

# The Reality of Aid

A critical assessment of  
German development policy

Special focus:

## Heading for Copenhagen

Demands on German Development Policy  
for climate change and adaption financing

Extract

## Highlights – At a glance

■ **Triple global crisis intensifies problems of developing countries.** The combination of the global food crisis, the worldwide economic crisis and global climate crisis has devastating effects on the developing countries. Capital inflows have come to a standstill, raw material proceeds are falling and numerous countries are faced with a new debt crisis. Sinking state revenues mean less funds for health, education and social security. Women and children are particularly affected by the effects of the crises. The G20 has not yet sufficiently reacted to these problems at its crises summits.

■ **Poverty, unemployment and hunger are increasing.** As a consequence of the crisis, the number of those suffering from starvation has increased to over a billion in 2009, i.e. every sixth person in the world suffers from hunger. Due to the global financial crisis, the number of people living in extreme poverty has increased by more than 100 million. The International Labour Organisation (ILO) fears that the number of those unemployed worldwide will increase by up to 100 million by the end of 2010. The crisis affects people in all regions of the globe: Textile industry workers in Nicaragua, Alpaca breeders in the highlands of Peru, copper mine workers in Zambia and families in Tajikistan waiting for money transfers from family members abroad on which they depend.

■ **Climate hits poor regions particularly intensely.** The consequences of the global climate change are already becoming obvious in many developing countries: Storms and floods are increasing just as heat periods and droughts. If the governments fail to take decisive counter-measures, the changes in climate will destroy the livelihoods of many farmers in Africa, diseases such as malaria and Dengue fever will spread to areas momentarily not affected, the water shortage will intensify in many countries, declining fish stocks will endanger the basis of the income of many people. Poor countries are bearing 90 percent of human victims and the economic costs of climate change. 15 of

the 20 countries particularly vulnerable to the climate change are located in Africa.

■ **Global warming must be restricted to two degrees centigrade.** In order to limit global warming to two degrees centigrade compared to the pre-industrial level, governments must take immediate action. According to prognoses by the Intergovernmental Panel on Climate Change, the industrialized countries together must reduce their greenhouse gas emissions by 2010 by up to 40 percent compared with 1990. At the same time, adaptation measures to adapt to unavoidable climate changes have to be stepped up consequently. The main responsibility for this falls on the industrialized countries. Until now, they are responsible for almost three quarters of global greenhouse gas emissions.

■ **Financial requirements of developing countries 100 to 500 billion euros.** The costs of the climate change in developing countries and the associated financial requirements for environmental protection measures and the adaptation to unavoidable climate change are estimated at up to 100 billion euros a year and will increase in the next two decades to a level of about 500 billion euros.

■ **One percent for climate and development.** The climate changes caused by the industrialized countries bring about additional costs for climate protection and the adaptation to climate change. Therefore, they require the provision of additional funds by industrialized countries. According to cost estimates so far, the current external financial requirement of the developing countries amounts to 100 billion euros which translates to about 0.3 percent of the gross national income (GNI) of Western industrialized countries. In combination with the long-standing goal to increase the official development assistance (ODA) to 0.7 percent of GNI, there is an obligation to increase the financial transfers to Southern countries in support of sustainable development to one percent of GNI.

The costs of doing nothing would be substantially higher.

■ **Climate protection can be funded.** Compared with the financial resources spent by the governments on economic stimulus packages and subsidies, the financial requirements for climate protection and adaptation measures in developing countries is low. In 2008, Western industrialized countries spent 265 billion US dollars alone on agricultural subsidies; about 300 billion US dollars were spent globally on (environmentally harmful) subsidies for fossil fuels; and the global economy stimulus packages to respond to the worldwide economic crisis amount to 2,700 billion US dollars (2009 to 2011).

■ **Growing complexity of international climate funds.** In the past years, new climate funds and climate financing initiatives have shot up. This institutional fragmentation entails the danger of duplication of efforts, increases the need for coordination and weakens the role of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC). In the ongoing climate negotiations, one of the objectives will be to end the trend of institutional proliferation and to strengthen the UNFCCC as the central decision-making body.

■ **Emission trading vulnerable to stock market speculation.** The trading of emission certificates at the stock exchanges is not immune to speculation and misuse. Above all, this applies to trading of certificates from Clean Development Mechanism (CDM) projects. A booming secondary market has now emerged here, with transactions that have multiplied five-fold within one year to 26 billion US dollars (2008). Trade in emission certificates is increasingly becoming a derivatives trade in which major banks, institutional investors and hedge funds play a growing role – with the associated risks. Furthermore, the CDM projects have concentrated until now on a few emerging countries (in particular China, India, Brazil, Mexico) only;

this form of climate investment mainly flows past the poorer countries.

■ **Growing significance of climate protection in the German development policy.** The Federal Ministry of Development (BMZ) increased its climate-related expenditure between 2008 and 2009 by more than 40 percent from about 700 million to about one billion euros. Hence, an above-average portion of the budgetary increases was directed at the climate sector. Focal areas are the energy sector and forest protection. Due to the coupling of BMZ grants to loans by the KfW development bank, the German official development assistance directed towards the climate sector will reach around 2.25 billion euros in 2009. But only the creditworthy development countries in “non-critical external debt situations“ will benefit from these funds. In particular the highly indebted developing countries will not profit from this development. In order to bear a fair share of the climate costs of the developing countries, Germany would have to more than triple its public funds for international climate protection. But this must not happen at the expense of other core objectives of development policy.

■ **Insufficient increase of ODA – despite a record high.** The official development assistance of the Western donor countries increased in 2008 to the record level of 119.6 billion US dollars. In 2007, ODA only amounted to 103.5 billion dollars. Thus, the declining trend of 2006 and 2007 was stopped. However, the ODA rate, i.e. the share of the official development assistance in the gross national income (ODA/GNI %), is below the 2005 value at 0.3 percent (0.33 percent) and far short of the promised 0.7 percent target. As in previous years, only five countries achieved this target: Sweden, Luxembourg, Norway, Denmark and the Netherlands.

■ **Significant increase of German ODA.** In the ranking of the Western donor countries, Germany takes second place in absolute figures. In 2008, the German official development assistance

increased to 9.6 billion euros. In 2007, this figure was 9.0 billion euros. Measured by its economic power, Germany only take 14th place and is thus in the lower middle of the 22 Western donors. Between 2007 and 2008, the German official development assistance only rose by 0.01 percent to 0.38 percent.

■ **Target 2010: 1.7 billion more for development aid.** Within the EU commitments to gradually increase official development assistance, the German government has committed itself to increase the German development aid to 0.5 percent of the gross national income by 2010. All parties in the German parliament - with the exception of the liberals - have confirmed this target in their election programmes for 2009 until 2013. According to estimates of the European Commission and in order to achieve this target, the German official development assistance must increase by about 1.7 billion Euros in 2010. In the coming years, similar increases are necessary to reach the 0.7 percent target by 2015.

## Conclusions and policy recommendations

As a result of the global triple crisis (global food, economic and financial system and global climate crises), the policy of the Federal Republic of Germany towards developing and newly industrializing countries at the beginning of the new legislative period is faced with tremendous challenges. The global economic and financial crisis has now reached all countries of the South, triggering an economic recession in many of them. The global food crisis has not yet been overcome by any means. The number of those starving exceeded the threshold of one billion in 2009 and the food security of many more is threatened. Structural problems such as poverty and social injustice intensify these acute crises in many countries. This repeatedly hits the poor and marginalised groups in a society, frequently women and children, due to a lack of education, lawlessness, malnutrition and health. The international development goals, including the Millennium Development Goals (MDGs), move further and further away from fruition.

It is now in the hands of the German Government and the German Parliament to support the countries of the South with additional measures in their battle to overcome the crises. This not only involves the increase of development financing already promised before the crises. More efficient regulations of the financial markets and substantial reforms of the international financial institutions to prevent future crises are just as important as to respect the interests of the developing countries in the international economic and financial policies. The resolutions of the three G20 summits so far have not met these requirements.

In the face of pending climate changes development policy is faced with additional challenges. In order to limit their greenhouse gas emissions and to adapt to the unavoidable climate changes, developing countries need a substantial amount of environmentally compatible technologies and additional funds. For Germany, the provision of these is not a question of charity but of international obligation. In line with the polluter-pays principle, Germany is jointly responsible for the – past and future – damage caused by the excessive emission

of greenhouse gases. As all other industrialized nations, Germany has accumulated climate debts towards the countries of the South, which it must return in the coming years and decades. A core task of the Copenhagen climate summit is to achieve binding agreements towards these aims at the international level. Germany must use all its political weight to ensure a breakthrough towards a fair climate deal between industrialized, newly industrializing and developing countries.

In reaction to the global triple crises (global food, economic and financial system and global climate crises) *terre des hommes* and *Welthungerhilfe* consider the following nine policy measures to be essential as development policy response from the new Federal Government in Germany:

### 1. One percent of the gross national in-come (GNI) for climate and development

The obligations arising from the EU aid commitments to increase the Official Development Aid (ODA) to 0.51 percent of GNI by 2010 and to 0.7 percent by 2015 are also binding for the new German Government. Amongst other objectives, these funds are necessary to fund investments in developing countries for health and educational systems, to supply the people with clean drinking water, to treat HIV and AIDS, malaria and tuberculosis for all affected, to reduce infant and maternal mortality and to increase domestic food production for the local population.

The climate changes, brought about by the industrial nations, bring about additional costs for climate protection and adaptation to the climate change in developing countries. Therefore these countries require the provision of additional funds by the German Government. Cost estimations assume that the external financial requirements for the developing countries is approx. 0.3 percent of GNI of the Western industrial nations and will continue to rise over the coming years. In combination with the ODA commitments, this results in

the obligation to increase the financial transfers for the countries of the South to one percent of the GNI to support sustainable development.

»» The Federal Government must commit itself at the Copenhagen climate summit, to make available at least 0.3 percent of GNI for climate protection and adaptation to climate change in the developing countries. This must not happen at the detriment of other development policy objectives. Therefore, the obligation results to mobilize at least one percent of the German GNI for climate protection and sustainable development in the South. This must be reflected in the Germany budget 2010 and in the medium-term financial planning of the new German Government until 2013.

In response to the latest financial crisis, the German Government and the German Parliament provided for three-digit billion euros in support of banks considered as "systemic". With their budget policy, they should demonstrate that to them the protection of the global climate and the fight against worldwide poverty are at least just as "systemic".

»» During the negotiations for a Kyoto follow-up treaty, the German Government should support the proposal to partially or fully auction the assigned amount units (AAUs) internationally and to use the funds appropriately for climate protection and adaptation purposes. The revenues raised among all countries could amount to a two-digit billion figure, depending on the extent of the contingent of AAUs sold.

At the same time, Germany should continue to commit itself to the introduction of a nationally levied and internationally coordinated CO<sub>2</sub> tax. Furthermore, it should press for the short-term introduction of levies on the use of air space for aviation and the oceans for maritime traffic as proposed already by the German Advisory Council on Global Change (WBGU) in 2002.

Finally, the new German Government should commit itself to the introduction of an international financial market tax, as supported, among others, by the Federal Chancellor at the G20 summit in Pittsburgh. It is important that the revenues from such a tax are not used to fill in budget holes, but are used for climate change and development related objectives.

## 2. Introduce innovative instruments of climate funding – an instrument mix

There are various options for mobilising additional funds for climate protection and adaptation measures. These include the introduction of a nationally charged and internationally coordinated CO<sub>2</sub> tax, which was already suggested several years ago, the auctioning of national assigned amount units (AAUs), which are allocated to the countries in a Kyoto follow-up treaty (see p. 30/31), the introduction of usage fees in aviation and maritime transport and the introduction of an internationally coordinated financial market tax. Considering the size of the financial requirements, it would not be useful to limit oneself to just one of these instruments and to generally discard the others. In addition, it is of general importance that the mobilised funds are made available for climate protection in a verifiable, appropriated and reliable long-term manner and are not diverted according to political preferences.

## 3. 50 percent of revenues from emission trading for international climate protection

In 2008, the German Government earned 933.3 million Euros from the auctioning of EU emission certificates in Germany. Of this, the German Environment Ministry spent about 11 percent on international climate protection initiatives (see P. 34). In 2009, 230 million Euros are foreseen to be used for development-related purposes. The total revenues from emission trading will, however, only amount to around 510 million Euros, due to a drastic decline in prices. Yet, the German Govern-

»» The new German Government should increase the share of revenues stemming from emission certificate trading for climate protection and adaptation measures in developing countries by at least 50 percent. According to the Federal financial perspective, this would equal an increase to at least 450 million Euros in 2010. The funds should predominantly be targeted towards the poorest countries that are particularly vulnerable to climate changes.

ment estimates that it will reach the level of 900 million Euros again from 2010 onwards.

»» The new German Government should increase the share of revenues stemming from emission certificate trading for climate protection and adaptation measures in developing countries by at least 50 percent. According to the Federal financial perspective, this would equal an increase to at least 450 million Euros in 2010. The funds should predominantly be targeted towards the poorest countries that are particularly vulnerable to climate changes.

#### 4. Avoid speculations with climate protection

The trading of emissions certificates at the stock exchange is not immune to speculation and misuse. This particularly applies to the trading of emission reduction credits from international climate protection projects. A booming secondary market has developed in the meantime, which transactions have multiplied 5-fold within one year to 26 billion US dollars (2008), above all for certificates from projects within the Clean Development Mechanism (CDM) framework. The trading of emission certificates is increasingly becoming derivatives trading, in which major banks, institutional investors and hedge funds are playing a growing role – including the associated risks.

»» From the experiences with the recent financial crisis, the German Government should draw the conclusions and carefully examine to which extent there are risks associated with emission certificates trading at stock markets, the creation of new financial products in the field of climate policy and the provision of related secondary markets. Germany should advocate for effective international regulations to prevent the CO<sub>2</sub> trade from becoming the object of speculative attacks and a possible new starting point for another “subprime” crisis.

#### 5. Consolidate the international financial architecture in the climate field – overcome fragmentation

In the last years, international funds and financing initiatives in the climate field have shot up in no time. Above all, the World Bank has benefited with its climate investment funds, while the financing instruments of the Framework Convention on Climate Change, in particular the Global Environment Facility (GEF), remain weak. The principles of the Paris Declaration on Aid Effectiveness should also apply to the field of climate policy. For the future system of climate funding, this means to stop the trend of the continuous creation of new financing initiatives and improvement improve the coordination and control at international level.

»» The German Government should commit itself to overcome the institutional fragmentation in the field of climate policy and to create a consolidated system of international climate funding, in which the Conference of the Parties to the UNFCCC assumes a central coordinating role. In the current negotiations on the fifth replenishment of the Global Environment Facility (GEF), Germany should support the demand for a triplication of the GEF funds to 10 billion US Dollars and should increase its own pledges for the four-year period 2010-2014 accordingly to 900 million US Dollars. At the same time, Germany should also commit itself to the further reform and increase of efficiency of the GEF.

#### 6. Prevent the intensification of the world food crisis

The heralds of worldwide global warming and the consequences of the global financial crisis threaten to further intensify the world food crisis. The drastic increase in land grabbing by foreign investors and the boosted export production of agro-fuels pose additional threats to food security for the people in Africa, Asia and Latin America. The German G8 commitment to increase its development cooperation funds in the coming three years to a total of 700 million Euros per year is a positive signal, but not sufficient by far.

»»» The German Government should once more define rural development as a focal theme in its development cooperation and quickly implement increase of the funds announced. Instead of further increasing its agricultural export subsidies in reaction to the economic recession in its own country, the German Government should advocate for the discontinuation of this harmful practice within the EU and to put an end to agricultural export subsidies, particularly to Africa, immediately.

Furthermore, the German Government should take the initiative to clarify the threats and effects of land grabbing at an intergovernmental level. Long-term leasing to investors should only take place under the obligation to a sustainable agricultural concept including the participation of the affected population (farmers' organisations, women's networks etc).

Finally, the new German Government should commit itself to ensure that the cultivation of agro-fuels in developing countries is subject to a system of binding human rights and sustaina-

## 7. Strengthen the weight of the "G192" in economic and financial issues

The reactions of international politics to the global economic and financial crisis have made clear that the interests of the developing countries are only considered in crisis management if they can be effectively integrated into the economic and financial political decision processes. Within the framework of the G20, this is not the case. It was therefore highly welcomed that the Federal Chancellor, and before the Federal Development Minister as well, came out in favour of founding a Global Economic Council within the United Nations framework paralleling the Security Council. Disappointingly, she did not come up with a political initiative to follow up on her appeal.

At the UN conference on the global economic and financial crisis in June 2009, governments decided that the United Nations should play a more important coordinating role in economic and financial issues. Whether this is the case or not depends on how seriously governments take the decisions made at the conference. The German Government can make up on lost time here.

»»» The German Government should actively endeavour to ensure that the resolution of the UN conference on the global economic and financial crisis to attribute a larger coordination role in economic and financial matters to the United Nations is taken seriously. For this purpose, it should actively participate in the new working group of the UN General Assembly on the global economic and financial crisis. Furthermore, it should politically and financially support the foundation of an ad-hoc expert panel of the UN on this topic following the model of the World Climate Council explicitly called for by the Federal Development Minister, and commit itself to a broad participation of civil society organisations.

## 8. No neglect for social development goals despite acute crises


In 2009, the German development policy was determined by the global crises in the economy, food and climate sectors. It reacted rightly with the provision of additional funds. But the acute crises must not defer attention from the fact that there are still a multitude of other urgent development tasks ahead. These include the support for gender equality, the battle against infant and maternal mortality, the universal education of boys and girls, the worldwide treatment of HIV and AIDS and the general strengthening of health systems. With the MDGs, the governments had committed themselves to enable the medical care of all those suffering from HIV and AIDS by 2010. Setbacks are now to be feared in all of these fields due to the effects of the global economic and financial crisis.

»»» Even faced with the intensive action required to combat the acute crises, the German Government must not neglect the tasks in other core areas of social development. This particularly applies to the strengthening of gender equality, healthcare provision and support for the educational sector. The governments of many partner countries have to lower their state expenditures in these fields as a result of the worldwide recession. It is hence even more important that the donor governments not only keep their contributions constant, but also increase them. The German Government and the German parliament must consider this in the 2010 budget accordingly.

## 9. Strengthen the battle against capital flight and tax cooperation

The current financial crisis has underlined the importance of a stable income basis for governments of developing countries. Tax avoidance and corruption continue to hinder the creation of a sustainable system of public finances in many of these countries. Still effective counter-measures against tax evasion and tax avoidance are only possible on a multilateral level. The governments have acknowledged this by calling for supporting stronger international cooperation in tax matters both at the G20 and at the United Nations conferences in Doha and New York. Additionally, the German Government has set a positive signal with their initiative for an International Tax Compact, initiated by the German Development Ministry. However, this initiative must be politically and financially strengthened.

»» The German Government and the German Parliament should put a higher political emphasis on the problems of capital flight and tax avoidance in developing countries. Due to tax havens, Germany and others miss out on billions. Many countries of the South also belong to the losers. The German Government should thus put more weight on upgrading the international cooperation in tax matters under the auspices of the United Nations. For this purpose it should start a diplomatic initiative to finally turn the UN expert committee on international cooperation in tax matters into an intergovernmental body. At the same time the German Government should politically and financially support the initiative of the Development Ministry for an International Tax Compact. The Development Ministry should place more emphasis on strengthening „public finances in developing countries“ in its work and develop a comprehensive strategy to this end.



Deutsche Welthungerhilfe  
Friedrich-Ebert-Straße 1  
D-53172 Bonn  
Tel.: +49 228/22 88-0  
Fax: +49 228/22 88-333  
E-Mail: [info@welthungerhilfe.de](mailto:info@welthungerhilfe.de)  
Internet: [www.welthungerhilfe.de](http://www.welthungerhilfe.de)

terre des hommes Deutschland e.V.  
Hilfe für Kinder in Not  
Ruppenkampstraße 11 a  
D-49084 Osnabrück  
Tel.: +49 541/71 01-0  
Fax: +49 541/70 72 33  
E-Mail: [info@tdh.de](mailto:info@tdh.de)  
Internet: [www.tdh.de](http://www.tdh.de)