desirable areas. There are already a number of ad hoc cooperative initiatives between these banks that could serve as a starting point. An alliance could promote peer learning, create a political counterweight to concerning trends within the World Bank and support third countries in setting up relevant institutions, for example by providing a guarantee framework for longer-term, development-oriented loans.

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