

Aid in the Form of Soft Loans: Export Promotion or Development Policy?

“A Comparative Analysis of Soft Loan Policies in Austria, Denmark, Germany and the Netherlands”

Werner Raza, DIIS Workshop, 2/12/2014, Copenhagen



OFSE
Austrian Foundation
for Development Research

Structure of the Presentation

- I. Introduction to the Study
- II. Statistical Overview of Soft Loan Financing
- III. Comparative Conclusions from Case Study Analysis
- IV. Options for the Future of Soft Loan Financing

I. Introduction to the Study

Motivation and Research Focus (I)

Motivation of the Study:

- So far little academic and public attention, though widely used instrument of external finance
- Though counted as ODA, the developmental dimension of soft loan policies has remained rather vague; this begs the question, whether there is a potential to be exploited for a stronger development orientation of soft loans

Research Questions:

- (1) How are development policy aspects integrated into design of soft loan policies at the international level (mainly the Arrangement)? Are they consistent with OECD's standards & principles for development policy?
- (2) How are development policy aspects implemented in national soft loan programs (case studies) ?

Motivation and Research Focus (II)

Main Parts of the Study:

- I. Historical Evolution and Institutional Structure of Tied Aid
- II. Soft Loan Policies of Four European Donor Countries (Case Studies)

Methods:

- Desk Research
- Data Analysis
- Document Analysis of OECD Archive Footage (1978 – 2005)
- Expert Interviews
- Case Study Analysis

Key Terminology

Tied Aid Credit:

- Concessional long-term credit (state-supported)
- Minimum concessionality level of 35 or 50% (depending on recipient country)
- Limited pool of recipient countries (GNI threshold)
- Tied to procurement of goods and services in the donor country
- Regulated by the Arrangement on Officially Supported Export Credits (in particular Helsinki Package)

Soft Loan:

- A concessional loan irrespective of tying status (not subject to the Arrangement)

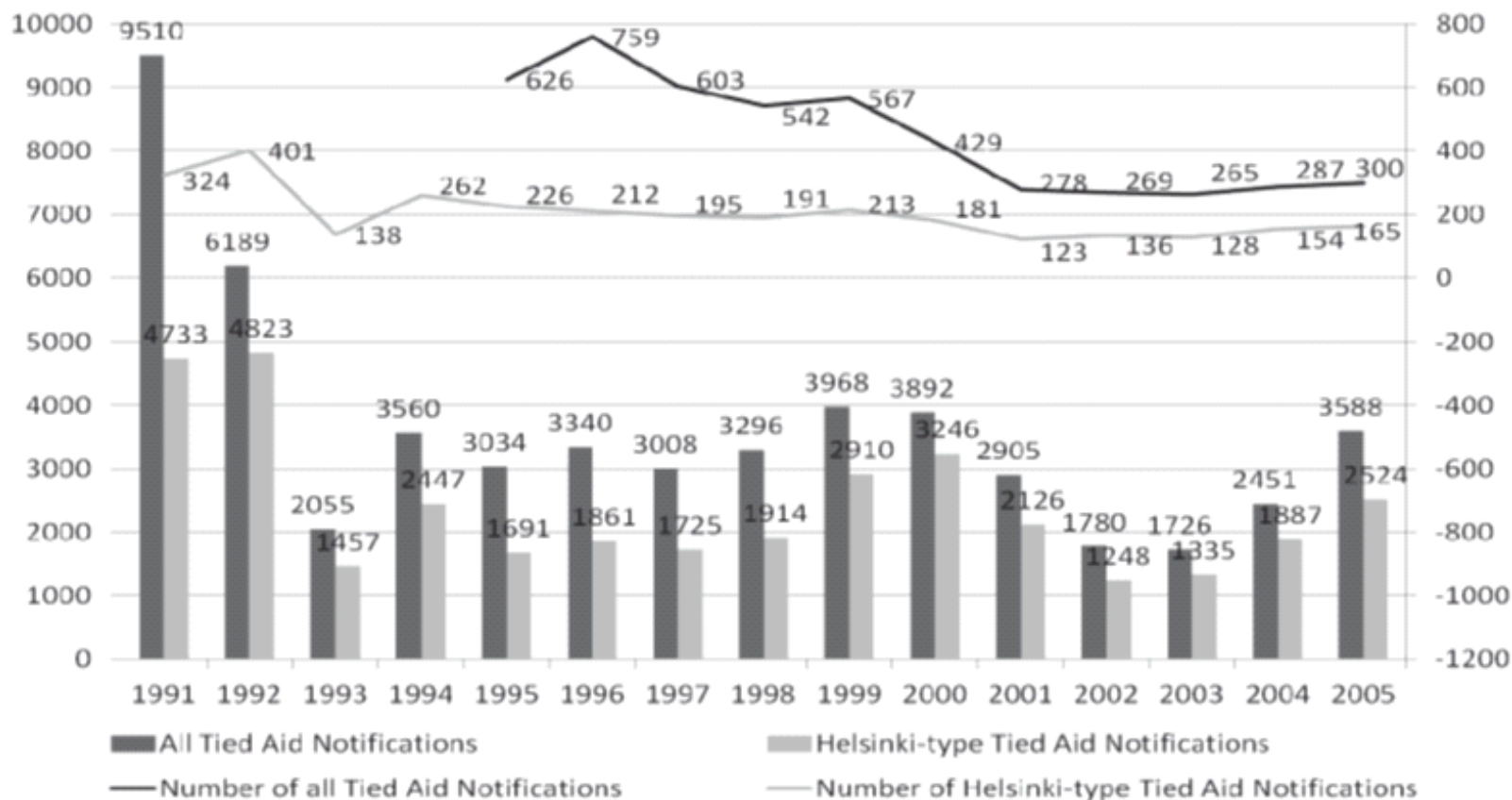
Development Orientation:

- DAC guidelines and principles (e.g. Paris Declaration, Policy Coherence for Development)

II. Statistical Overview

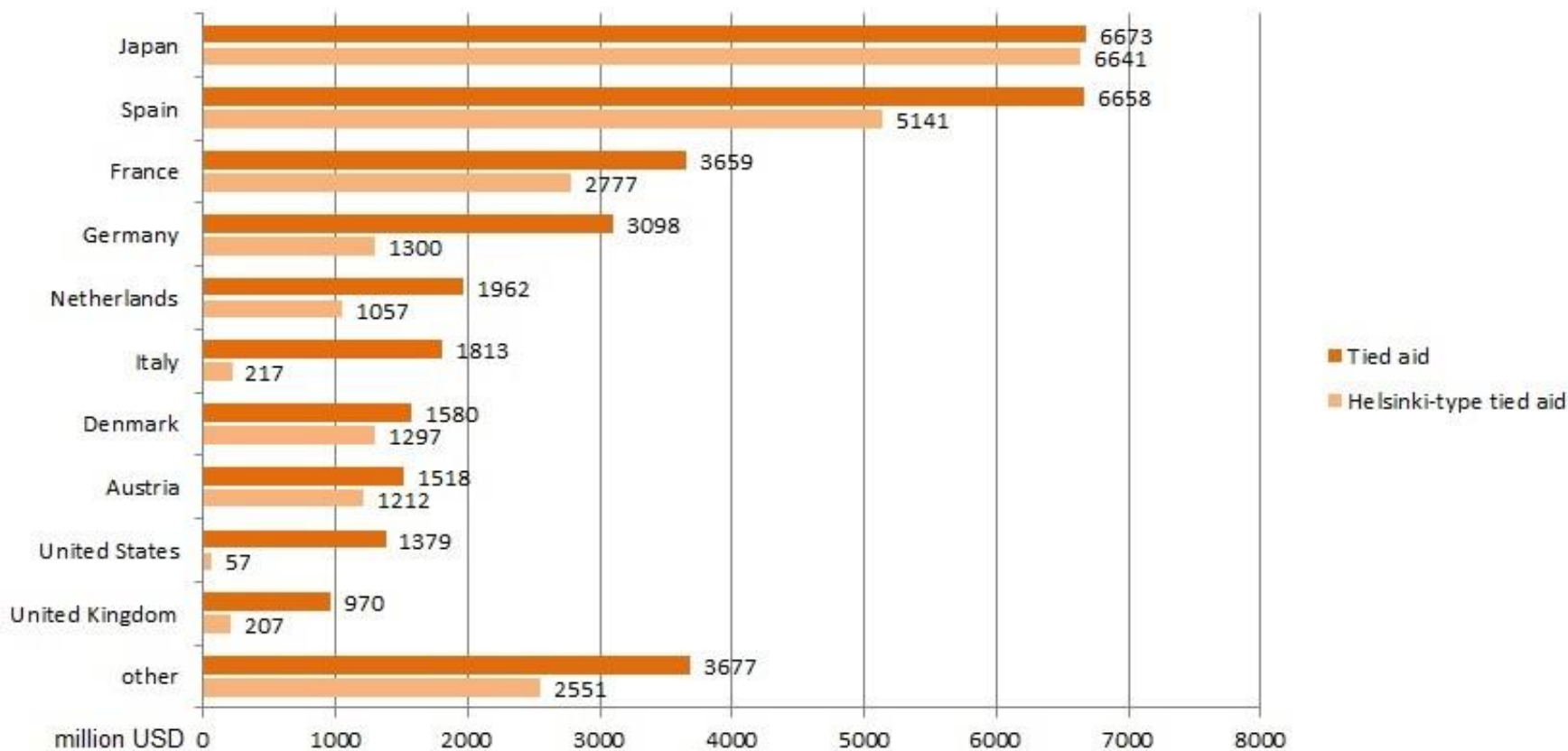
Quantitative Importance of Soft Loans (1)

Overview of the Volume and Number of Tied Aid Notifications (million USD)



Quantitative Importance of Soft Loans (2)

Donors According to the Volume of Helsinki-Type Tied Aid and Tied Aid per Donor Country (1995-2005)

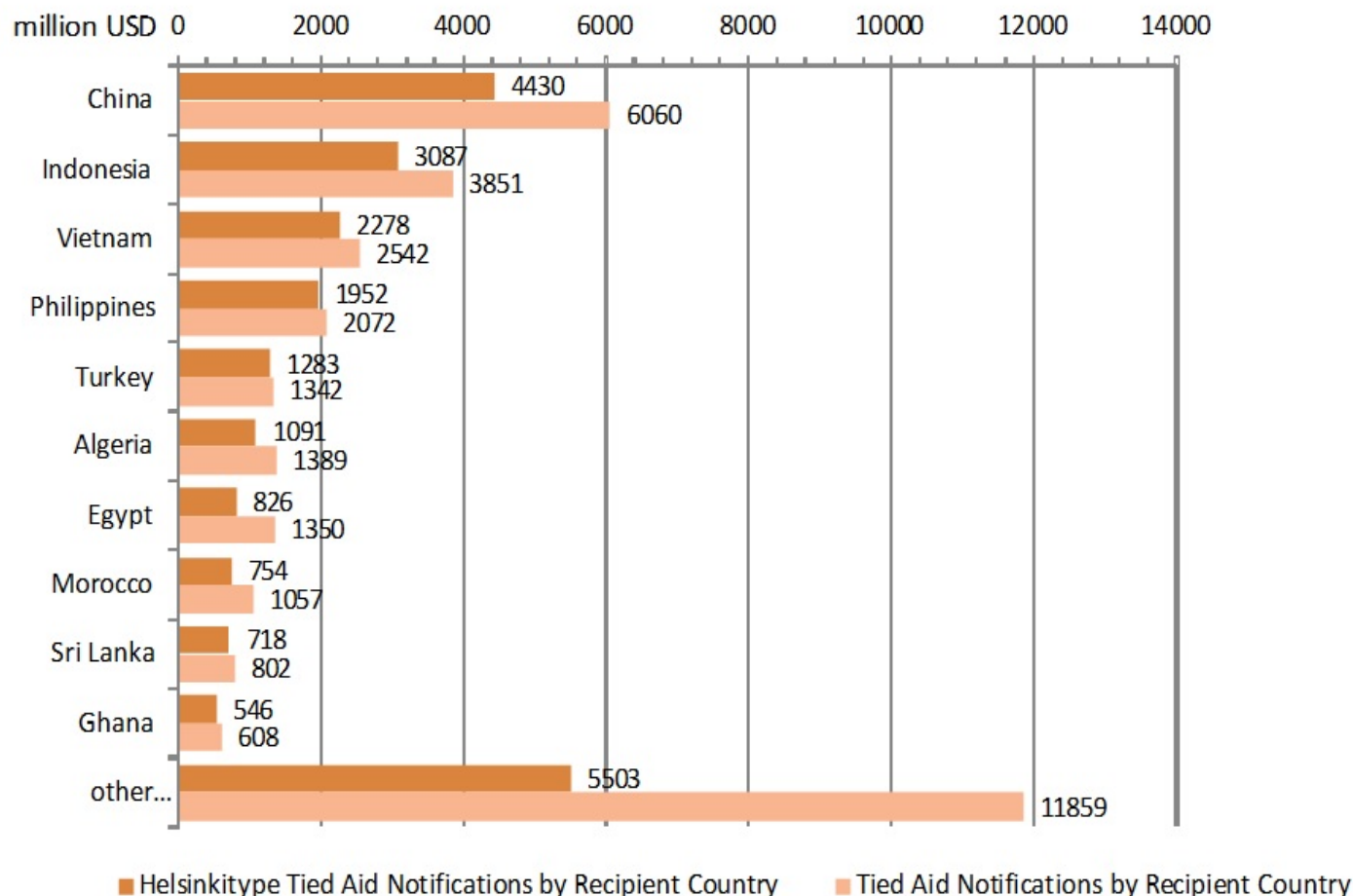


Source: TD/PG(2006)23; TD/CONSENSUS(97)57

Note: The data represents the tied aid (notifications) from 1995 to 2005. USD-based calculation.

Quantitative Importance of Soft Loans (3)

Absolute Helsinki-Type Tied Aid and Total Tied Aid by Recipient Country

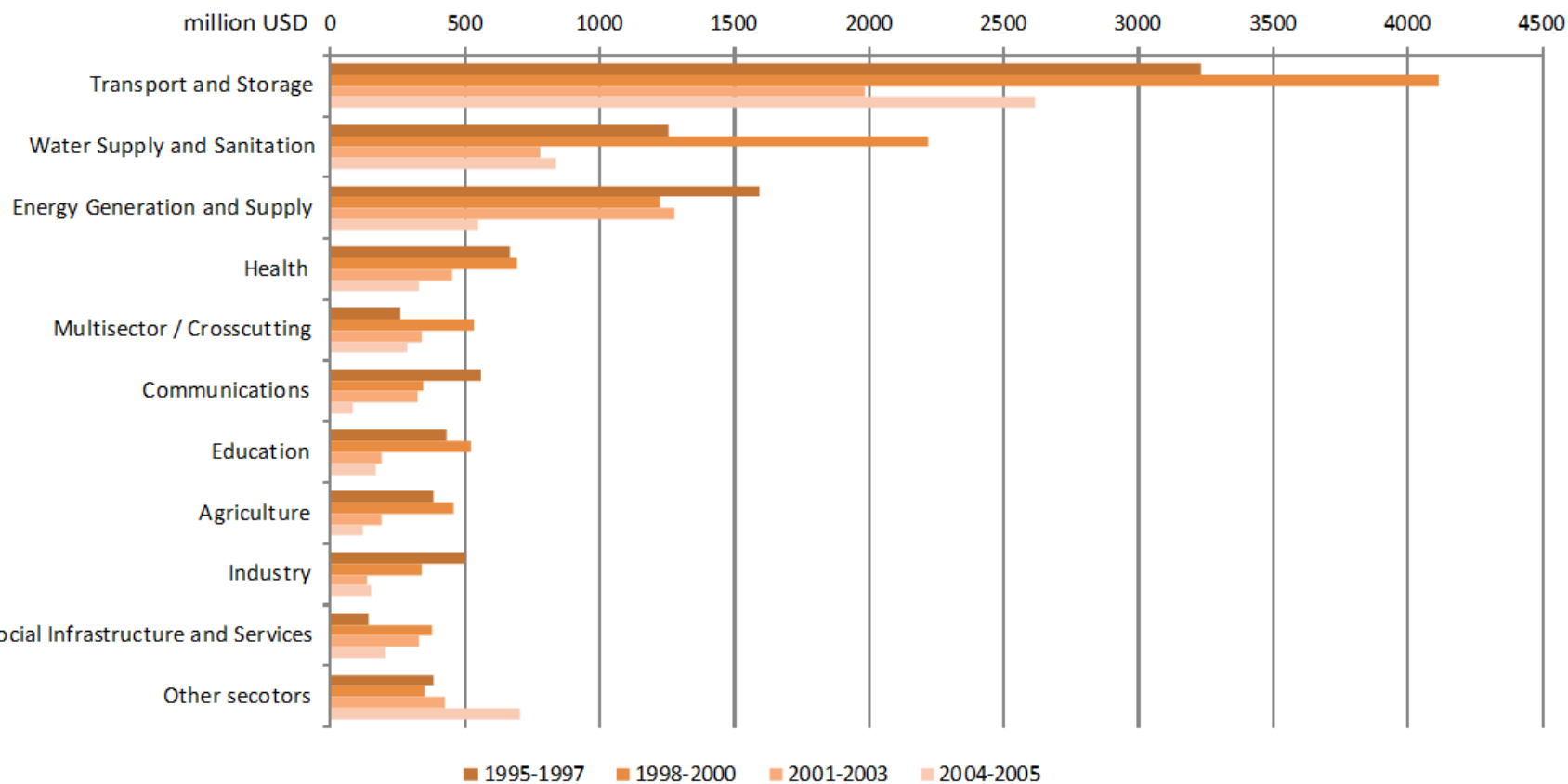


Source: TD/PG(2006)23

Note: The data represents notifications from 1995 to 2005.

Quantitative Importance of Soft Loans (4)

Total Tied Aid by Sector



Source: TD/PG(2006)23

Note: The data represents the cumulative volume of tied aid (notifications) from 1995 to 2005.

III. Comparative Assessment of Case Studies

Case Studies: Soft Loan Policies of Four European Donor Countries

Main Research Questions:

- To which extent and in which ways are development policy aspects integrated into national soft loan programs in selected OECD countries?
 - *How are development policy aspects articulated in the institutional set-up, decision-making processes, project evaluation procedures as well as transparency and accountability principles of the national soft loan programs?*
 - *Which commonalities and differences exist between national soft loan programs in particular with regard to program characteristics and objectives, institutional arrangements and development orientation?*

Choice of the Case Studies:

- Criterion 1: European financiers with large funding volumes
 - Criterion 2: Open economies that pursue export-oriented policies
 - Criterion 3: States that are generally considered pioneers in the field of development assistance
- ➔ Austria, Germany, Denmark, the Netherlands

Austria: Soft Loan Program

Characteristics of the program:

- Tied credits in accordance with Arrangement terms
- Under the responsibility of the Ministry of Finance
- Established, organized and promoted within the scope of the official export promotion activities (BMF, OeKB, WKO)

Development Orientation:

- Not aligned with program and country priorities of Austrian Development Cooperation
- Contribution to sustainable development in recipient country required, core tool to assess developmental impact is a questionnaire, to be completed by exporter

Germany: Financial Cooperation

Characteristics:

- Soft loans and other concessional finance instruments
- Annual Federal Budget Funds 2012: EUR 1.6 billion
- Leveraging of public funds with private capital
 - Development Loans: Total KfW funds to Total Budget Funds: 7:1 in 2007; 13:1 in 2012

Development Orientation:

- Alignment (+); Ownership (\pm);
- Officially untied; 60-70% % of deliverables are de-facto tied
- Informational and institutional advantages

The Netherlands: Dutch Programs

Characteristics:

- Officially no soft loan programs, de facto combination of grants and loans (export credits); results are mixed credits
- ORET-program -> ORIO (2009) officially untied; de facto tied
- Annual ORIO Budget 2012: EUR 180 million
- DGGF (2014): concessional finance, tied pillar

Development Orientation:

- Economic view of development
- Strong influence of Dutch business
- Dutch policy oriented towards export finance

Denmark: Danida Business Finance (DBF)

Characteristics of DBF:

- Tied mixed credits in accordance with Arrangement terms
- Since 2002 untied window – only if NCB not successful
- Annual Budget: ~ EUR 40 Million

Development Orientation:

- Integrated into the Ministry of Foreign Affairs/Danida
- Aligned with priority countries of Danish development cooperation
- (to be) aligned with Danida's green growth agenda
- Project approval by Danida's Grant Committees on the basis of project appraisals (including field missions)

Comparative Assessment

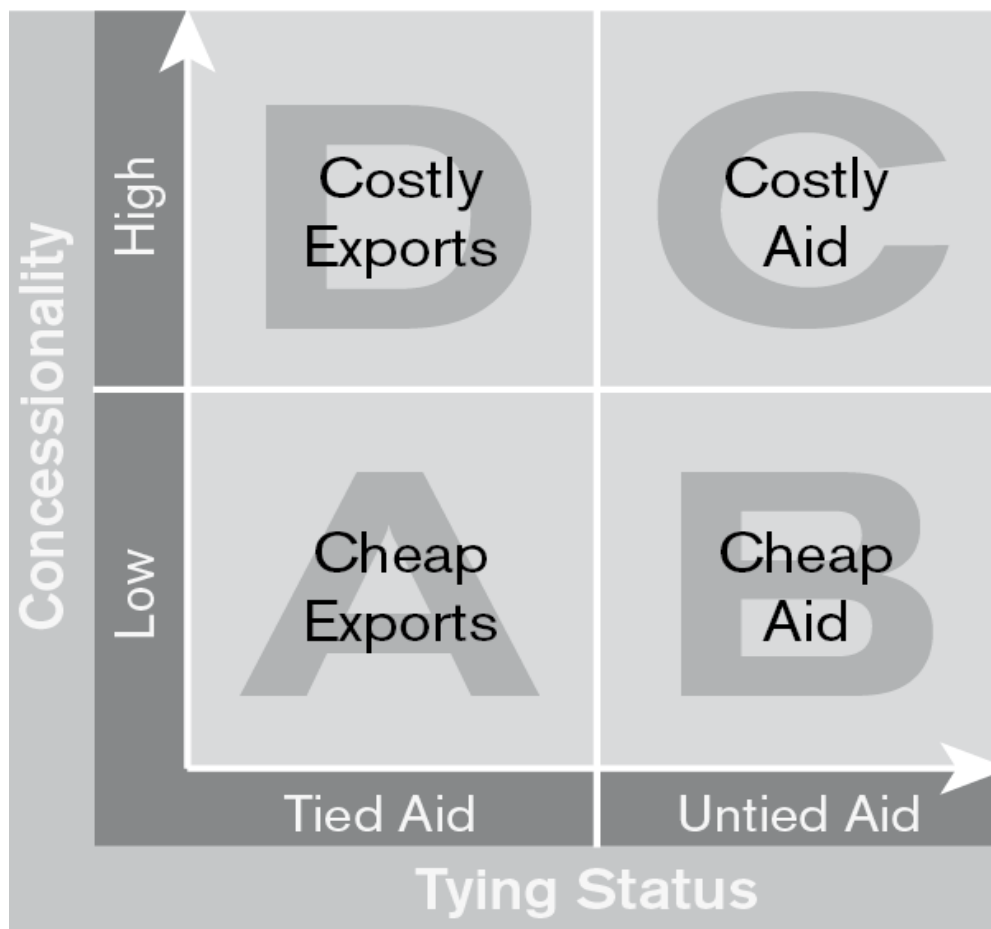
- (1) High Institutional Heterogeneity of Soft Loan Financing
- (2) Hybrid Instruments In-Between Export Promotion and Development Policy
- (3) Investments in Infrastructure as Key to Development

IV. Options for the Future of Soft Loan Financing

Emerging Trends in Development Finance

1. Graduation of traditional recipients (e.g. China) → loss of markets
2. Partial shift to untying → but not necessarily development motivated
3. Low-interest rate environment → difficult to reach minimum concessionality level without budget contributions
4. Fiscal austerity in EU → scarcity of ODA resources
5. Shift to export-led growth strategies → export interests again more important
6. New Donors → competition for export markets vs. more funds available for development

Four Scenarios for the Future



Conclusions and Challenges Ahead

- **Scenarios A and C** as ideal-type movement towards development orientation, but political feasibility doubtful
- **Scenarios B and D** involve problematic trade-offs, but probably more viable options under current circumstances
- Other challenges regarding **development orientation of soft loans**:
 - Ownership vs. supplier-driven policies
 - Local procurement vs. procurement-tied aid
 - Lack of monitoring and evaluation provisions vs. ensuring effectiveness



Thank you for your attention!

Livia Fritz, Werner Raza, Manuel Schuler, Eva Schweiger:
*Export Promotion or Development Policy? A Comparative
Analysis of Soft Loan Policies in Austria, Denmark, Germany
and the Netherlands,*

ÖFSE Edition 19, Vienna: Südwind Verlag, 459 pages

w.raza@oefse.at and l.fritz@oefse.at



A 1090 Vienna, Austria, Sensengasse 3 T +43 1 3174010
E office@oefse.at | www.oefse.at, www.centrum3.at

ÖFSE

Austrian Foundation
for Development Research

The ÖFSE Soft Loan Project

Full report:

Livia Fritz, Werner Raza, Manuel Schuler, Eva Schweiger: Export Promotion or Development Policy? A Comparative Analysis of Soft Loan Policies in Austria, Denmark, Germany and the Netherlands, ÖFSE Edition 19, Vienna: Südwind Verlag, 459 pages

Policy Note:

Fritz, Livia/Raza, Werner: The Future of Soft Loans as an Instrument of Development Finance: an Assessment, ÖFSE Policy Note 11, May 2014

All publications available at: www.oefse.at