KfW Development Research
Development in brief

New research findings confirm the benefits of development cooperation for German economy

Issue 7, 24 August 2026 // Author: Jonathan Lessing (University of Göttingen[1]), Editors: Heide Kühlken, Amrei Schommers

Particularly in times of tight public budgets, many people ask themselves whether development cooperation (DC) also benefits the donor country – for example, through increased trade and exports. Research has provided relatively strong evidence of this link, although the results vary depending on the period under study, the design of the measures and the respective trade structures. A **new study by the University of Göttingen**[2] addresses this topic and examines how bilateral DC between donor and recipient countries affects the export sector of the donor countries. As part of this wide-ranging analysis, the researchers conclude that the economies of donor countries benefit from development cooperation to a greater extent than previously assumed.

Research approach

The analysis is based on a standard model from trade research (the 'gravity model'). It covers the period from 2005 to 2024 for several European donor countries. This period encompasses different DC priorities and trade patterns – including a phase in which several DC recipients became important trading partners. The analysis includes both goods exports and, for the first time, exports of services, meaning the scope is broader than in many previous studies.

DC boosts exports and safeguards jobs in donor countries

The results of the study show that development cooperation has a **measurable and economically significant effect on the exports of donor countries.** Put into concrete terms, this means that a Euro of development cooperation funding that, for example, Germany invests in partner countries increases German exports of goods and services by **an average of 2.50 Euros in the medium to long term**. The additional exports generated as a result also help to create and safeguard **around 380,000 jobs in companies in Germany.** However, the study focuses on purely bilateral DC between donor and recipient countries, meaning that the effect **cannot be generalised to every development cooperation project.**

Indirect mechanisms also effective alongside direct trade channels

The effect appears to be driven not only by direct trade channels (e.g. 'Aid for Trade'), but also **by indirect mechanisms.** These include factors such as the **building of mutual trust, lower information barriers** between partners, or **increased demand for imports in partner countries driven by development progress.**

Varying impacts across countries and sectors

Although the overall effect is positive, it is clear that the **impacts are not equally strong everywhere.** They vary according to donor and recipient countries, economic sectors and also depending on which groups of countries are in focus.

This correlation is particularly evident in larger emerging economies. For poorer recipient countries, the effects tend to be significantly smaller, partly because their import volumes are typically lower.

For Germany, particularly **significant effects are recorded in sectors such as mechanical engineering, transport, information technology, and the chemical and electrical industries.** This illustrates that development cooperation does not automatically lead to increased exports everywhere, but that a rather nuanced analysis is required.

Findings and criticism of DC

The findings of the study provide a strong empirical **argument against the blanket criticism that development cooperation does not benefit the domestic economy.** Overall, the study shows that development cooperation not only supports long-term social development in partner countries; it also generates **measurable economic benefits in donor countries.**

Conclusion

Development cooperation has positive effects on Germany's exports. Nevertheless, it appears overly simplistic to **optimise development cooperation primarily for immediate trade returns in the future.** A one-sided focus on export effects could result in development policy objectives – which are crucial for the longer-term development of economies and trade partnerships – being pushed into the background. Rather, the findings suggest that funding approaches should be specifically designed in such a way that they combine **economic cooperation with development priorities.** Investments in sustainable infrastructure and climate protection can, for example, improve market opportunities for German companies in partner countries, without losing sight of development policy objectives. ■

[1] The author is employed at KfW IPEX-Bank GmbH and is currently on secondment to the German Federal Ministry for Economic Affairs and Energy. This publication was produced as part of an independent PhD programme at the University of Göttingen.

[2] Martínez-Zarzoso & Lessing (2026). More than Meets the Port: Donor Export Effects of Foreign Aid Revisited, IAI Discussion Papers No. 258. https://uni-goettingen.de/en/65593.html

ISSN 2195-1403