

D+C

Monthly e-Paper

DEVELOPMENT
AND COOPERATION

D+C

ENTWICKLUNG
UND ZUSAMMENARBEIT

E+Z

International
Journal

ISSN
2366-7257

March 2016

Refugees

The fate of a woman
who spent most of
her life in camps

Arab region

Saudi-Egyptian
relations are
changing

Urban air

Why Delhi's
local government
restricts car use



International financial institutions

Focus: International financial institutions

Deepening uncertainty

The world economy is not in a good shape. Growth is low in advanced economies and falling in most emerging markets. It is not obvious that old and new international financial institutions will rise to the challenges appropriately, warns **Iwan J. Azis** of Cornell University. [Page 14](#)

Setting standards

The World Bank's influence extends beyond its lending. Its standards are of global relevance. Korinna Horta of Urgewald, a German-based non-governmental organisation, warns that the Bank is set to dilute its environmental and social standards. [Page 17](#)

"Pool and share knowledge"

The IFI landscape is changing because of the Asian Infrastructure Investment Bank and other new established agencies. In interviews with D+C/E+Z, **Hans-Joachim Fuchtel**, ADB governor for Germany, and **Bruno Wenn**, the head of the German development finance institution DEG, have assessed what consequences the new scenario will have. [Pages 20 and 22](#)

Major breakthrough

In September 2015, the world community adopted the Sustainable Development Goals, and since October 2015, it also has a new international poverty line of \$ 1.90 per person and day. The World Bank has played a crucial role, writes OECD expert **Hildegard Lingnau**. [Page 24](#)

Back to square one

Last year, the World Bank discontinued its status reports on the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative, stating that debt relief had been concluded successfully. In the eyes of **Jürgen Kaiser** of *erlassjahr.de*, a German civil-society network, debt relief must stay on the agenda. [Page 27](#)

The original mission

IMF doctrines have changed over the years, especially as some programmes failed. **Fernando J. Cardim de Carvalho** of the Federal University of Rio de Janeiro assesses the Fund's track record. [Page 30](#)

Debate on industrial policy

The question whether governments should implement industrial policies to drive development is being discussed again. Contributions to the debate are more nuanced today than in the 1990s, argues **Michael Grimm** of Passau University. [Page 33](#)

Editorial

Cooperation beats confrontation

➔ The economic outlook is dark in many world regions. Commodity prices have recently been falling, and the dollar is getting stronger. Dollar-denominated debts are huge, and many borrowers may soon find it impossible to service them. New financial crises look increasingly probable.

When things come to the worst, international financial institutions (IFIs) are the lenders of the last resort. The International Monetary Fund (IMF) and World Bank matter especially in this regard. Their track record is mixed however. At the end of the 1990s, multilateral debt relief became necessary. The reason was that many developing countries were stuck in an endless downward spiral of debt, budget cuts and stagnation even though they had accepted "structural adjustment" as demanded by Fund and Bank in exchange for emergency lending.

Debt relief was successful, and many of the economies concerned began to develop promisingly again. In the currently worsening global scenario, however, that success may not be sustained. In some cases, debt levels look dangerous again.

On the other hand, structural adjustment worked out quite well for some countries. India rebounded fast in the early 1990s, and the same is true of Turkey and Brazil after the turn of the millennium. Obviously, structural adjustment can differ from country to country.

Observers say that the IMF and World Bank sometimes put the emphasis more on reducing government spending and sometimes more on liberalising markets. Some programmes were geared to jump-starting economies, but others worsened matters. Some observers suspect differences were intentional as technocrats were willing to set punishing examples for leaders' misbehaviour in small countries, but were eager to get big economies going again. The big ones, after all, have an impact on the health of the global system. Enforcing penalties, however, must not be the IFIs' job. No nation deserves to be punished for the failure of its government to run the economy well.

When the next crisis strikes, however, the IMF, the World Bank and the long-established regional development banks may no longer be the only IFIs that matter. In recent years, emerging-market governments have launched new ones. The most prominent are the Asian Infrastructure Investment Bank and the New Development Bank. Both are headquartered in China, and both have been promoted as alternatives to the World Bank. Moreover, emerging markets have also been working on currency-swap mechanisms in order to not have to rely on the IMF in times of need.

The potential and effectiveness of new and established IFIs is likely to be tested soon. Both IFI categories can prove quite influential. In an era of very low interest rates, they should find it easy to raise additional funds on capital markets, and there is scope for being given more government funds as well.

It is too early to tell whether the old and new IFIs will join forces in pursuit of the global good, or whether they will engage in cut-throat competition, trying to hand out as many loans as possible with little concerns for social, environmental and even fiscal sustainability. Both is possible, but only the former would make sense. Keeping the world economy on track is a global public good. Humankind needs world-wide cooperation to achieve the Sustainable Development Goals, and all IFIs must play their part.



Hans Dembowski
is editor in chief of
D+C Development and Cooperation /
E+Z Entwicklung und Zusammenarbeit.
euz.editor@fs-medien.de

Monitor

4

Multilateral climate policy after Paris agreement / The private sector's role in improving skills training in development countries and emerging markets / Non-violent and pluralistic traditions in Muslim thought / To reduce reasons of flight, global-development scholars recommend more emphasis on peace building and crisis prevention / Nowadays: Zambian credit lifestyles / Imprint / Why everything depends on Aung San Suu Kyi in Myanmar

Focus: International financial institutions

Iwan J. Azis:
Worsening global economy is challenging multilateral lenders 14

Korinna Horta:
World Bank must not dilute environmental and social standards 17

Interview with Hans-Joachim Fuchtel:
"Pool and share knowledge" 20

Interview with Bruno Wenn:
Competition between new and old IFIs could become destructive 22

Hildegard Lingnau:
The relevance of the new international poverty line 24

Jürgen Kaiser:
Once more, countries that benefited from debt relief are at risk of over-indebtedness 27

Fernando J. Cardim de Carvalho:
A brief history of IMF doctrine 30

Michael Grimm:
Economists debate merits of industrial policy 33

Tribune

Peter Owar Okello:
The fate of a woman who spent most of her life in refugee camps 36

Sebastian Sons:
Saudi-Egyptian relations are tensioning 37

Debate

40

Comments on Transpacific Partnership (TPP), pharma research in times of the Zika virus, Delhi's air pollution and election recurring election problems in post-crisis countries

Tribune



AP Photo/picture-alliance

Limited generosity

Saudi Arabia has been supporting Egypt's economy with huge sums in recent years. Tensions are growing, however, since King Salman came to power. **Sebastian Sons** of the German Council on Foreign Relations (DGAP) assesses matters. [Page 37](#)

"My home, my life"

Peter Okello, a journalist who grew up in Kakuma Refugee Camp in Kenya, conveys his mother's life story. She had to flee from South Sudan because militia members killed members of her family and destroyed her village. [Page 36](#)

Debate



Castaneda/picture-alliance/dpa

Opposing TPP

Civil-society organisations vehemently oppose the Transpacific Partnership (TPP) in Chile, Peru and other Pacific countries. Activists are upset about overblown intellectual property rights and other issues. Journalist **Frederico Füllgraf** shares their view. [Page 40](#)

Loss and damage gets a boost

Poor countries have chalked up a big victory at the Paris climate conference (COP21) in December. Developed countries have finally acknowledged some accountability for damages due to climate change. But much still needs to be done.

Least developed countries are often on the front lines of climate-related disasters, and they are also the least equipped to deal with them. The hope is for new financing mechanisms like risk insurance, but calculating the potential cost is a difficult and controversial task.

Monitor

Nearly 200 countries agreed in Paris that places like the fragile Pacific islands of Tuvalu need ways to cope with so-called loss and damage to property, livelihoods and life. Just several metres above sea level, the tiny collection of atolls and reefs is no match for rising sea levels. Thus, Tuvalu's

10,000 inhabitants fear they may one day have to flee to higher grounds. The same goes for many poor countries that are already suffering loss and damage from extreme weather with little means to cope – but also for Europe's far north and the US-state of Alaska.

Places like the US, China and the EU, which produce the lion's share of greenhouse gases, feared that including loss and damage as a separate issue in a treaty would make them liable for compensating poor nations under the principle of 'polluter pays'. Instead, they wanted this to be part of mitigation and adaptation measures. These focus on curbing climate change through lower greenhouse-gas emissions and changing how people live and work.

"This means recognising loss and damage as something different," says Saleemul Huq, director of the International Centre for Climate Change and Development at

the Independent University in Dhaka and senior fellow at the International Institute for Environment and Development in London. "When there is a lack of adaptation, inevitably there is loss and damage. This opens the door for liability."

While loss and damage was already outlined at the COP19 in 2013 in the Warsaw International Mechanism for Loss and Damage, in Paris the international community agreed for the first time to address it in a global climate agreement.

Dealing with loss and damage means sharing data and technical expertise, but also financial support. Insurance will likely play a big role. Countries could contribute premiums to an insurance fund that will compensate them for losses in the future. Huq cites a pilot scheme that has already been developed for weather index-based insurance in places like Africa, the Caribbean and Bangladesh. Recognising the threat to Alaska's Inuit fishing villages,



Many least developed countries are particularly threatened by the effects of climate change. Cyclone Pam left a trail of destruction when it ripped through the impoverished Pacific island state of Vanuatu in 2015.

US President Barack Obama has pledged 30 million dollars to a Climate Risk Insurance Initiative, Huq notes.

Adaption and mitigation

While COP21 is a milestone for vulnerable countries, the deal leaves much to accomplish. Current climate finance for adaptation (actions to cope with foreseeable threats) and mitigation (cutting greenhouse gases) is not fairly distributed, according to Huq.

"The demand on behalf of vulnerable countries is that at least half of the money goes for adaptation," says Huq. Right now, however, 84 % of the 6 billion dollars in climate finance already delivered goes to large developing countries for mitigation. Only 16 % is left for vulnerable countries to adapt to climate change. "This is unacceptable," says Huq.

The Green Climate Fund (GCF), which will administer the 100 billion dollars a year in climate finance that countries have pledged as of 2020, wants to set this right, says Huq.

But aside from governments, much of this money is expected to come from the private sector. Unfortunately, least developed countries may also be the least attractive, Huq warns. Most private sector money goes for mitigation in large developing countries where there is money to be made from exports and investments in green technologies like wind and solar parks. But the least developed countries need financial means for adaptation: to respond to the effects of climate change with new agricultural crops or to resettle people away from coastal areas.

Countries like Germany have promoted mitigation efforts such as switching from fossil fuels to renewable energies for electricity production. But coal-rich, poor countries like Bangladesh often argue that it is cheaper and more practical for them to stick to fossil fuels than to make the investment in renewables.

Change of perceptions

"The German energy transition also began 30 years ago," said Thomas Hirsch, a climate and development expert, at an event

held by the Friedrich Ebert Foundation in Berlin. He cites a recent study asking developing countries what would motivate them to choose alternative forms of energy. "The answer was perhaps surprising, but when you think about it not very: we need access to technology, we need financing, we need knowledge, and we need to alter the public perception in a way that allows us to approach renewable energy, for example, in an innovative way."

At the same time, developing countries are quick to note that they haven't been polluting the globe since the 1850s like industrialised countries – and haven't reaped the same economic wealth either. They also frequently point to the injustice of being asked to forego cheap fossil fuels while bearing the consequences of global warming they didn't cause.

The least developed countries still contribute only a small fraction of the world's carbon emissions. And Germany, for one, still produces a lot of power using coal, even though it has increased the share of renewables to nearly 30 %. Despite the government-mandated phase-out of fossil fuels (Energiewende), the country exports coal technology as well as power produced by coal to other countries.

CO₂ pricing

To discourage fossil fuel usage, experts say there should be a global market price for carbon emissions – so-called CO₂ pricing. If industry had to buy the rights to emit greenhouse gases in a global marketplace, this would push the price of CO₂ high enough to encourage investment in renewables.

"Ninety percent of all coal capacity is planned in ten countries: China, India, Turkey, Vietnam, Indonesia, South Africa, Korea, Japan, Bangladesh and Taiwan," says Ottmar Edenhofer, professor at the Potsdam Institute for Climate Impact Research. He argues that even if the cost of renewables falls, this will not stem the tide of fossil-fuelled power. The reasons are heavy subsidies for oil, gas and coal around the globe.

"It is underestimated what an excellent instrument CO₂ pricing is for investment in clean water, in clean power, in sanitary installations," because the inno-

vation it sparks will boost competitiveness, he says. "This will give a clear signal that CO₂ pricing and fighting poverty can be intertwined. It is simply not true that fighting poverty is a conflicting goal."

But the complex discussion of CO₂ pricing is not relevant to many developing countries. "It doesn't offer any answer – not a quick or convincing one – to the question of how to quickly overcome energy poverty. Energy questions are in most developing countries above all questions of access to energy – cheap and clean," argues Hirsch. "If I were sitting in Bangladesh or Fiji, people would walk out of this discussion, because these are not the urgent questions to them."

"It is underestimated what an excellent instrument CO₂ pricing is for investment in clean water, in clean power, in sanitary installations."

Huq points out that emerging countries like Bangladesh and China are already embracing renewables technologies and "everybody agrees that it would be better if coal stayed in the ground."

Looking ahead to the signing of the Paris accords in April, UN Secretary-General Ban Ki-moon said in February that goals are one thing, but "now we must move from aspirations to action." Simply meeting pledges to cut emissions won't keep the planet from heating up by less than 2 degrees Celsius as the signatories hope, he warns. They must also boost their ambition over time. Severe storms, droughts, floods and rising sea levels already cause people to lose their homes, property and lives, according to Ban.

"The Paris agreement is a major achievement, which we worked very hard to get, and we are very happy with the result. It puts everybody on the right track, even if there is not sufficient ambition," built into the deal, says Huq. "But we will work towards achieving these goals."

Ellen Thalman

Better skilled employees

Lack of skilled labour is a huge challenge for companies in emerging markets and developing countries. The Association of European Development Finance Institutions (EDFI) wants it to be tackled.

EDFI has published a comprehensive report with theoretical insights and various examples of good practices. It was co-authored by experts from the Boston Consulting Group and the DEG, an EDFI member and KfW subsidiary, which supports private-sector development.

According to the EDFI publication, creating productive and sustainable jobs is a major contribution to fighting poverty and boosting development. One problem, however, is that companies often cannot find people who have the expertise needed in poor world regions. This “skills gap” means that people have either not been trained at all or have been trained the wrong way.

A lot of countries do not provide their young people with the skills businesses require, so private-sector companies should train people themselves, EDFI recommends. According to the report, too many companies shy away from that task. Managers fear the costs they know,

but they cannot assess the benefits, which often only become apparent in the long run. The EDFI report is an attempt to convince them that there is a win-win situation for enterprises and employees if companies address the skills gaps.

The benefits for companies are:

- a better qualified, stronger motivated and more loyal workforce,
- increased labour productivity,
- better product quality,
- more innovation and
- an improved reputation.

There are also lots of benefits for employees and even for society. People with more skills find better jobs and earn more money. They also have better career prospects. Strong private-sector companies, moreover, foster economic development and thus benefit the country and society as a whole, as the authors highlight.

Good practices

The EDFI publication discusses hands-on methods for assessing the costs and benefits of skills training. It also provides recommendations for identifying and closing skills gaps step-by-step. It can serve as a practitioner’s guide.

According to the authors, it is crucial for companies to proceed in a structural way. They need to draft detailed personnel plans, adopt specific training courses and form dedicated training teams in each department. Some companies have successfully implemented measures this way, and the EDFI authors insist that others can do so too.

One company described is the Hospital Sirio Libanes (HSL), a private hospital operator in Brazil with headquarters in São Paulo. Its reputation is excellent, so it has no difficulty in attracting qualified doctors, but it used to struggle to recruit and retain low- and medium-qualified staff like nurses or catering and cleaning staff.

HSL has invested in systematically assessing skills needs and providing training accordingly. It even runs graduate courses and hosts distance learning platforms. In addition, the hospital has invested in a multi-disciplinary qualification centre, in which new and existing staff is trained to work effectively in teams.

To address its relatively high attrition rate among low-skilled staff, HSL initiated a neighbourhood qualification project. It trains people from the local area in catering, hygiene or other relevant skills. HSL’s education and research institute partly runs the programmes. For its respective efforts, HSL relied on loans from the DEG and other finance institutions.

According to the EDFI publication, the hospital’s approach is very successful. HSL has no problems to find qualified auxiliary staff anymore and can fill most positions internally. In the eyes of EDFI, a very positive aspect is that HSL contributes to the development of the local community. The “benefits clearly outweigh the costs” for HSL, the authors write. *Sabine Balk*

Links:

DEG-Report: Bridging the skills gaps in developing countries.
https://www.deginvest.de/DEG-Documents-in-English/About-DEG/What-is-our-impact/Bridging-Skills-Gaps_DEG_2016.pdf

“Let’s Work Partnership” to create more and better private sector jobs:

<http://www.letswork.org>



The Hospital Sirio Libanes (HSL) in Brazil now successfully trains its own staff internally.

Neglected heritage

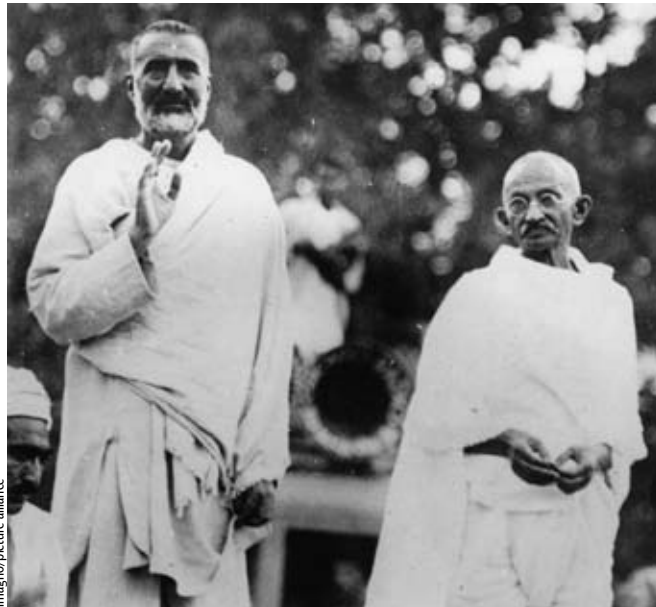
In view of the threat of Islamist terrorism, Muslim intellectuals and leaders who emphasise non-violence and democracy tend to be ignored internationally. They deserve attention. Some Muslim traditions actually fit modernity quite well.

Abdul Ghaffar Khan was a Pashtun leader who joined the liberation movement in colonial India. To him, non-violence was a spiritual concept as well as a political strategy. He knew that imperial Britain found it easy to crush armed insurgents, but struggled to suppress peaceful protests effectively. At the same time, he was aware of violent traditions haunting Pashtun society. Ghaffar Khan said that violence breeds fear and hatred, whilst non-violence generates love and inspires people to be brave. He was an ally of Mahatma Gandhi, but studied the Koran as a devoted Muslim.

Jawdat Sa'id is a contemporary Syrian scholar who thinks along similar lines. The more people engage in civil disobedience, he argues, the harder it becomes for an autocratic regime to repress them. As an example, he points out that Iran's Shah was toppled without the use of violence. At the same time, Sa'id insists that there can be no single correct interpretation of the holy scriptures and that the faith and religious knowledge benefit from the pluralistic interaction of various schools of thought.

Jamal Al-Din Al-Afghani was born in Iran in the late 1830s. He felt that Muslim society needed the kind of freedom that was developing in Europe. He wanted to liberate the faith from despotism and stressed that the Koran does not define any specific form of government. Al-Din Al-Afghani hoped that a benign dictator could educate the masses and introduce democracy. His approach was not non-violent and he was willing to contemplate the murder of tyrants. Near the end of his life in 1897, he realised that his hope to empower an enlightened ruler had been misguided and that despotism can only be ended by an enlightened people who rejects authoritarianism.

In the eyes of Jürgen Klussmann, Muhammad Sameer Murtaza, Holger-C.



Khan Abdul Gaffar Khan and Mahatma Gandhi.

Rohne and Yahya Wardak, the three men mentioned above stand for strands of Muslim thinking that are largely unknown in western countries – and all too often neglected in Muslim ones. The four authors recently published a book entitled “Gewaltfreiheit, Politik und Toleranz im Islam” (Non-violence, politics and tolerance in Islam). It raises interesting points, such as:

- Islam has a long history of appreciating Judaism and Christianity as monotheistic religions that existed before Islam. In this perspective, Islam is the ultimate revealed truth, but Jews and Christians can be god-obeying believers by following the old and new testament without adopting Islam.
- The Koran emphasises a set of laws. Historically, it fast spawned competing law schools which engaged in sophisticated debate. Islam is thus more about the rule of law than any specific form of government. Moreover, Muslim jurisprudence initially developed in a way that could incorporate innovation and social change.

The authors argue that Islamic intellectual life has lost its dynamism in the past 500 years. One reason is that many Muslims do not know Arabic well enough to understand the Koran.

The book points out that the West lacks credibility in Muslim cultures because of a long history of interventions – from T. E. Lawrence in the early 20th century to the Iraq war at the start of the 21st. British-Russian interference thwarted the attempt to turn Iran into a constitutional monarchy in 1907, and in 1953 the CIA helped to topple Mohammad Mosaddegh, an elected left-leaning prime minister.

According to the recently published book, western agencies cannot contribute much to the revival of Islam's intellectual traditions. This is a task for Muslims. At the same time, the authors argue that Muslim migrants in western countries are best placed to promote such a revival because they are not under authoritarian rule and familiar with western freedoms.

This book deserves a lot of attention. Unfortunately, it is not well edited. Too many sentences are convoluted and even garbled. The publisher should have invested more effort in this publication in order to reach more readers – and sell more books.

Hans Dembowski

Reference:

Klussmann, J., Murtaza, M. S., Rohne, H.-C., and Wardak, Y. (eds), 2016: Gewaltfreiheit, Politik und Toleranz im Islam (Non-violence, politics and tolerance in Islam – only available in German). Wiesbaden: Springer VS.

Reducing causes of flight

The current refugee crisis is affecting Europe, but its causes are in other world regions. Experts at the German Institute for Development Policy (DIE) call for clever development policies to tackle the root causes of flight.

People often turn a blind eye to the fact that 86% of the world's 60 million refugees and internally displaced people are staying in developing countries and emerging markets. Experts from the German Development Institute (DIE) point out that none of the ten countries that have taken in the most refugees are members of the EU. Today, the top receiving countries are Turkey, Pakistan, Iran and Ethiopia. Lebanon is hit hardest, with Syrian refugees making up about one fifth of 4.5 million inhabitants.



Hasan Amar/AP Photo/picture-alliance

Refugee camp in Lebanon.

The DIE scholars adhere to the Geneva Convention of Refugees which clearly defines refugees as persons forced to flee from war, violence, oppression, hunger and natural disasters. It is important to note that people are not only fleeing from Syria and Iraq. Masses of people escape from Sudan, South Sudan, Afghanistan, Colombia or the Democratic Republic of Congo (DRC), for example. However, Europeans tend to neglect the global perspective, as the scholars point out.

Stability-zones

Most refugees today have fled from armed conflicts. According to the DIE team, humanitarian assistance remains very important. Both within home countries and abroad, "stability-zones" are needed so people can get what they need for their immediate survival there.

According to the authors, however, temporary solutions tend to become permanent settings. They demand that more efforts be made in those cases, and they bemoan the lack of mid-term strategies for managing camps sustainably. Because of the poor conditions prevalent in camps in Lebanon and Jordan, many refugees are said to be moving on to Europe.

In this context, the DIE authors support demands raised by the UN Refugee Agency (UNHCR). It wants the skills and knowledge of teachers, doctors and engineers in the camps to be made use of. Moreover, refugees should be involved in democratic camp management, while local authorities deserve support for providing future prospects to both refugees and the local people. The DIE authors consider it unacceptable that there is no funding for multi-year humanitarian assistance. In their eyes, long-term funding is essential.

Blind spots

The scholars warn that old crises are mostly forgotten whenever a new crisis erupts. Syria and its neighbouring countries currently get the most attention, while conflict-ridden Yemen, Libya and several sub-Saharan countries have become "blind spots" on the world map. According to the DIE team, well-designed development policies can prevent old conflicts from erupting anew. They suggest that development policies should refocus on conflict prevention and peacekeeping. They point out, for instance, that Germany has scaled down its partner countries in crisis prevention to only two as though

fragile statehood was not a widespread phenomenon.

Regarding post-conflict countries, the experts advise to stick to "multinational peacekeeping". This approach bundles international efforts under multilateral leadership. It has proven successful in Sierra Leone, Liberia and Lebanon. Other factors that promote a country's stability include:

- reducing youth unemployment,
- promoting economic productivity,
- improving food security and
- adapting to climate change.

The scholars insist on democratic values, which they want to become a core element of development policy once more. Western countries, they argue, have been supporting authoritarian regimes in the Middle East and North Africa up to the point when many of those regimes dropped into total chaos in 2011. Even today, donors still support autocratic regimes. If they continue to do so, they must at least demand democratic reforms, the DIE team states. The overall objectives are always to promote people's wellbeing and facilitate their return home.

Theresa Krininger

Link:

DIE-paper (only available in German):

http://www.die-gdi.de/uploads/media/AuS_14.2015.pdf

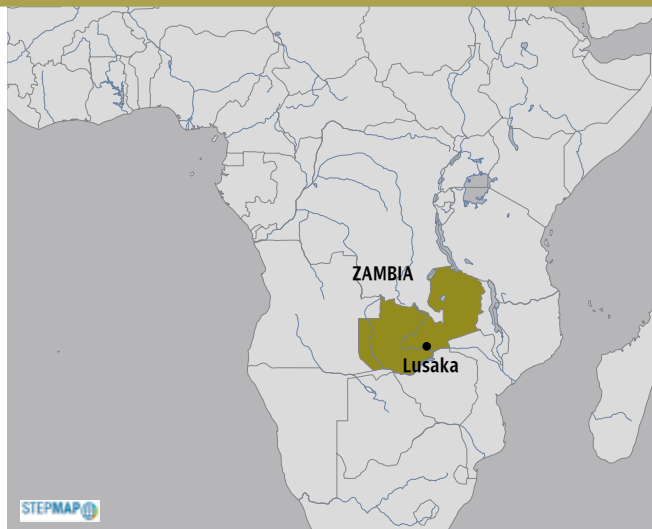
Nowadays: Loans for living and luxury

In Zambia, micro-finance companies have mushroomed. They have names like MFinance, Bay-port or Blue Financial Services and hand out ever more loans. Retail banking has emerged in recent years too, with banks like the Zambia National Commercial Bank, Barclays, Bank ABC and Standard Chartered Bank giving credit to middle-class people.

In the past, banks demanded collateral for loans such as title deeds for houses. Today, however, micro-finance institutions (MFIs) and banks have relaxed rules. For example, they only ask salaried workers to provide pay slips. According to Ndumo Hojane, who works for Citibank Zambia, MFIs have "bigger lending lists than commercial banks."

The MFIs have created new jobs and helped to provide more people with financial services. For various reasons, members of the middle-classes are borrowing money. They want to top up low salaries, invest in children's education and cover health-care costs. Some want to buy luxury cars or host fancy wedding parties to keep up appearances.

Many public service workers have taken personal loans to build houses. Others need funding for backyard enterprises such as rearing chickens. Victor Sakala, a teacher in the town of Ndola, says that many public service workers are indebted because their salaries are too low: "We live in extended family systems, so the cost of living is high. We are



obliged to provide food and education to all our dependants," Sakala explains.

Other issues compound such worries. For instance, all teachers are required to obtain new degrees for school teaching because the old diplomas and certificates are being phased out. "We pay for our education ourselves, so we need money," Sakala complains. "Most of us turn to MFIs because banks can tie you to a loan for as long as six years."

In 2015, Zambia's currency Kwacha lost 51 % of its value against the dollar. Copper is Zambia's main export good, but world-

market prices are falling. In Zambia, inflation is a huge problem and government debt is high. Public utilities are eager to rake in revenues. In efforts to cover costs, the state-run power company Zambia Electricity Supply Corporation (ZESCO) and water utility companies have installed prepaid metres in compounds where police officers live. "In the past we never used to pay for electricity, and we will soon start paying for water too," one officer says. His purchasing power will suffer accordingly. The truth is that not only Zambia's middle classes are struggling to get along – state agencies also find it hard to generate sufficient revenues.

In our column "Nowadays", D+C/E+Z correspondents write about daily life in developing countries.

Humphrey Nkonde

is a journalist, media researcher and logistician resident in Ndola, Zambia.

zpeopleandplaces@gmail.com



Imprint

D+C Development and Cooperation
Vol. 43, 2016
D+C is published together with the German edition E+Z
Internet: <http://www.DandC.eu>
ISSN 2366-7257

Published on assignment from:



D+C Development and Cooperation is funded by Germany's Federal Ministry for Economic Cooperation and Development and commissioned by ENGAGEMENT GLOBAL. D+C does not serve as a governmental mouthpiece. Our mission is to provide a credible forum of debate, involving governments, civil society, the private sector

and academia at an international level. D+C is the identical twin of E+Z Entwicklung und Zusammenarbeit, the German edition.

ENGAGEMENT GLOBAL gGmbH
Service für Entwicklungsinitiativen
Tulpenfeld 7
53113 Bonn
Tel. (02 28) 2 07 17-0,
Fax (02 28) 2 07 17-150
<http://www.engagement-global.de>

Advisory board:
Thomas Loster, Prof. Dr. Katharina Michaelowa, Prof. Dr. Dirk Messner, Petra Pinzler, Hugh Williamson

Publisher:
Frankfurter Societäts-Medien GmbH

Executive director:
Oliver Rohloff

Address of the publisher and editorial office:
Frankenallee 71-81
D-60327 Frankfurt am Main, Germany

This is also the legally relevant address of all indicated as responsible or entitled to represent them in this imprint.

Editorial team:
Dr. Hans Dembowski (chief), Sabine Balk, Katja Dombrowski, Sheila Mysorekar, Eva-Maria Verfürth, Dagmar Wolf (assistant)
Phone: +49 (0) 69 75 01-43 66
Fax: +49 (0) 69 75 01-48 55
euz.editor@fs-medien.de
Graphic design/Layout: Jan W. Hofmann

Translators:
M. Bell, C. Davis

Disclaimer according to § 5.2 Hessian Law on the Freedom and Rights of the Press: The shareholder of the company is Frankfurter Societät GmbH.

Advertising and subscription service:
Klaus Hofmann (responsible)
Phone: +49 (0) 69 75 01-48 27
Fax: +49 (0) 69 75 01-45 02
zeitschriftenvertrieb@fs-medien.de

Opinions expressed by authors indicated in bylines do not necessarily reflect the views of ENGAGEMENT GLOBAL, the publisher or the editor and his team. Individual articles may be reprinted provided the source is mentioned and

two voucher copies are sent to the editor unless copyright is explicitly indicated. This does not apply to the photographs published in D+C Development and Cooperation and E+Z Entwicklung und Zusammenarbeit. The editors request that no unsolicited manuscripts be sent. However, they do welcome proposals along with abstracts that serve to outline submissions.

Prices for print edition (incl. mailing charges):
single issue: € 2.20
annual subscription, Germany: € 14.00
annual subscription, world: € 18.00

Printing:
Westdeutsche Verlags- und Druckerei GmbH
Kurhessenstraße 4-6
64546 Mörfelden-Walldorf, Germany

“Suu Kyi must extend power”

Myanmar's first freely elected parliament convened at the beginning of February. High expectations for everything from economic development to solving ethnic conflict may be its first stumbling block.

The elected officials took up their work on 1 February, after nearly half a century of military rule. The party of Nobel laureate Aung San Suu Kyi, the National League for Democracy (NLD), won an overwhelming majority in both houses of parliament on 8 November.

“Because of this result, the expectations of the people are extremely high,” says Sai Ye Kyaw Swar Myint, director of the People's Alliance for Credible Elections (PACE), a civil-society organisation. “The question is how the NLD will manage expectations. The change will not come overnight, but the people hope for that.”

After a complicated reform and reconciliation process, there has been much speculation about who will become the country's president in April, when the government takes office. Suu Kyi is barred from that post by the constitution because her children hold foreign passports. Suu Kyi has powerful sway, after years of deten-

tion under the military junta that refused to recognise her electoral victory in 1999.

Suu Kyi said last year that the NLD victory puts her “above the president,” a statement seen by some as undemocratic. But Naing Ko Ko, democracy activist and PhD student at the Australian National University, says she meant to challenge the constitution and set the stage for its reform. He notes that constitutional restraints mean the NLD has a “lack of muscle”, and future reform lies in the hands of Suu Kyi.

But parliament cannot pass any changes to the constitution without the consent of the military. “The constitution really puts the NLD in a cage. If they stick within that framework, they are going to face a dilemma sooner or later,” says Jasmin Lorch of the Hamburg-based GIGA Institute for Asian Studies.

High expectations for “the lady”, as her supporters call her, and pressure for constitutional reform could be risky, Lorch warns. “I think if the lady manages to convince some members of the political elite to go for further changes, there can be fractions within the military bloc, and there can be some unrest within the military,” she says.

This is a delicate act for Suu Kyi, who has been put in the position of negotiating with her former captors, said experts at a discussion at the Konrad Adenauer Foundation in Berlin in January. The Union Solidarity and Development Party (USDP), which is linked to the junta, holds 25 % of the seats in parliament and controls key government ministries dealing with internal and border affairs and defence.

People do not trust the military, which committed brutal human-rights abuses when in power. Some find Suu Kyi's willingness to cooperate with them dubious. Nevertheless, many former political prisoners want reconciliation because they do not want to jeopardise the reform process and investment from abroad. The international community is looking to Suu Kyi to tackle the problem of widespread poverty, economic development and environmental issues – whether she is president or not.

The country is also plagued by violence against the Muslim ethnic minority Rohingya. Anti-Muslim sentiment runs strong in the Buddhist country, and the Rohingya are subject to brutal persecution, stripped of their citizenship and forced to live in camps. The outgoing government passed laws aimed at suppressing them, and Suu Kyi has said little to raise hopes that she will resolve these problems.

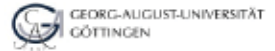
As part of efforts toward rapprochement, members of the Karen, Kachin and Rakhine ethnic minorities were awarded posts in the new parliament, as was a key figure in the USDP. On 3 February, the upper house elected a close ally of Suu Kyi as chairman. Mahn Win Khaing Than is a Karen and a grandson of a cabinet minister assassinated with Suu Kyi's father and national hero Aung San in 1947.

“She needs to extend her power. She needs to have a good relationship with the military and a good relationship with the ethnic people,” says PACE's Sai Ye Kyaw Swar Myint. “She has the power, she has the influence to lay the foundation – to have a long-term democratic consolidation.”

Ellen Thalman



In Myanmar many ethnic minorities remain discriminated against. Women from an ethnic minority in Yangon's Shwedagon pagoda.



Call for Papers and Inputs

PEGNet Conference 2016

Regional integration for Africa's economic transformation – Challenges and opportunities

University of Rwanda, College of Business and Economics, Kigali, Rwanda

September 15-16, 2016

The Poverty Reduction, Equity, and Growth Network (PEGNet) is committed to promoting dialogue between researchers, practitioners and policy makers and provides a platform for sharing exemplary pieces of research with implications for policy design and implementation as well as launching productive collaborations. For the 2016 annual conference, we call for contributions of **papers and projects** as well as **applications for the Best Practice Award 2016** by outstanding initiatives of co-operations between research and practice.

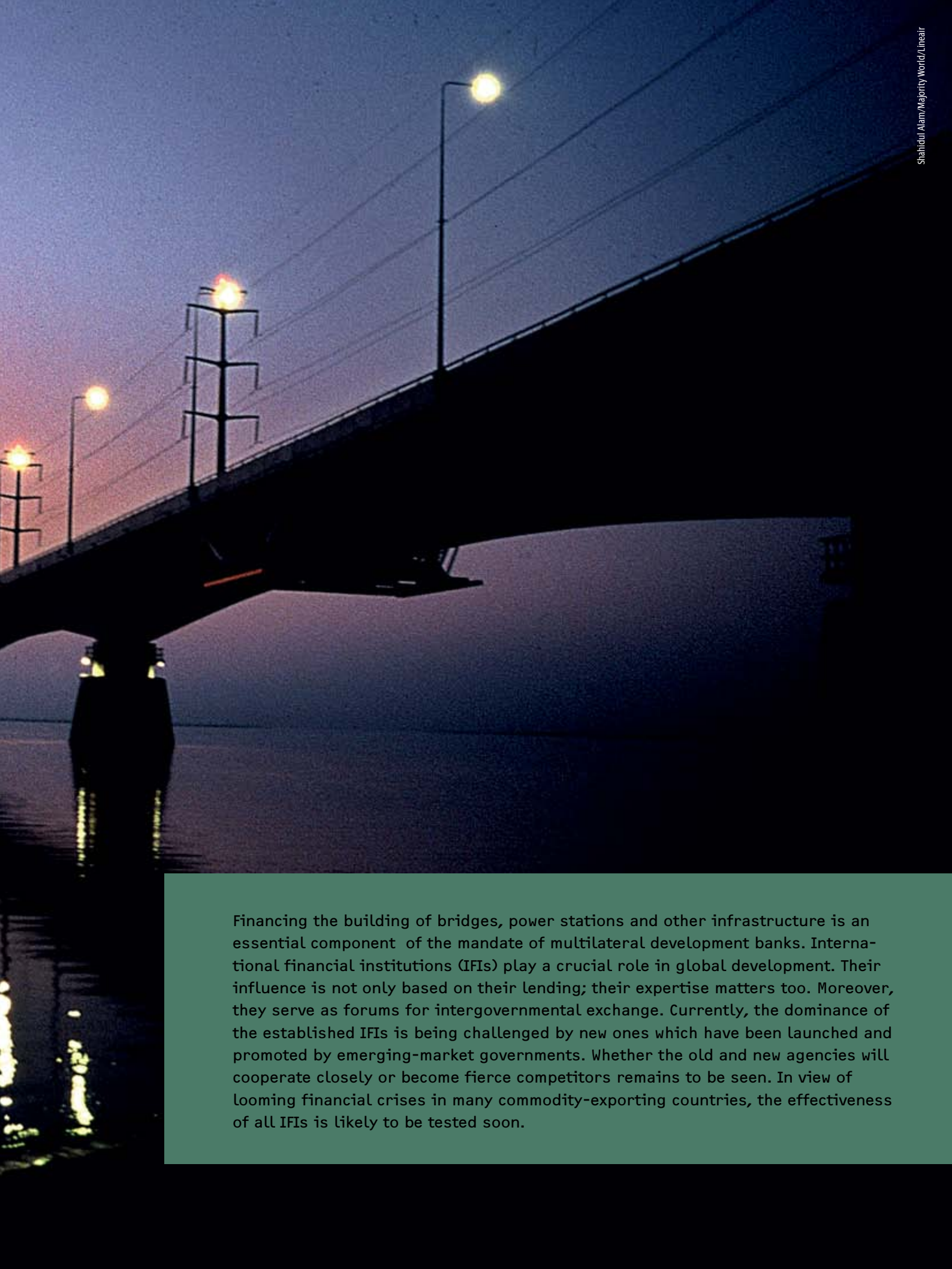
The submission deadline is **April 29, 2016**. Please email your submissions to pegnet@ifw-kiel.de in a pdf or Word file and indicate 'PEGNet Conference 2016' in the subject heading. The deadline for full paper submission and additional material for the Best Practice Award is **August 1, 2016**.

For more information on the conference and the detailed call please refer to: **www.pegnet.ifw-kiel.de**

Media Partner: **D+C E+Z**

International financial institutions

Bangabandhu Bridge in northern Bangladesh was built with financing provided by the World Bank, the Asian Development Bank and other donor agencies.



Financing the building of bridges, power stations and other infrastructure is an essential component of the mandate of multilateral development banks. International financial institutions (IFIs) play a crucial role in global development. Their influence is not only based on their lending; their expertise matters too. Moreover, they serve as forums for intergovernmental exchange. Currently, the dominance of the established IFIs is being challenged by new ones which have been launched and promoted by emerging-market governments. Whether the old and new agencies will cooperate closely or become fierce competitors remains to be seen. In view of looming financial crises in many commodity-exporting countries, the effectiveness of all IFIs is likely to be tested soon.

Deepening uncertainty

Almost eight years after the 2008 global financial crisis began, the world economy remains lethargic. Growth is low in advanced economies (AE) and falling in most emerging markets (EM). It remains to be seen whether old and new international financial institutions (IFIs) rise to the challenges appropriately.

By Iwan J. Azis

➔ For some time, EM had been driving global growth while AE slowed. Now the gap is narrowing. It is even more worrying that growth is lower in AE and EM than the long-term or “secular” trend we saw before the crisis.

For the EM, the quandary is multitude. The outlook for commodity exporters is gloomy. Demand is weak, and prices are low. Manufacturing has slowed, especially in China.

At the same time, a strong dollar means that financing costs are rising. Stress is growing for all public and private-sector institutions that have large dollar-denominated borrowing. Today, companies in EM owe creditors about \$ 4 trillion, four times more than in 2008.

The slowdown in China was expected and it is, so far, in line with forecasts. However, the international repercussions look worse than expected. Even countries that do little trade with China feel the pinch. Market confidence in general seems to be hit.

For years, monetary policy was extremely loose in the AE and especially in the USA. The current problems are a result. Very low interest rates in AE prompted capital flows to EM, where investors wanted to benefit from higher interest rates. The flows were huge and volatile. They made borrowing cheaper and expanded liquidity in EM. Both effects spurred credits as well as economic growth. At the same time, the exchange rates of EM currencies rose.

Now the central bank of the USA has begun to increase interest rates again, and the economic outlook is worsening in China. As a consequence, capital has begun to flow in the other direction. In EM, credit is suddenly becoming more expensive while national currencies are depreciating against the dollar.

Financial safety nets are needed, and conventional macroeconomic policies are unlikely to prove sufficient in this scenario. The capital flows are so huge that problems cannot be solved at the national levels.

In pursuit of healthy and inclusive growth, the EM are currently refocusing on building infrastructure. The governments know they cannot rise to the challenges on their own. This insight is an important reason for the recent proliferation of new international financial institutions (IFIs).

Another reason is EM's frustration of only enjoying disproportionately small influence in the long-established IFIs. In this regard, the new institutions are meant to counterbalance the International Monetary Fund (IMF), the World Bank and multilateral development banks such as the Asian Development Bank, the Inter-American Development Bank or the African Development Bank.

In recent years, EM governments have been driving the establishment of new IFIs. One example is the Asian Infrastructure Investment Bank (AIIB) with a focus on infrastructure. Another is the Chiang Mai Initiative Multilateralisation (CMIM), a currency-swap arrangement with a focus on short-term liquidity pressure for the ASEAN countries plus China, Japan and South Korea. The New Development Bank, which is owned by the BRICS (Brazil, Russia, India, China and South Africa), will deal with both short-term liquidity and infrastructure.

Untested innovations

In light of deepening risks and uncertainty, short-term liquidity pressure is now increasing. The CMIM and similar initiatives, however, are still untested. The process of establishing them was fraught with bickering over political, organisational and other power issues. It remains to be seen whether the new schemes will be up to the tasks. It may prove easier to provide loans for infrastructure.

To some extent, the governments behind the new institutions were probably too self-confident in recent years. They could have focused more on ensuring the effectiveness of new currency-swap mechanisms. They may now have to make haste to achieve that goal. Because of higher interest rates in the USA, capi-



Don't let it get this bad again: riots rocked Jakarta in the course of the Asian crisis in 1998.

tal is now flowing out from the EM. Therefore, they are experiencing a destabilising jolt.

It is worth noting, however, that other AE are not following the US example. A “great divergence” is emerging, with Japan and the EU loosening monetary policy while the US is tightening it. The stage is set for an epic tug-of-war between the central bank of the USA on the one hand and the world’s other most important central banks in China, Japan and the EU on the other hand. It is impossible to predict what the results will be for the global economy.

It is equally impossible to predict what impact the EM will feel. It is certain, however, that the EM are on their own in defending themselves against capital outflows and market volatility. In recent years, the AE have displayed considerable monetary egoism and showed little concern for the impact of their policies on EM.

In early 2016, the financial market scenario is nerve-racking. Last year alone, the EM faced net capi-

tal outflows of almost \$750 billion. Since 1988, the EM had not experienced net outflows. The start of this year was the worst on record for financial markets. This is an anomaly and worrisome.

None of this means that the EM will necessarily be mired in recession. It might help if the US economy picked up with strong dynamism. The easing of sanctions on Iran can prove a boost as well. Moreover, individual countries may experience developments that do not match the global trend. All in all, however, recession looks quite probable.

Overconfident establishment

The long-established IFIs do not express great worries however. The IMF, for instance, argues that markets are “overreacting” now. Its recent World Economic Outlook predicts that the growth rate for EM will be 4.5 % this year – higher than last year. It also expects the world economy to expand by 3.6 %.

Beyond structural reforms

In times of crisis, the established international financial institutions (IFIs) always emphasise the need for “structural reforms”. That stance is not totally wrong, but it is not correct either.

It is correct because labour markets must result in people finding jobs, governments cannot afford to permanently spend more than they generate in revenues, and shielding companies from competition makes them weak. However, the established IFI orthodoxy is often dogmatic and unrealistic. It neglects that reforms have to be politically viable and not merely fit economic textbook models.

For example, IFI economists are likely to focus on balancing public budgets and neglect that slashing expenditure on education and infrastructure – the basis for future success – is harmful, and especially so in times of crisis. To work out, structural reforms have to be well considered, balanced and match local needs.

One must also take into account that they take time. Budget consolidation makes most sense once structural reforms have begun to deliver results and the economy is recovering. Trying to balance it too early,



Allgower/Linear

will make the crisis more painful and structural reforms harder to implement.

Let's not forget that we live in an interconnected world moreover. The deeper one country sinks into crisis, the worse the outlook for other countries becomes. (ija)

Investments in infrastructure provide basis for future growth – Cambodian construction site.

However, actual global growth was consistently lower than predicted by the IMF in recent years. It is likely that the Fund is over-optimistic once more. Some years back, the IMF commissioned a study, and the conclusion was that the Fund's forecasts “display a tendency for systematic overprediction” (Timmermann 2006). Whether these forecasts should be taken seriously is anybody's guess.

The multilateral development banks (MDB) are hardly better. One problem is that their models do not take into account the growing interdependence between national economies. Moreover, they rely on their member countries' assessments, which may be biased. MDB predictions are thus often more wishful thinking than sober analysis.

The established IFIs, moreover, tend to use opaque language. Terms such as “uneven”, “moderating” or “broadly proceeding” growth are ambiguous and can prove misleading.

In principle, IFI forecasts are supposed to help policymakers to draft better policies and budget plans. Neither over-optimism nor vague statements serve this purpose. Accordingly, the policy advice the established IFIs give and country programmes they propose are sometimes irrelevant or even harmful.

Structural-adjustment programmes have often failed (see box above).

One cause of the financial meltdown of 2008 was that rating agencies had failed to assess financial institutions and real-estate markets accurately, thus fostering a misleading sense of stability. Conflicts of interest contributed to their failure. After all, the agencies' clients are the major players in financial markets. The agencies' reputation has not recovered.

A similar fate may befall the IFIs if they fail to provide objective analysis and forecasts, especially as vulnerabilities are most evident now. Failure to predict the full consequences of crises – unemployment, poverty, inequality, environmental damage et cetera – will make matters worse.

It is irritating, moreover, that the established IFIs have stayed silent on the growing monetary egotism of AE for years. It is not hard to see why EM governments wanted new IFIs. ←

Reference:

Timmermann, A., 2006: An Evaluation of the World Economic Outlook Forecasts. Washington: IMF Working Paper No.06/59



Iwan J. Azis

is an economics professor at Cornell University in New York State and the University of Indonesia. He is the lead author of “Managing elevated risk”, a book published by the Asian Development Bank and Springer in 2014 and is available online free of charge.

ija1@cornell.edu

E-book link:

<http://www.adb.org/sites/default/files/publication/150174/managing-elevated-risk.pdf>

Rolling back protection

The World Bank is working on new environmental and social standards. For many practical purposes, however, the latest draft looks weaker than the existing safeguard system.

By Korinna Horta

➔ The process of defining new standards began in 2012 and the stated goal was to modernise the existing safeguards in line with the World Bank's mission of fighting extreme poverty and promoting shared prosperity. The World Bank launched a public consultation process, commendably reaching out to different constituencies in government, the private sector and civil society.

In practice, however, in many cases it only scheduled meetings on short notice and a lack of translated documents further hampered the participation of non-governmental organisations in important client countries. The overall context is one of increasing competition for business and investment opportunities with the Asian Infrastructure Investment Bank and other newly-established development finance institutions (see box, p. 18). In this context, its managers are likely to see stringent environmental and social norms as handicaps.

The final draft of the new Environmental and Social Framework (ESF) is to be presented to the Board of Executive Directors in mid-2016. Two earlier drafts were presented in 2014 and 2015. Several key issues remain controversial.

Limited scope

A key problem is the limited scope of the new ESF. As the existing safeguard system does, it will only apply to investment projects. The snag is that such project-specific lending is a shrinking part of the Bank's portfolio. Policy-based loans are becoming ever more important and already make up about one third to one half of World Bank lending. Governments get these loans not to carry out specific projects but to implement more general policies.

Boat on the Niger river in Mali: dams on rivers can endanger the livelihoods of fishing communities.



Matthias Graben/L'Espresso

Such policies, however, often concern sensitive sectors such as mining, forests and agriculture. Accordingly, policy-based loans may have far-reaching social and environmental consequences. Unless the ESF applies to such lending, the Bank's approach will be incoherent and risks undermining sustainability goals.

The Bank's own Independent Evaluation Group (IEG, 2015) has argued that existing provisions have proved inadequate. In regard to policy-based lending, it not only found that environmental and social risks were seriously underreported, but that there was no formal system to monitor impacts at all. So far, however, this argument does not seem to have made a dent. Earlier IEG recommendations (2011) similarly have been neglected.

Sadly, the Bank's Inspection Panel does not seem to be heard either. It wants the Bank to apply its standards across the board based on potential environmental and social risks and not on the type of lending. The new ESF must obviously apply to everything the World Bank supports. Otherwise, controversial projects can always be financed by policy-based lending.

Room for improvement

The second draft of the ESF is better than the first one. Nonetheless, many critical issues remain unresolved.

The ESF will consist of an umbrella policy and 10 standards. They are meant to replace eight existing

Harmful competition

The World Bank's standards are relevant far beyond its own lending, but its status as international standard setter is now being challenged. New development-finance institutions have been set up. The most notable

is probably the Beijing-dominated Asian Infrastructure Investment Bank (AIIB).

In view of such competition, the World Bank is eager to take on greater risks and get involved in large-scale infrastructure development. The overhaul of its environmental and social standards (see main article) must be considered in this context.

Vague and flexible standards would make it easier to do business.

The AIIB is crucially relevant because European countries – unlike the USA and Japan – have become members. Accordingly, it has credibility as a multilateral institution, which will help it to obtain a triple A credit rating.

The AIIB too has produced its own draft for social and environmental standards. It uses all the trendy buzzwords like “participation”, “transparency” or “accountability”. However, the standards are defined in rather flexible terms and are not mandatory requirements. Moreover, the favoured option seems to be to rely on a borrowing countries' own systems, which tend to be inadequate. No policy on public access to information has been made public.

The AIIB hardly bothered with public consultations. There only was a short, English language-only call-in exercise. Civil-society organisations have reason to feel marginalised, especially in view of China's dismal human rights record.

It looks as if both the World Bank and the AIIB view social and environmental standards as a burdensome add-on to be handled in the most flexible manner possible whilst competing to do as much business as possible. They would be doing humanity a disservice. We need sustainable development, not unrestrained growth that results in more harm than benefits. (kh)

Protest in Hong Kong: China's human-rights record is casting a long shadow over how the AIIB might operate in the future.



Kin Cheung/AP Photo/picture-alliance

safeguards that deal with issues such as environmental assessment, involuntary resettlement and indigenous peoples. The current draft includes sensible additions. First of all, it will have an improved labour standard. Trade unions, however, point out that the draft version does not even refer to international norms spelled out in International Labour Organization's four Core Labour Standards.

Another welcome improvement is that the ESF now includes the principle of free prior and informed consent for indigenous peoples directly affected by projects. If a government, however, does not recognise indigenous peoples on its territory, it would be able to obtain a waiver and brush aside concerns.

The current ESF draft recognises that people who are displaced from land must be compensated even if they have no formal title to that land. However, it does not offer the same protection to people who lose their livelihoods for other reasons. Consider, for instance, a fishing community whose fishing grounds are destroyed by the downstream impacts of a dam.

Today, existing safeguards do not allow the Bank to finance projects that harm "critical habitats" in forests and other ecosystems. These habitats are essential for the survival of endangered species and migratory species. The proposed new biodiversity standard would dilute this rule, by allowing the Bank to support projects if there is no viable alternative site in the region and a few other conditions are met.

Existing rules on environmental impact assessments (EIAs) are similarly set to be diluted. The existing safeguards require that EIA results must be published in locally understood languages before the Bank decides on granting a loan. Normally, the period is 120 days. It gives civil society scope to raise objections. The draft ESF, however, does not include this requirement.

All summed up, the draft ESF is riddled with far too many loopholes and vague clauses. It is wrong to demand, for example, that requirements only be met when they are "financially and technically feasible".

“Human rights free zone”

One must bear in mind that the implementation of existing standards has proved to be too weak. World Bank lending has repeatedly been embroiled in the violation of human rights. However, the draft ESF only briefly refers to "sharing the aspirations" of the Universal Declaration of Human Rights. Accordingly, Philip Alston, the UN Special Rapporteur on extreme poverty and human rights has declared the World Bank to be a "human rights free zone" for most purposes. His

call for a stronger human-rights commitment is supported by Germany and other European governments as well as the US Congress.

This issue is all the more relevant as the draft ESF allows client countries to opt for their own systems instead of applying World Bank standards. The precondition is that both systems are deemed to be "materially consistent". It remains unclear how such consistency would be measured. The draft ESF, moreover, does not state what to do when governments do not obey their own laws, which, unfortunately, is all too common.

Relying on client countries' systems is supposed to boost national ownership and responsibility. Prioritising country standards over universal principles does not make sense however, but that is precisely what is likely to happen in the context of World Bank lending. After all, major client governments view human rights considerations as an intrusion into internal affairs. In their eyes, environmental and social standards are little more than impediments to fast growth.

Vinod Thomas (2015), who heads the Asian Development Bank's Evaluation Department and is a former director of the IEG, has pointed out that very few country systems meet World Bank standards. Reliance on country systems may put communities and the environment at risk. Thomas refers to empirical examples in countries like China and India.

The World Bank's self-declared mission is to fight extreme poverty and promote shared prosperity. In order to do so, it needs a strong and mandatory ESF that applies to all of its lending. Neglecting environmental and social concerns for the sake of doing more business will prove counter-productive. It will worsen extreme poverty, deepen inequality and cause massive environmental destruction. ←

Links:

Alston, P., 2015: Report to the UN General Assembly. August 4.

http://www.un.org/en/ga/search/view_doc.asp?symbol=A/70/274

IEG (Independent Evaluation Group), 2015: Managing environmental and social risk in development program finance. Washington: World Bank.

https://ieg.worldbankgroup.org/Data/reports/Managing_ES_Risks_in_DPF_Sept18.2015.pdf

IEG, 2011: Evaluative directions for the World Bank Group's safeguard and sustainability policies. Washington: World Bank.

<https://consultations.worldbank.org/Data/hub/files/consultation-template/review-and-update-world-bank-safeguard-policies/en/related/636830pub00wb000box0361524b0public0.pdf>

Inspection Panel, 2015: Comments on the second draft of the proposed environmental and social framework. Washington: World Bank.

<http://ewebapps.worldbank.org/apps/ip/Style%20Library/Documents/Inspection%20Panel%20Comments%20on%202nd%20Draft%20ESF%20-%2017%20June%202015.pdf>

Thomas, V., and de Ferranti, D., 2015: Time to bolster safeguards, not dilute them.

<http://blogs.ft.com/beyond-brics/author/vinodthomasanddaviddeferranti/>



Korinna Horta

is a senior adviser with Urgewald, a civil-society organisation based in Germany. korinna.horta@gmail.com

“Pool and share knowledge”

The Asian Development Bank’s annual meeting will be held in Frankfurt in May. An important topic will be what new competition from the Asian Infrastructure Investment Bank means for the multilateral institute. Hans-Joachim Fuchtel, the ADB governor for Germany and parliamentary state secretary to the federal minister for economic cooperation and development, says there is a lot to do for both banks in view of mass poverty.

Interview with Hans-Joachim Fuchtel

Several emerging markets are currently affected by economic downturn. What must multilateral development banks do in this context?

For a long time, emerging markets were the engines of the global economy. When they start to falter, the effects are felt all over the world, including in Germany. The multilateral development banks can intervene to counteract this trend and, as they proved in the last financial crisis, they can protect emerging markets in particular from slumps. They can step in when private-sector banks are refusing to grant new loans.

Every crisis is also an opportunity. It cannot be that the economic boom in an emerging market like China means that people in big cities are exposed to serious air pollution every time they step outside their front doors. We must therefore emphasise sustainable development, especially in the emerging markets. The multilateral development banks have the know-how and the capital to support them.

In your eyes, what is the role of the ADB in particular? Its members include huge emerging markets like China, India and Indonesia, but also many small developing countries.

The need for investments and reforms is obviously huge, both in the big emerging markets and in the poorer Asian countries. Germany has therefore made sure that the Asian Development Bank will be able to increase its lending by about one third over the next ten years.

In the next four years the Bank will be doubling its investments in efforts to combat climate change. If we want to stop climate change then we need to work with Asia. This is just as important for poorer countries in Asia as it is for the emerging markets. The relevance of the Sustainable Development Goals

is most evident here. And it is also clear that carbon emissions are especially high in Asia, though per-capita emissions are higher in Europe.

The world is a bit like a global construction site, and we need intelligent financing schemes in order to find solutions. The people living on the coasts of Bangladesh know this perfectly well. It is not their fault that everything they have is being submerged by the sea. All of us who have contributed to climate change have a responsibility here.

In cooperation with the Asian Development Bank, Germany has launched an initiative for Asia’s fast growing cities. We can ensure today that cities grow in a climate-friendly way tomorrow. That means good public transport, low-energy urban lighting, earthquake safe buildings and so on.

We see the annual meeting of the Asian Development Bank in Frankfurt in May as an opportunity to put even more emphasis on sustainability. When the Bank advises national governments on economic policies, sustainability must top the agenda. That is just as true for climate change as it is for global supply chains. Unless living wages are paid at the very beginning of the supply chain, we cannot ensure decent livelihoods for the people who make our clothes. A garment worker in Bangladesh must have enough to live on.

How will the ADB relate to the AIIB which was launched by the emerging markets because they did not want to leave matters to the established economic powers?

The need for infrastructure in developing countries and emerging markets is enormous. Railways, roads, schools and hospitals are required. Today, more than 1.6 billion Asians still live on less than two dollars per day. So it is actually in our interest that the Asian



"In cooperation with the Asian Development Bank, Germany has launched an initiative for Asia's fast growing cities. We can ensure today that cities grow in a climate-friendly way tomorrow." Metro passenger in Delhi.



Hans-Joachim Fuchtel

is the ADB governor for Germany and pParliamentary state secretary to the federal Minister for economic cooperation and development.
<http://www.bmz.de>

Infrastructure Investment Bank is starting operations. We have to ensure, however, that it observes environmental and social standards and, as a shareholder, Germany's Federal Government will do that.

Fighting poverty, especially in the least-development countries, is an important component of the mission of multilateral development banks. What tasks should the regional development banks take on, and what is the brief of the globally active institutions – and is this cooperation going well?

Global institutions such as the World Bank are cooperating ever more closely with the regional development banks. They are increasingly joining forces to deal with major infrastructure investments or financial crises, drafting joint strategies and standards. In this context, we should not forget German

agencies such as KfW Banking Group or GIZ either. The best example is the world's biggest solar power station, which was recently inaugurated in Morocco. The World Bank, the African Development Bank, Germany and other donors have together initiated Africa's Energiewende, the transition to clean energy.

It obviously makes no sense to have everyone doing everything, so we need an intelligent division of labour. The regional banks are closer to the source for regional problems.

On the other hand, many problems transcend national borders, affecting more than one country or continent. Climate change is a striking example. In these cases, we need to pool and share knowledge – and that is the global institutions' strong point. ←

“Sensible division of labour”

The number of international development banks is growing. Nonetheless, an ideological clash of the established institutions with the new ones, which have been launched by emerging-market governments, is unlikely. That is what Bruno Wenn, chairman of the Management Board of the German development finance institution DEG, thinks. In an interview, he told Hans Dembowski the reasons.

Interview with Bruno Wenn

For poverty to be reduced, private businesses must generate jobs. In other words, they must be successful enough to hire new staff. Can international development finance institutions contribute to making that happen?

- Yes, they can. First of all, they can contribute to making sure that the kind of infrastructure that businesses need is built in developing countries and emerging markets. Relevant issues include water supply, electric power, transport, telecommunication et cetera. For good reason, financing such things has always been an important part of development banks' mandate.
- Moreover, they can help governments to foster a healthy business environment in regard to regulations and institutions. For example, every country needs a well-functioning government-revenue system that taxes everyone reasonably, so state agencies are able to act, for instance, in regard to the infrastructure I just mentioned. Every country similarly needs a judicial system that can handle disputes in a fast and trustworthy manner. International institutions can – and must – provide competent advice in these matters.

And that is why the World Bank has been claiming to be a “knowledge bank” for quite some time. Loans are the typical tools a bank uses however. Can the World Bank really promote sensible regulation, strong institutions and good governance by handing out loans?

Well, loans from international institutions really are not that important currently. These days, it is easy to get cheap money, so no project fails because of a lack of funding. There is, however, a lack of bankable projects. A bankable project must be well designed, including in regard to human rights, environmental and social standards. Moreover, the risks need to be clearly identified. Unless all this is the case, banks will hesitate to grant loans. Accordingly, it is very important that international agencies contribute to

creating business environments that are conducive to generating and implementing promising ideas. Bankable infrastructure projects are especially valuable. There currently are too few of them.

Are the IFIs, the international finance institutions, up to their tasks of knowledge brokers?

Generally speaking, they are, yes, but unfortunately there is tendency of fragmentation. The World Bank and the regional multilateral development banks should coordinate their efforts even better. Some of their work overlaps, and it can be quite surprising which agency is the decisive one. In Africa, for example, the World Bank tends to have a stronger local presence than the African Development Bank even though the latter has more regional expertise.

Giving advice to governments is the job of the GIZ, the bilateral German development agency.

Yes, and its experts contribute to improving the business climate in many places, and so do our colleagues at KfW development bank, another bilateral institution. The DEG is involved too. We advise our clients, after all. Bilateral efforts matter, and they must complement multilateral efforts. Multilateral programmes tend to be particularly influential, however, so coordination among multilateral agencies should be optimised.

There are several new development finance institutions which have been launched by emerging market governments. One example is the Asian Infrastructure Development Bank in Beijing, and its members include Germany and other European countries. Another example is the New Development Bank, which the governments of the BRICS countries – Brazil, Russia, India, China and South Africa – have set up in Shanghai. Yet another example is the Banco del Sur, which has been around for a bit longer. Must we now expect fragmentation to increase



Rüdiger Nehmzow/KfW Bildarchiv

Workers at a Kenyan juice-producing company that has taken DEG loans.

because every bank has an obvious institutional self-interest to raise its profile?

There is a certain probability of fragmentation increasing, for instance, if individual banks try to get hold of good investment projects in the hope of disbursing their money and perhaps even competing with other banks in terms of the conditions they offer. That would be counter-productive. As I just said, money really is not the core problem today. It is more important to join forces in order to make individual countries' business climate conducive to the kind of sustainable and eco-friendly growth that allows nations to prosper. A division of labour would make sense. The more experienced partners could provide advice geared to making projects bankable, and other institutions could then finance those projects.

But don't the emerging-market governments have a different ideology, for instance in regard to states intervening in markets? Some observers expect the new IFIs to become a fierce competition that will make life harder for the established ones.

For two reasons, I don't expect that to become a major problem. Just like the established development banks, the new ones depend on capital markets for refinancing. To raise money, they will have to adopt policies that capital-market investors find convincing. And that means they will ultimately not be that different.

Moreover, advanced nations' concern for the environment protection, social protection and good governance is not some kind of luxury only the rich can afford. Rather, these issues need to be dealt with for economies to be successful in the long run. It plainly does not make sense to invest in environmentally harmful production facilities, because if you do, those facilities will no longer be accepted in a few years. Trying to rely merely on the exploitation of cheap labour is not a promising business model either. Our partners in countries like China, India and Brazil understand these things quite well.

If the new development banks are not going to adopt very different policies from those of the established banks, why were they set up at all?

Well, the industrialised nations have basically been telling emerging markets to assume more responsibility, but they did not give them necessary space for doing so in multilateral institutions. The US Congress, for example, refused to accept more voting rights for emerging markets in IMF governance for years (see article by Fernando Cardim de Carvalho on p. 30 ff.). Europe wasn't exactly eager to renounce influence and give emerging markets more say either. One result is that there now are new institutions which are eager to do business. The aspirations are considerable. I was surprised to learn recently that the AIIB will not only be active in Asia, but has a mandate to become engaged in all its member countries. Peru has already applied for funding. ➔



Bruno Wenn
chairs the Management Board of DEG – Deutsche Investitions- und Entwicklungsgesellschaft, the subsidiary of KfW which supports private-sector development in developing countries and emerging markets.
<http://www.deginvest.de>

Major breakthrough

In September 2015, the world community spelled out its new aspiration “to end poverty in all its forms everywhere” in the first of 17 Sustainable Development Goals (SDGs). Since October 2015, it also has a new international poverty line of \$ 1.90 a day.

By Hildegard Lingnau

➔ The SDG1 sets the target to eradicate extreme poverty for all people everywhere by 2030. It does not simply define a monetary poverty line; it also refers to other dimensions of poverty such as lack of access to land, social protection, technology, financial services and other resources.

While the SDGs are celebrated as a major breakthrough in defining and measuring dimensions of poverty, some critics say that the broad approach does a disservice to the poorest of the poor. They argue that countries can cherry-pick from the SDG list whatever they want instead of being forced to tackle the most pressing poverty issues (Klasen 2015).

The key indicator for measuring poverty, however, will continue to be the World Bank’s dollar-per-day-measure which allows to track poverty over time and across regions. Based on new data, the World Bank last year updated its former international poverty line of \$ 1.25 per head and day to \$ 1.90. The new sum is believed to reflect the purchasing power \$ 1.25 had in 2005 – which in turn was supposed to cover what one dollar bought in 1985 (see box below).

The World Bank researchers admit that definition and measurement remain “challenging endeavours”. Concepts, methods and data are subject to debate. “At

the core of this debate is how to compare the standards of living of widely different peoples, consuming vastly different goods and services, all priced in different currencies,” the authors state (Ferreira et al. 2015).

Current situation

The World Bank Global Monitoring Report (GMR) 2015/16 assesses the current situation as follows: since 1990, the share of the world population living below the dollar-per-day poverty line has come down from nearly 40 % to nearly 10 % today. Nonetheless, some 700 million people are still estimated to live below that line. That number is expected to drop to between 340 and 480 million by 2030. The global share of extremely poor people would then be between 4.2 and 5.7 % of the world population. The World Bank, however, wants that share to fall below three percent.

In any case, the vast majority of extremely poor people (more than 85 %) will live in Sub-Saharan Africa (Ferreira et al. 2015). Experts emphasise that these numbers are mere estimates. “Everything beyond 2012 is essentially guesswork” (Sandefur 2015), as more recent and reliable data are not available.

New poverty line better reflects reality

The World Bank regularly updates the international poverty line whenever the International Comparison Program (ICP) makes new data on purchasing power parities (PPPs) available. PPPs are supposed to be more accurate than exchange rates. The reason is that the prices for goods and services vary dramatically from country to country. The ICP is a partnership of international organisations. It collects and compares price data internationally to estimate PPPs. The international

poverty line is defined as the average of the national poverty lines of the 15 poorest developing countries.

The latest ICP PPP index round took place in 2011 and provided the basis for the new \$ 1.90 poverty line. Previous rounds took place in 1985 (setting the poverty line at \$ 1.01), 1993 (\$ 1.08) and 2005 (\$ 1.25). Though there is some disagreement among scholars, the dominant view is that the new PPPs are a reasonable update of the old ones.

The current poverty line of \$ 1.90 reflects the fact that the 2011 ICP price surveys revealed price levels in poor countries that were considerably lower – relative to those in the USA – than those used in 2005. If prices in poor countries are lower, that means that their currencies have become stronger in terms of purchasing power. Accordingly, their poverty lines must be raised in dollar terms. In 2011, \$ 1.90 was estimated to buy the same things as \$ 1.25 did in 2005 in poor countries. (hl)



The World Bank, however, is not only interested in monitoring and reducing extreme poverty. It also wants to monitor and expand what it calls “shared prosperity”, which is reflected in the growth of the per-capita income of a country’s poorest 40 % (see D+C/E+Z 2014/12, p. 450).

Currently, there is no progress on shared prosperity, as incomes are actually declining for the bottom 40 % in half of all heavily indebted countries and one third of moderately indebted countries, according to the World Bank. Moreover, the bottom 40 % of the population suffer deprivation in non-income dimensions of poverty as well.

Three challenges

The World Bank GMR identifies three challenges: the depth of remaining poverty, the unevenness in prosperity and persistent disparities in non-income dimensions of development. The authors make the following policy recommendations:

- recognise that poverty is multi-dimensional,
- focus more directly and fully on the poorest among the poor,
- make steady growth of the incomes of the bottom 40 % of the population happen,
- address widespread inequality of opportunities,
- implement human-development and social-protection policies and
- monitor the sustainability of development progress in all three dimensions (with a special focus on environmental concerns).

The acceptance of the idea that poverty is multi-dimensional is growing. There is however much less

agreement on how to measure the various forms of deprivation and aggregate such information.

Two other approaches to poverty monitoring besides the shared prosperity approach of the World Bank deserve to be mentioned: economists such as Martin Ravallion and Andy Sumner are in favour of using several poverty lines, whereas the Oxford Poverty and Human Development Initiative (OPHI) has designed the Multidimensional Poverty Index which was adapted by the Human Development Index.

Multiple poverty lines

Ravallion (2015) states that two poverty lines are needed. The first should reflect a specific level of minimal purchasing power across all countries, and the second should indicate a poverty line that matches a given country’s average income.

Sumner similarly questions the usefulness of any single poverty line. In his eyes, such definitions are arbitrary. Indeed, changing the dollars-per-day poverty line by ten cents can mean that 100 million more – or fewer – people around the world are considered extremely poor. Sumner is in favour of using several poverty lines, including one of ten dollars per day and head (see Sumner: CGD blog 11.5.2015).

Sumner’s approach would draw greater attention to the distribution of wealth. Poverty cannot be tackled with growth in itself; the benefits of growth must be redistributed. Sumner insists that philanthropy and welfare systems have some impact, but “a world free of poverty and free of the risk of falling back into poverty (\$10 per day) would require a very radical

Health care is one of many dimensions of poverty: medical service in a settlement near Phnom Penh, Cambodia.



Baumgarten/picture-alliance

World Bank
headquarters in
Washington D.C.

shift in the forms of contemporary capitalism' (Sumner 2015: CGD blog 9.9.2015).

Non-income measures

The Multidimensional Poverty Index (MPI) assesses 10 dimensions of poverty in more than 100 developing countries. The latest version (MPI 2015+) reflects the different types and dimensions of poverty as agreed in the SDGs, including poor sanitation, malnutrition, gender discrimination, quality of work and exposure to violence, for example. It matters that, when poor people describe their experience, they mostly refer to these dimensions themselves.

The MPI is most useful. Apart from providing a headline measure of multidimensional poverty within any population, the global MPI 2015+ reveals:

- in which senses people are poor,
- where the poorest people live (by region and social group), as well as
- the intensity of the deprivations.

The more policy-relevant information on poverty is made available, the better-equipped policy makers become to reduce it. Where most people lack education, for example, a poverty-reduction strategy must obviously be different from where most people lack adequate housing.

A growing number of governments and international institutions are adopting multidimensional poverty measures. To foster South-South support for this approach, 40 of them have founded the Multidimensional Poverty Peer Network (MPPN).

A new commission

Kaushik Basu, the World Bank's chief economist, has convened a commission of 24 high-profile economists. They have been requested to answer the following questions by April 2016:

- What does it mean to hold the poverty line constant at the purchasing power of \$ 1.25 in 2005 as reflected in the recent adjustment to \$ 1.90 today even though prices and exchange rates keep changing?
- Should the World Bank also consider measures such as four-dollar and ten-dollar-per-day poverty lines?
- Should it assess the depth of poverty below the line?
- Should it collect and collate data on dimensions of poverty beyond the money metric?

Overall, the outlook for measuring poverty has improved considerably. In SDG1, the world has finally acknowledged that poverty is multidimensional and needs to be measured in different ways. Much needed progress is being made in defining and measuring poverty in its different dimensions. However, many challenges in terms of methods and data availability remain in practice.

Challenges for established donor governments are that:

- SDG1 applies to all nations, so they will have to assess poverty at the domestic level too, and
- all policy communities are called on to tackle poverty in all its dimensions.

References:

- Ferreira, F. H. G., et al, 2015: A global count of the extreme poor in 2012. World Bank:
<http://documents.worldbank.org/curated/en/2015/10/25114899/global-count-extreme-poor-2012-data-issues-methodology-initial-results>
- Klasen, S., 2015: SDG – Den Ärmsten der Welt einen Bärenienst erwiesen. KfW: https://www.kfw-entwicklungsbank.de/PDF/Download-Center/PDF-Dokumente-Development-Research/2015-09-22-MF_Klasen_en.pdf
- Oxford Poverty and Human Development Initiative (OPHI): <http://www.ophi.org.uk/>
- Ravallion, M., 2015: The World Bank's new global poverty line. CGD blog 7.10.2015:
<http://www.cgdev.org/blog/world-bank%E2%80%99s-new-global-poverty-line>
- Sandefur, J., 2015: Nobel prizes, poverty numbers and tales of mythical creatures, CGD blog 15.10.2015.
- Sumner, A., 2015: An End to Global Poverty: Philanthropy, Welfare Capitalism, or Radically Different Global Economic Model?, CGD blog 9.9.2015:
<http://www.cgdev.org/blog/end-global-poverty-philanthropy-welfare-capitalism-or-radically-different-global-economic-model>
- Sumner, A., 2015: When Does One Dime = 100 Million People?, CGD blog 11.5.2015:
<http://www.cgdev.org/blog/when-does-one-dime-100-million-people>
- World Bank Global Monitoring Report 2015/2016:
<http://www.worldbank.org/en/publication/global-monitoring-report>



Hildegard Lingnau
wrote this essay in her capacity as senior counsellor at the OECD. She has since become the head of cooperation at the German Embassy in Kenya. This contribution reflects her personal views.
hildegard.lingnau@web.de

Back to square one

In 2015, the World Bank discontinued its status reports on the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative. It stated that debt relief had been concluded within the framework of the initiative for all intents and purposes, and that had been successful. But was it really? It makes sense to look back.

By Jürgen Kaiser

→ Until 1996, poor and heavily indebted countries could only obtain debt relief from bilateral creditors, but not from multilateral creditors like the World Bank, the IMF or the regional development banks. But since governments very rarely granted debt relief, over 40 poor countries found themselves in a veritable debt trap. Economic development became practically impossible. In some cases, the debt burden was absurdly heavy.

By that point, multilateral institutions had become the most important creditors for many countries concerned. The reason was that they helped poorer nations make their ongoing debt-service payments by issuing them new loans when private and bilateral lenders were no longer willing to do so. Unlike bilateral debt, however, multilateral debt was officially considered ineligible for rescheduling.

There was no international treaty or clause in the charters of multilateral institutions that prevented them from relieving debt in cases of excessive indebtedness. Nonetheless, the conventional wisdom was that these institutions had to be serviced so they would remain available as lenders of last resort and could keep countries afloat even in times of crisis.

Attitudes only began to change in the mid-1990s. Sweden and Switzerland organised a consultation with experts from the World Bank and the IMF in 1995, and afterwards the staff of both institutions laid the groundwork for what would become the HIPC Initiative. The idea was to cancel all debts that exceeded a debt-sustainability threshold which Bank and Fund defined. In addition, all other creditors should also cancel debt to varying degrees. Multilateral creditors were meant to act last of all. Once the other creditors had issued their write-offs, they would reduce claims only to the extent needed to make debt levels sustainable once more.

The World Bank and the IMF were to be compensated for debt relief. Donor countries established a trust fund for this purpose, and the multilateral institutions contributed some of their operating prof-

its to it themselves. To talk about “multilateral” debt relief actually only makes sense because they did so to some extent.

It was considerable progress that the multilateral agencies were told to cancel debt. But when drafting the initiative, the IMF and World Bank undermined their own goals by trying to keep multilateral contributions as small as possible:

- The debt-sustainability thresholds were set so high that only six countries were forgiven rather small sums in the first three years.
- The World Bank and IMF could only request that private lenders participate in debt relief, but there was – and still is – no mechanism to exert pressure on them. One result was the rise of vulture funds. Their business model is to buy government debt at low cost in imminent default and later sue for full payment, including interest.
- The Bank and Fund retained a monopoly on determining debtor countries' need for relief. In a considerable number of cases they underestimated that need because they predicted absurdly high growth rates.

In 1999, the G8 governments expanded the HIPC Initiative at their summit in Cologne. The requirements for relief were lowered, so more countries qualified. Today, the total number is 39. For three of them – Sudan, Somalia and Eritrea – actual relief has not happened and cannot be expected anytime soon. The reasons are incomplete statehood and questionable governance.

To date, the total amount that has been written off is roughly \$ 120 billion. However, further reforms were necessary to reach that sum. At the G8 Summit in Gleneagles in 2005, the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI).

HIPC had reduced debts to a maximum debt-to-export ratio of 150 % and a maximum debt service of 15 % of export earnings. In contrast, the MDRI completely cancelled all remaining debt to the IMF and IDA, the World Bank's branch for the poorest nations. Moreover, the MDRI also granted relief on debt to



Ghana is considered a debt relief success story, but it is once again at high risk of insolvency. Construction workers in Accra.

Gilling/Unear

the African and Inter-American Development Banks because of concessional lending.

The MDRI finally relieved countries to the degree they needed to get their economies going again. Before 1996, the debt-to-GDP ratio exceeded 100 % in most countries concerned. Today, their average ratio is around 20 % – far below the average of all developing and newly-industrialising countries.

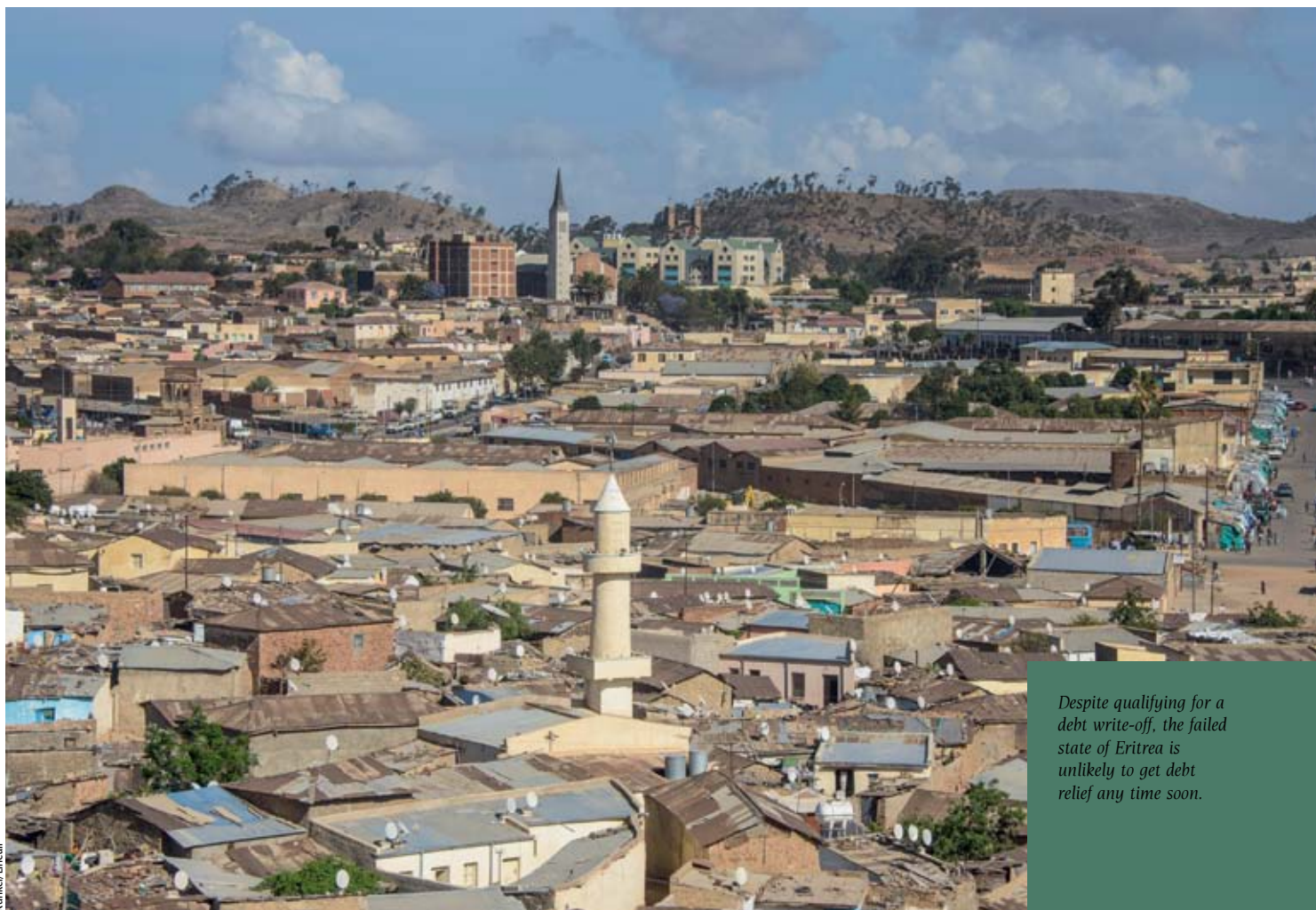
From 1999 on, a poverty reduction strategy was made an important precondition for HIPC debt relief. Governments had to draft such a strategy in cooperation with civil society and show how the funds freed up in debt relief would be used to fight poverty. These strategy papers supplemented, but did not replace conventional structural-adjustment programmes.

In some cases, the Poverty Reduction Strategy Papers (PRSP) were not much more than a meaningless compilation of politically-correct rhetoric. Malawi and Chad are examples. In other countries – Bolivia, for instance – they triggered substantial social processes and ultimately led to a political paradigm shift.

What next?

HIPC success is marred however. The international financial institutions and their powerful members expected debt relief to allow countries to escape the vicious circle of borrowing and over-indebtedness once and for all. This expectation was unrealistic. The reason is that HIPC was designed to help over-indebted countries to access the credit market again. And when a country takes out new loans, there is always a risk of over-indebtedness and ultimately default.

Based on significantly improved debt-sustainability analyses, the IMF last year identified seven of the 36 countries that got debt relief as once again being at “high risk” of over-indebtedness. It stated that the risk for 20 other countries was “moderate”. High risk means that the IMF considers insolvency likely within the next few years under its baseline scenario. “Moderate” risk means a country could become insolvent if one of the IMF’s standard crisis scenarios materialises. One such scenario is falling world-market prices for an important export good.



Despite qualifying for a debt write-off, the failed state of Eritrea is unlikely to get debt relief any time soon.

What will happen in a new debt crisis is as unclear today as it was in 1996. The Paris Club of established creditors only plays a marginal role for many poorer countries today. Important new bilateral creditors like China, Taiwan or Kuwait have not joined the Club, which is dominated by the established economic powers. Emerging-market governments appreciate the political leeway that can be gained through strategic and discretionary debt-relief policies and do not show much interest in the “creditor solidarity” which the Paris Club promotes.

Since the beginning of this decade, many formerly over-indebted countries have sold government bonds on international capital markets for the first time. Senegal, Côte d'Ivoire, Zambia, Mozambique, Tanzania and Ghana successfully did so. Ghana, however, is now considered a high-risk country (see Clara Osei-Boateng and Kristina Rehbein in D+C/E+Z e-Paper 2015/12, p. 41).

Most of the bonds issued by HIPC government come with collective action clauses (CACs) that allow restructuring based on decisions made by the majority of bondholders. However, coordination between creditor groups is normally a bigger problem than

coordination within groups, as became evident when HIPC was first implemented. The consequence was that peremptory debt relief measures were repeatedly delayed, so they became much more expensive than if restructuring had taken place in a timely manner.

In September 2014, developing and newly-industrialising countries took the initiative to address this situation in the UN context. They proposed creating a binding framework for managing sovereign debt crises. However, the initiative was blocked by Germany and a handful of other advanced countries.

When asked what will happen if Ghana for instance once again becomes unable to make payments, ministries in Berlin answered that the CACs will then make rescheduling possible. But bonds with CACs only make up less than 20 % of long-term debts in Ghana and other countries on the brink of crisis. The bonds are not the greatest burden on the public budgets and balance of payments.

It is clear that HIPC debt relief is not supposed to happen again. We are back to square one, precisely where we were before 1996. ←



Jürgen Kaiser
coordinates erlassjahr.de,
a German faith-based campaign
that focuses on debt issues.
j.kaiser@erlassjahr.de

Back to original mission

IMF policies have changed over the years, and some programmes failed. Emerging markets deserve – and will soon get – more say.

By **Fernando J. Cardim de Carvalho**

➔ At the end of 2015, the US Congress finally approved the reform of how countries count in IMF representation – after five long years of negotiations. China and other emerging markets will contribute more money to the IMF and get more votes accordingly. European influence will be reduced.

The reform was stuck in the US Senate's Foreign Relations Committee for a long time. President Barack Obama was in favour of passing it, and so were some Republican officials. The majority of conservative Republicans in the US Congress, however, see the IMF as a socialist institution that bails out bankrupt governments, many of which criticise the USA. Ironically, many people in other world regions consider the IMF a tool of US hegemony.

The current reform will raise China's share of votes from 3.8 % to 6 %, making it the third most powerful country after the USA and Japan. Washington will retain some veto powers however. The value of each member's quota is determined by a complex system that reflects political power and economic influence.

The IMF's mission

The IMF was launched at the Bretton Woods Conference in 1944 when the end of World War II was in sight. All 44 countries that were part of the anti-fascist United Nations Alliance participated in the conference. Its purpose was to design a new international monetary system for the post-war era because the pre-war gold standard had proved to be a driver of deflation and had contributed to the Great Depression of the 1930s.

Back then, the known alternative to the gold standard was letting national authorities manipulate exchange rates. It was considered worse than the gold standard because the Great Depression had worsened as countries left the gold standard and kept devaluing their exchange in the hope of exporting more and thus reducing domestic unemployment.

To avoid currency wars in the future, Bretton Woods created a fixed exchange-rate system which only allowed members to alter their exchange rates in line with fundamental economic change. The first part of the IMF's mission was thus to evaluate countries' self-assessments and advise other members on whether or not an exchange-rate change was justified. For this purpose, the Fund had to appear impartial, so all countries were supposed to be represented according to their relevance in the world economy.

The IMF's mission included a second part. It was obvious that a country's adjustment after a balance-of-payment crisis would take time. Until the desired balance of exports and imports was reached, the Fund was supposed to help that country to finance indispensable imports. Accordingly, the IMF was assigned to provide short-term credit and became something like an economics think tank with a bank division. Countries' voting rights were designed to reflect their contribution to the Fund's capital.

Bretton Woods also set up a bank to provide long-term credit for post-war reconstruction: the International Bank for Reconstruction and Development, better known as the World Bank. Its mandate soon included support for developing countries, many of which became independent after World War II.

Structural adjustment

Initially, the IMF was basically expected to manage a payments system for trade among advanced economies. However, the fixed exchange-rates system collapsed in the early 1970s, and the Fund began to focus on developing economies.

These countries faced different challenges however. Industrialised economies only needed IMF support for six to 12 months or so in order to adjust after balance-of-payments crises. Basically, they had to reduce fiscal deficits and raise interest rates to bring aggregate demand in line.

The problems of developing countries, however, were harder to fix. According to the IMF leadership, they had to undergo structural reforms. The idea was to turn them from commodity-based economies with large public sectors into vibrant industrial ones. The goals of structural adjustment were thus to reduce the size of the state, deregulate the economy, privatise state-owned enterprises, liberalise labour markets et cetera. It is certainly no coincidence that these goals were also high on the domestic agendas of conserva-

tive leaders such as Margaret Thatcher and Ronald Reagan in rich nations.

Structural adjustment was not expected to happen within a few months, so the IMF teamed up with the World Bank to design structural-adjustment programmes for various countries. They then carefully supervised implementation and ignored dissenting views as to what would best promote development.

European discomfort

The IMF's role in the Euro crisis is awkward in several ways:

- The IMF is not acting independently, but is part of a troika which also includes the European Commission and the European Central Bank. The European partners' approach is more restrictive and less growth-oriented than current IMF philosophy is.
- The economies of the worst-hit countries are still smaller than they were in 2008, and the crisis has kept dragging on for years. Quite obviously, troika policies have not had the intended results of reducing public debt, inspiring investor confidence and triggering fast recoveries. Living standards and social-protection standards have deteriorated dramatically for masses of people (as I argued using the example of Portugal in D+C/E+Z 2015/03, p. 25 ff.).
- The IMF may only lend financial support to countries if programmes will achieve

debt sustainability. Before the last bail-out for Greece last summer, IMF economists stated that Greece needed debt relief, which the Fund's European partners were unwilling to grant. At the same time, European – and in particular German – policymakers want the IMF to remain part of the Troika. The IMF's position is that it is only contributing technical expertise, but the Europeans want it to contribute funds as well. Recently, IMF leaders have emphasised that Greece needs pension reform to make debt sustainable, but even though officials now shy away from the issue, debt relief remains relevant – especially as the case was made by IMF experts.

- Emerging-market members find it irritating that the IMF keeps using multilateral money in support of comparatively prosperous European countries, especially as debt sustainability is in doubt in Greece. They think that Christine Lagarde, the French head of the IMF, has

involved the institution in inner-EU policy-making, which should not be its business. No doubt, the euro crisis has made them even more eager to get more say at the IMF than they were anyway (see main article).

Internationally, most economists – including those at the IMF – agree that aggregate demand in the entire EU is too low, so the continent needs public investments, not austerity to recover. In northern Europe, and especially in Germany, this view is deeply unpopular however. In this debate, the US administration is siding with emerging markets. How the IMF will decide on conditions for contributing bail-out funds remains to be seen. (fcc)

Deeply involved in EU affairs: Christine Lagarde, IMF managing director, with Euclid Tsakalotos, the Greek finance minister, in Brussels in July 2015.



picture-alliance/dpa



China's clout in the IMF is growing. A bull representing financial power in Shanghai.

Raupach/Uneair



Fernando Cardim de Carvalho

is a professor of economics at the Universidade Federal do Rio de Janeiro.

fjccarvalho@uol.com.br

This policy approach reached its peak in the 1990s. By the end of the 1990s, however, it was obvious that structural adjustment had failed in many countries. Instead of emerging stronger from crisis, many economies had only sunk deeper into public debt. The Fund's reputation suffered especially during the Asian crisis as many observers argued that it had made things worse. By the end of the decade, even the governments of the leading economic powers understood that debt relief for highly indebted poor countries had become necessary.

New-found relevance

After the turn of the millennium, the IMF did not make headlines for some years. Indeed, some argued it had become irrelevant, and experts discussed shutting it down.

Instead, the IMF became strong and prestigious again. Its comeback began with Dominique Strauss-Kahn becoming its managing director in late 2007. He appointed Olivier Blanchard as chief economist.

Under their leadership, the Fund re-examined its past policy recommendations and its rigid free-market ideology. It revised its views on many important issues such as the efficiency of capital controls and other forms of macroeconomic intervention.

In the second half of 2008, the investment bank Lehman Brothers collapsed, and the global financial crisis began. In this scenario, the rethink going on at the IMF made even more sense. Evidently, the Fund was still needed. After Strauss-Kahn's disgracing sex scandal in 2011, he was succeeded by Christine Lagarde, but she largely stuck to his policy approach.

The main mission of the IMF is once again understood to be the management of temporary crises in the short term and restarting economies. This mission makes sense. It is all the more awkward, therefore, that the IMF has become deeply involved in the misery of the long lasting Euro crisis (see box, p. 31). What is happening in Europe looks more like structural adjustment than an implementation of recent IMF reasoning. ←

Debate on industrial policy

The question whether industrial policy should be used to actively drive development is once more the topic of intense debate. Interest in the matter was rekindled by two things: China's spectacular, policy-driven growth on the one hand and concerns about Africa becoming deindustrialised on the other. Indeed, the African experience shows that markets alone do not bring about industrialisation. Current contributions to the debate are more nuanced than those of the 1990s.

By Michael Grimm

➔ In 1993, the World Bank's East Asian Miracle Report staked out a clear position: it attributed East Asian success first and foremost to macroeconomic stability and healthy fundamental data. In other words, sound macroeconomic management, free trade and investments in infrastructure and education were believed to be at the root of healthy development. The report acknowledged that many of the countries considered had relied on targeted government action in terms of agricultural policies, aid for exports, subsidised credit and deliberate reallocation of resources. Nonetheless, the authors stated that such government action had not been the main driver of success.

Alice Amsden (1994) and many other analysts strongly criticised the report's conclusions and recommendations. Amsden objected in particular to the World Bank's claim to neatly distinguish fundamental factors from interventionist policies. She felt it would make more sense to find out how to build the kind of strong institutions that had led to convincing results because they were able to implement industrial policies in East Asia.

The topic was then dropped. It seemed as if the World Bank's point of view had prevailed. Experts only took the issue up again in the early 2000s. In a book he co-edited (Arbache et al., 2008), John Page, one of the authors of the East Asian Miracle Report, showed that the industrial sectors of many African countries had begun to shrink after a brief period of growth that had been driven by government investments and import substitution. Page's data indicated that the share of manufacturing industries in most African countries' GDP was smaller in 2000 than it had been in 1985. This development contrasted with trends in most Asian and Latin American countries.

Dani Rodrik (2014) argues along similar lines. He laments the slow progress of industrialisation in

Africa, showing that, even at comparable income levels, the share of manufacturing in employment as well as GDP was much larger in East and Southeast Asian countries. Rodrik sketches a typology of growth in order to predict its pace. He notes that, even though "fundamentals" have been good in much of Africa, industrialisation remains weak. Accordingly, he forecasts slow economic growth for the continent in the future.

Rodrik discusses four policy options: (i) development and promotion of the manufacturing industries, (ii) agribusiness, (iii) specialisation in the services sector and (iv) commodities-based growth. Rodrik assesses these options with a particular focus on the scope for job creation. From this perspective, he argues that option (i) is the most promising. At the same time he argues that shifts in global demand will make it harder for Africa to find suitable export niches than it was for other regions in the past.

Margaret McMillan sees Africa's development much more optimistically (McMillan and Harttgen, 2014). She points out that the number of micro and small enterprises has risen fast and that they have absorbed many workers from agriculture. Despite their small size, these companies have higher productivity levels than farms. McMillan reads this as a sign of considerable progress towards industrialisation, though it differs from the kind seen so far in East and Southeast Asia.

A collection of essays edited by Adam Szirmai, Wim Naudé and Ludovico Alcorta (2013) provides an excellent overview of the possible pathways for industrial policy. It draws on experiences gathered in East Asia, China, Indonesia, Latin America and Africa. In general, the contributors appreciate that industrial policy is useful, but they offer very differentiated perspectives. In a chapter on Africa that echoes his argu-



China's industrial policy was successful: a fibre glass factory in Guanzhou.

ment in the East Asian Miracle Report, John Page calls for measures to improve the business climate, investments in infrastructure and human capital as well as more regional integration. In the same volume, Tilman Altenburg points out that industrial policy is unlikely to deliver results in countries where politics and the economy are still primarily directed and controlled by (corrupt) elites.

The book contains three chapters that consider industrial policy in the context of climate change and sustainability. They are very much worth reading and focus on challenges of international coordination, informal recycling and measures to promote

low-carbon industrial growth. Industrial policy is seen as a tool that can contribute to international climate goals. If it reduces the relevance of land-hungry agriculture, for instance, it helps to stem deforestation.

Mario Cimoli, Giovanni Dosi and Joseph E. Stiglitz (2009) published an earlier, interesting book on these matters. They consider industrial policy an important instrument to promote economic development. However, they used a very broad definition of the term, which encompasses policies concerning trade, research, technology and foreign direct investments.



conditions developed. The economy picked as model should not only be operating at the international technological frontier, but contributing to pushing it further outward. By following a successful example, developing countries should be able to grow much faster than the more advanced economies.

According to Lin, the continuous upgrading of industrial structures and the improvement of infrastructure require coordinated investment and the compensation of externalities. But he argues that the state must assume an active role as private companies cannot do these things on their own. The book is clearly a reflection of Lin's own experiences in China. Accordingly, he pays almost no attention at all to the problem of weak institutions.

According to Shanta Devarajan (2012), however, this is the crucial problem. Devarajan is the World Bank's chief economist for the Middle East / North Africa region and argues that poor governance is at the root of market failures. So the best way to promote structural change is not industrial policy, but stemming government shortcomings. In sum, it is not surprising that Lin's approach is not supported by consensus within the World Bank. There is one likely exception: agreement seems to be widespread concerning Africa's need for substantial public investments in infrastructure. ←

References:

- Amsden, A. A., 1994:** Why isn't the whole world experimenting with the East Asian model to develop? In: *World Development*, Vol. 22: 627-633.
http://sites.utexas.edu/chinaecon/files/2015/06/Amsdem_Response-to-East-Asian-Miracle.pdf
- Arbache, J. S., Go, D. S. and Page, J., 2008:** Africa at a turning point? Growth, aid, and external shocks. Washington: World Bank.
<http://documents.worldbank.org/curated/en/2008/01/9484180/africa-turning-point-growth-aid-external-shocks>
- Cimoli, M., Dosi, G., and Stiglitz, J. E. (eds.), 2009:** Industrial policy and development. The political economy of capabilities accumulation. Oxford: University Press.
- Devarajan, S., 2012:** In defense of industrial policy.
<http://blogs.worldbank.org/african/in-defense-of-industrial-policy>
- Lin, J. L., 2012:** The new structural economics. A framework for rethinking development and policy. Washington: World Bank.
<https://openknowledge.worldbank.org/bitstream/handle/10986/2232/6639307UBOEPI00noms09780821389553.pdf?sequence=1>
- McMillan, M., and Harttgen, K., 2014:** What is driving the 'African growth miracle'? Tunis: African Development Bank.
http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Working_Paper_-_209_-_What_is_driving_the_African_Growth_Miracle.pdf
- Rodrik, D., 2014:** An African growth miracle? Princeton: Institute for Advanced Study.
https://www.sss.ias.edu/files/pdfs/Rodrik/Research/An_African_growth_miracle.pdf
- Szirmai, A., Naudé, W., and Alcorta, L. (eds.), 2013:** Pathways to industrialization in the twenty-first century. New challenges and emerging paradigms. Oxford: University Press.
- World Bank, 1993:** The East Asian Miracle: economic growth and public policy. Washington.
<http://documents.worldbank.org/curated/en/1993/09/698870/east-asian-miracle-economic-growth-public-policy-vol-1-2-main-report>

Within the World Bank, a clear case has yet to be made in favour of industrial policy. But the instrument is once again considered to be worthy of debate. A wide range of opinions is found, from complete rejection to enthusiastic support.

A prominent proponent of industrial policy is Justin Yifu Lin (2012), who was the chief economist and senior vice president of the World Bank from 2008 to 2012. In his book, Lin recommends that emerging economies focus on their comparative advantages. In choosing production technologies and products, industrial policy should look for guidance to how an advanced economy which started from similar initial



Michael Grimm

is a professor of development economics at the University of Passau.
michael.grimm@uni-passau.de

“My home, my life”

Kakuma refugee camp in Kenya’s Turkana desert is currently housing more than 180,000 people. Most of its inhabitants come from Somalia and South Sudan, and some of them have lived here for decades. Mary Othow is one of them.

By Peter Owar Okello

➔ “I remember 30 years ago, back in my village everything was well. All members of my family were still alive,” Mary Othow recalls. The South Sudanese woman is originally from Akobo County in Jonglei State in the country’s south-east. She is one of the tens of thousands of refugees who have spent most of their lives in Kakuma.

Mary Othow arrived in Kakuma 25 years ago. She says:

We are refugees, and we are so forever. We cannot go back home for many reasons: some of us have no place to go due to insecurity back home, others have no remaining relatives because they all died during the conflict. So we have neither hope nor reason for going back home. The refugee camp is our home – forever.

remain inside – hidden and in complete silence. The militias had already burned the other houses of the compound, only our house remained.



Mary Othow.

Tribune

Mary Othow first became a refugee during Sudan’s civil war, which started in 1983 and only ended with the peace agreement of 2005 that insured a popular vote on the independence of South Sudan. Mary Othow gives a vivid account of the day her home was destroyed:

When I was about 15 years old, our home village was brutally attacked by Arab militias. It was early in the morning. The militias fired heavy guns which sounded like thunder, guns which shook the ground and made trees fall. Dead bodies were all around me. For the first time in my life, I felt great fear.

My mother was killed on that very day. The militiamen came onto our compound, many of them. They shouted ‘come out! Come out! Or we will burn down your house!’ My mother got scared. She told us children that she would go out, and that we should

My mother went out to them courageously. She sacrificed her life for us. The militias asked her whether there were people hiding in the building, but my mother insisted that there was nobody. They didn’t believe her, so one of them came inside to search, but we were all hiding and kept silent. The man left and told his leader that there was no one.

After a terrible interrogation, they shot my mother. Even when she was dead, they humiliated her and brutally cut her with knives and machetes. They threw her body on my aunt’s and my cousin’s bodies who were killed earlier that day.

Several hours later, the guns’ sound stopped, and there was only silence. We came out of our hiding places. Together with the other few remaining children of the village we decided to leave and find a place where we could be safe.

We passed many corpses along the way. If there was any living thing

happy that day, then it was the vultures. I was very sad, and I hated the thought of living on earth for the rest of my life. We walked for many weeks before crossing the border to Ethiopia.

In 1983, Mary Othow arrived in the Pinyudo refugee camp in Ethiopia. She remembers life being very hard:

My little brothers and sisters and I were orphans now, and I was the only guardian left to take care of them. I did some small business in order to feed them. Soon I had some children of my own. But my husband Okello Opiew, a veteran soldier of the early years of Sudan People Liberation Army/Sudan People Liberation

Movement, was killed in my homeland Akobo. On several occasions, I tried to commit suicide. But every time I hung a rope around my neck, some spirit talked to me, saying ‘if you kill yourself, who will take care of your siblings and children?’ So I had to live on in hardship, struggle and make sure my kids could survive every day. Being a single mother is very hard. I couldn’t provide for all the needs of the children.

A few years later, a relative told her that life might be better elsewhere. She didn’t know where to go, but decided to leave Ethiopia in search of a better place:

We travelled for months and months on the way to an unknown destination. In the early months of 1991, we arrived at Lokichokio, which is in northern Kenya on the border with South Sudan. People who called themselves UN, with the same symbols and logos on their clothes that I had seen in Pinyudo, came to us,



offered us a place to stay and gave us food and water.

Later, we were relocated to a temporary place – I don't know when, after a few months or so; since I am not an educated woman, I don't know exactly the months and years. Anyway, one morning, I saw several convoys with the UNHCR symbol lining up in a long queue. Our names were called out aloud; we entered the cars one by one. We were brought to this place, Kakuma refugee camp, which has been my home now for over two decades.

In Kakuma, life continued to be hard, Mary Othow soon found out. She had to rely on UN food for her children and herself. By then, she and her siblings were separated.

Most of my brothers and sisters were already killed those earlier days when I was in my homeland. Few managed to survive and come with me to Ethiopia, but their whereabouts today, I do not know. I ask myself whether they are still alive or dead. I always ask the newcomers to the camp if they know some of my relatives, but I never got a positive answer.

In Kakuma, the UNHCR distributed food and non-food items and covered other basic needs. They were so kind to open clinics, dispensaries and hospitals as well as schools for our children. My two boys got enrolled in primary school, studying hard. At times, my elder son would miss school due to lack of food or because our house was damaged, since he was the only one who could help to rebuild the house and raise some money for food.

I am proud of my children. My three children who are in different places are: Ojullu Okello, currently in the USA, Peter Okello in Dadaab refugee camp and my young daughter, Anyango Okello in Kakuma here with me. They respect me as their mother and they worked hard at school – they never failed me. They passed their exams

with good results. Now the boys have moved away from the camp. Although at present they don't have good jobs, they are educated. I know they will help themselves in future; at least they will not be like me, their uneducated mother. My kids call Kakuma their home because this is where they spent almost all of their childhood years.

The recent peace deal between the warring parties in South Sudan does not raise Mary's hopes for return.

There are those who are fighting for money, position and power. Why are they doing that? Our country is free now; I cannot understand why they fight among themselves. Anyway, I cannot go back to South Sudan anymore. Kakuma is my home and my life. This is a good place because my children got a better education here than would have been possible in our village back in South Sudan; here they got medicine when they were sick. My elder son even got married here, so how do you call this place? There is only one word: home. ←

Peter Owar Okello



is Mary Othow's son. He is a journalist who currently lives in Dadaab, Kenya after having returned from South Sudan in 2013.

okello17art@gmail.com

Middle East

End of generosity

Saudi Arabia has stumped up billions to help Egypt's economy in recent years. But bilateral relations seem to be cooling under the new Saudi King Salman.

By Sebastian Sons

→ "Egypt has become a second home for us. We spend our holidays and do our business there." These words by a Saudi businessman show how close relations between the two countries are. With a population of nearly 100 million, Egypt is the biggest sales market in the region. Its location between Europe and sub-Saharan Africa is geostrategically important. At the end of the 19th century, Egyptian merchants travelled to Mecca and

Medina for the hajj pilgrimage and settled in Jeddah, the Saudi port on the Red Sea.

Today, some 3,200 Saudi companies operate in Egypt, and Saudi Arabia is Egypt's most important trading partner in the Gulf. From 2009 to 2014, foreign direct investment totalled \$1.3 billion. Investments worth billions is planned. For example, a 20-kilometre-long power cable will be laid between the two countries on the

floor of the Red Sea. The costs will amount to \$1.6 billion. Moreover, the Saudi construction giant Binladin Group is expected to build a \$3 billion bridge between Egypt and Saudi Arabia. And in March 2015, bilateral agreements were signed for investments amounting to \$13 billion in gas, coal and solar power plants. They will generate 7,000 megawatts of electricity. That said, it remains to be seen whether these megaprojects – some of which have been on the drawing board for years – will actually be realised or whether they are just pie in the sky.

Egypt matters more for the Saudi economy than a country like Tunisia does. Small in comparison to Egypt and with



AP Photo/picture-alliance

Egypt's President Abdel Fattah al-Sisi (right) at a meeting with Mohammad bin Salman, Saudi deputy crown prince and defence minister.

a population of just 12 million, Tunisia offers precious few business opportunities for Saudi companies. As one Saudi businessman said, the country is “too far away and more a part of Europe”. In Saudi eyes, the dominance of European companies, lots of red tape and the reluctance of Tunisian politicians to give preferential treatment to Saudi investors stand in the way of closer economic ties. Currently, only 39 Saudi companies have a presence in Tunisia, and they account for just 6,200 jobs.

In Egypt, on the other hand, the Saudi presence remains strong – whoever is in power. This was evident during the presidency of Mohammed Mursi from 2012 to 2013. He was not accepted by the Saudi royal family. Even so, bilateral trade and investment flows stayed at a constant high level. Mursi ordered 29 projects implemented by Saudi Arabian parties to be investigated for corruption, and that step triggered indignation on the Saudi side. But Saudi businessmen are on such good terms with Egyptian politicians that legal hassles were swiftly resolved. “If I have a problem, I don’t need the support of the king. I have the Egyptian president’s mobile number and give him a call,” a Saudi entrepreneur says. Opaque patronage networks work regardless of who holds political power.

Profits rather than development

The “fat cats” in Egypt – the all-dominating business elite – and the Saudi patriarchs of the big families cooperate while they compete with one another. Their give-and-take relationships are geared to lucrative returns, not long-term development. Accordingly, only a small fraction of those in need profit from Saudi investment: construction focuses on luxury apartments and hotel complexes rather than mass-market homes. Not many jobs are created, and long-term structural reforms are hindered rather than helped by Saudi investors. After all, like their Egyptian counterparts, they benefit from the existing system.

However, the former Saudi King Abdullah saw President Mursi, the Muslim Brotherhood’s victorious election candidate, as a threat to his own legitimacy. The Brotherhood had won power in a democratic poll in 2012. Against the backdrop of the “Arab spring”, he feared a fallout in Saudi society. Many young Saudi men and women welcomed the uprisings in Tunisia and Egypt, sympathising with the calls for democracy and freedom and, in some cases, even with the Muslim Brotherhood. From the Saudi viewpoint, the Brother-

hood’s anti-monarchical ideology was a threat to domestic stability.

In the 1950s and 1960s, members of Egypt’s Muslim Brotherhood fled to Saudi Arabia, seeking refuge from persecution by Egypt’s then President Gamal Abdel Nasser. They worked as teachers and political advisors. Their world view influenced sections of Saudi youth and ultimately inspired a movement of dissent in the 1990s. Known as the Sahwa (“Awakening”) movement, it demanded, among other things, a constitutional monarchy. Accordingly, the Muslim Brotherhood has long been perceived as an enemy by the House of Saud.

Mursi’s electoral victory rekindled old resentments. Fear of the Brotherhood became a defining factor of Saudi policy towards Egypt through to 2014.

Egypt’s big brother

Consequently, the Saudi royal family welcomed Mursi’s overthrow by the Egyptian military in July 2013. It launched a sweeping campaign in support of the military regime of Abdel Fattah al-Sisi, who later became president. By spring 2015, around \$12 billion of subsidies flowed into the country, including at least \$2 billion in central bank deposits, \$2 billion in interest-free loans and around \$3 billion in development assistance. All that was supplemented by free oil and gas supplies.

In addition, a further \$20 to 30 billion is thought to have flowed directly to the military, although there is no corroborating paper trail. The message was clear, however: Saudi Arabia wanted to stabilise the new regime at “whatever cost”, as one Saudi policy advisor put it. “For the first time in Saudi Arabia’s history, the kingdom was acting like Egypt’s big brother.” The aim was to banish the Muslim Brotherhood from political life. What followed was a campaign of repression by al-Sisi against Brotherhood members. Such action was flanked by measures to protect Saudi investments in Egypt and improve the desperate state of the Egyptian economy.

Some in the business community hoped that projects launched under al-Sisi would receive more political support than under Mursi. And their hopes were fulfilled: at the end of 2013, a Saudi Egyptian business association was established to promote deeper business relationships.



Under the new King Salman, however, the days of Saudi support appear to be over. Abdullah died in January 2015, and his successor faces new challenges: since Mursi's overthrow in Egypt, the appeal of the Muslim Brotherhood has diminished radically across the region. Instead, Salman now fears the growing influence of archrival Iran. He sees his country surrounded by Iranian Shiite vassals in Iraq, Yemen, Bahrain and Syria, and that has an impact on relations with Egypt.

Under Abdullah, the fight against the Muslim Brotherhood was the foreign policy priority; now it is the "Iranioia"-driven desire to contain the Islamic Republic. Evidence of "Iranioia" was furnished in January by the execution of the high-ranking Shiite cleric Sheikh Nimr Baqir al-Nimr,

which unleashed a storm of protest in Iran (see comment by Maysam Behravesh in D+C/E+Z e-Paper 2016/01, p. 46).

As long as Saudi Arabia's own security and economic interests are not threatened, Egypt has become a less important neighbour. Financial assistance has been discontinued under Salman. It was announced in December that a governmental Saudi fund will invest \$8 billion in Egypt, but direct financial assistance will not resume. Salman needs billions for waging the war he started in Yemen, plugging the 20% budget deficit caused by the falling price of oil and fighting 30% youth unemployment. Saudi bloggers like to criticise financial assistance to other countries on the grounds that the money is needed in Saudi Arabia itself.

Saudi development assistance

In recent decades, Saudi Arabia has been a generous donor of official development assistance (ODA) – and not only to Egypt. Between 1975 and 2005 alone, it handed out \$90 billion to countries in Africa, the Arab world and Asia. In 2013, ODA totalled \$1.3 billion, making Saudi Arabia the 20th largest donor in the world. A third of development assistance over the past ten years has gone to countries like Pakistan, Sudan and Yemen. Whether those payments can be kept up, however, seems doubtful given Saudi Arabia's tight budget.

Moreover, in the Syrian crisis, al-Sisi is getting closer to Syria's President Bashar al-Assad, a declared enemy of Riyadh. To halt the advance of Iran and fight the ISIS terrorists, the Saudi Kingdom needs Turkey or Qatar, which it considers to be supporters of the Muslim Brotherhood moreover. In order to win over the two governments concerned, the House of Saud appears to want al-Sisi to scale down repression of the Muslim Brotherhood.

The two partners do not pull together in Yemen either: Saudi Arabia demanded that Egypt put up troops to support the military operation; al-Sisi's response was reluctance.

In September 2013, the late Saud al-Faisal, Saudi Arabia's foreign minister at the time, said: "Every beginning has an end. We cannot support Egypt forever." ➔

Link:

Sons, S., and Wiese, I.: The Engagement of Arab Gulf States in Egypt and Tunisia since 2011.

<https://dgap.org/en/think-tank/publications/dgapanalysis/engagement-arab-gulf-states-egypt-and-tunisia-2011>.

Sebastian Sons



is an associate fellow at the German Council on Foreign Relations (DGAP). He is currently preparing a PhD thesis on labour migration from Pakistan to Saudi Arabia at Humboldt University of Berlin.

sons@dgap.org



Traffic and billboards in Cairo: Saudi companies like investing in Egypt.

Better without the TPP

In Chile, Peru and other Pacific Rim countries, civil-society organisations are protesting against the implications of the Trans-Pacific Partnership (TPP). In particular, critics oppose clauses concerning intellectual property rights and the judicial self-determination of nations.

By **Frederico Füllgraf**

➔ On 4 February, the leaders of 12 Pacific Rim countries – Australia, Brunei, Chile, Japan, Canada, Malaysia, Mexico, New Zealand, Peru, Singapore, the USA and Vietnam – signed the TPP text. The controversial free-trade agreement is an equivalent to the equally controversial Transatlantic Trade and Investment Partnership (TTIP), which is still being negotiated.

The TPP impacts 40% of global gross domestic product and touches the lives of 11% of the world's population. Among other things, the USA, which has taken the lead in the partnership, wants to eliminate tariffs that are hindering its exports.

In various signatory states, representatives of civil society are speaking out against the introduction of binding, deeply controversial rules that will affect legislation concerning labour relations, environmental protection and intellectual property. They also express frustration because the treaty was negotiated in secrecy. Chilean and Peruvian non-governmental organisations criticise the USA and

their own governments accordingly. "This is a free trade agreement that governments negotiated without input from citizens, indigenous peoples or parliament," argue representatives of Chile Mejor Sin TPP, an NGO.

Criticism is directed in particular against rules concerning the protection of intellectual property, including patents. The enforcement of pharma patents would make medications more expensive and could undermine the performance of public health-care systems. In October 2015, two north American economists, Joseph E. Stiglitz, the Nobel laureate, and Adam S. Hersch, warned in a syndicated column of Switzerland's *Handelszeitung*: "The upshot is that pharmaceutical companies would effectively be allowed to extend – sometimes almost indefinitely – their monopolies on patented medicines, keep cheaper generics off the market and block 'biosimilar' competitors from introducing new medicines for years."

Further points of contention include the application of copyright laws to the internet and the regulation of sectors in which private-sector firms compete with

state agencies. Critics consider the judicialisation of the world economy to be the worst aspect of TPP undermining the nation state and its legal system: transnational corporations would be allowed to sue the government before international tribunals of arbitration if they think that a country's economic policies hurt their interests as investors.

Alleen Brown has elaborated on the website *The Intercept* that corporate lobbyists from companies like Caterpillar and Halliburton have had a bearing on TPP clauses. At the same time, members of the US Congress were only allowed to assess one section at a time while under supervision in the basement of the Capitol. Taking notes was strictly prohibited. The full text of TPP was only published after it was signed by the governments.

In an open letter from 25 November 2015, Chilean legislators Giorgio Jackson, Camila Vallejo and Gabriel Boric charged that the agreement lacks any kind of parliamentary legitimacy because "legislators have only been allowed to approve or reject the project so far. Making changes has not been permitted."

On 29 January, experts, legislators and representatives of civil society from Peru, Canada, the USA and Mexico met in Mexico City to coordinate international opposition to the TPP in towns, on the streets, in the media and before the courts. The time of secret negotiations is over. ◀

Debate



Castaneda/picture-alliance/dpa

Around 1,500 people protest the TPP in Peru in early February.

Links:

Brown, A., 2015: You can't read the TPP, but these huge corporations can. *The Intercept*, 12.5.2015.
<https://theintercept.com/2015/05/12/cant-read-tpp-heres-huge-corporations-can>
Stiglitz, J.E., and Hersch, A.S., 2015: The Trans-Pacific Free-Trade Charade.
<http://www.project-syndicate.org/commentary/trans-pacific-partnership-charade-by-joseph-e-stiglitz-and-adam-s-hersch-2015-10#rYExSk6FFJwqizuo.99>

Frederico Füllgraf



is a journalist based in Santiago de Chile.

f.fuellgraf@gmail.com

Zika and pharma research

Public interest in the Zika virus is huge. Brazil's people are worried, and the World Health Organization (WHO) is contemplating emergency plans. What Zika means in terms of research, deserves attention too.

By Christian Wagner-Ahlfs

➔ So far, there is neither an easy-to-handle diagnostic test nor a therapy. There is no vaccination. None of this is surprising. To date, Zika was not considered a problem.

Scenarios of this kind will keep recurring in the future. Nature holds in store a huge number of pathogens, many of which have not caused concern yet, but may do so any day. Zika has been known for a long time, but now there is the suspicion that it does not only cause harmless rashes and fever, but also leads to unborn babies becoming severely malformed.

For issues like Zika, we need publicly funded research. Otherwise, it will be impossible to ensure that new medications, vaccines and diagnostics are made available fast, at low cost and all over the world if need be.

Because of how it is transmitted, Zika mostly affects people in tropical regions and in particular those who live in poor settlements. In some ways, it is similar to Ebola and the so-called tropical neglected diseases, which have been known for a long time and affect many people. Since they do not haunt industrialised countries, however, commercial researchers do not take interest.

According to the WHO, the initiative to act must not be left to pharmaceutical corporations in cases like this. That industry's business model is based on patent rights which allow companies to reclaim research expenditure by exploiting temporary monopolies. This model does not work when a disease is neglected because of lacking purchasing power. Insistence on exclusive rights, moreover, would mean to intentionally exclude people in need from treatment.

In 2008, the World Health Assembly published a strategy and a global action



Dana/AP Photo/picture-alliance

Brazilian baby: Zika is suspected to hamper the growth of unborn babies' brains.

plan to tackle ailments that haunt poor countries. One of its core component is providing incentives for researchers. The debate on how to develop affordable pharmaceuticals and ensure universal access has since been making progress. To people in developing countries, these matters are vitally important.

Product development partnerships involving private-sector and public-sector parties are underway to tackle some diseases. Funding tends to be provided by state institutions and charitable foundations. Pilot projects are testing how to develop new treatments without relying on patents. The focus is on questions in which stock-market-listed corporations are not interested normally:

- How does one delink product prices from massive research costs?
- What kind of funding instruments are effective (pooled funding, prizes and others)?
- How does one facilitate "open knowledge", allowing anyone interested free and fast access to empirical data and research results?

The core issue is to do research in the service of public health. A pilot project to

develop a vaccine for Schistosomiasis is currently being run in Brazil. Experience gathered in its context may well prove useful for Zika research.

By the way, Ebola research would not have made much headway without public funding.

In 2014, some \$ 165 million were invested, of which \$ 114 million was public money, almost exclusively from the US budget.

Finding alternatives to the patent-driven pharma model is essential. We need a system that is not primarily geared to the interests of multinational corporations. It must serve the needs of global health care. Concepts designed to provide the highest possible prices and profits are destructive. Humankind needs affordable medicines, not exclusion.

Public funding will be indispensable. It would make sense to establish an international fund in order to finance important projects. Pathogens do not stop at borders – and health is something that concerns everyone. ➔

Link:

The World Health Assembly's strategy and action plan:
http://apps.who.int/gb/CEWG/pdf/A61_R21-en.pdf

Christian Wagner-Ahlfs



works for BUKO Pharma-Kampagne, a German civil-society organisation.

cw@bukopharma.de

No car is clean

In January, the Delhi High Court ruled that India's capital region may go ahead with a policy to reduce air pollution. In times of severe pollution, cars with even numbers on their licence plates are to be used one day, and those with odd numbers the next day. This rotation scheme makes sense. It cuts in half the number of cars allowed on streets.

By Sunita Narain

→ Delhi suffers terrible air pollution. According to the World Health Organization (WHO), all other major cities on earth have better air. With figures for particulate matter (PM) often exceeding the WHO's safety limit 10 times, Delhi's air is more than twice as bad as Beijing's. The lungs of half of Delhi's more than 4 million children are damaged. Data are bad for all Indian cities, and in some smaller towns, things are even worse than in Delhi.

Something must happen. The odd-even scheme was implemented in January for the first time. Lawyers immediately filed court cases against it. They argued that the scheme led to enormous inconvenience and worse, daily pollution data showed no impact on air quality. Cars, they said, were not responsible for pollution, and some added that diesel cars are clean. Diesel motors, however, are only clean in the sense of needing comparatively little fuel – but they emit far more PM than gasoline motors.

Let's understand all the facts. The two major causes of air pollution in Delhi are road dust and vehicles. The burning of coal in power stations, industrial units and homes matters too, but not as much. Action must be taken against all sources of pollution of course, but traffic is of prime concern.

Controlling road dust will demand multipronged action to pave, green and water the sidewalks. But road dust generation is also a function of vehicle traffic. The more we drive, the more dust is raised and recirculated. Worse, the coating of vehicle fumes makes the dust toxic.

Of all vehicles, are cars to blame? Yes, and let me explain why. There are three

major segments: trucks, two-wheelers and cars. In Delhi, buses and three-wheelers have already switched to comparatively clean compressed natural gas.

Trucks are bad news for pollution. They are old, mostly overloaded and rely on outdated technology. My organisation, the Centre for Science and Environment, has therefore proposed a tax on all trucks that go into or through Delhi in a case before the Supreme Court. The judges approved our idea in December, and thanks to the new tax, we now have 20 % fewer trucks in Delhi. The Court also ruled that especially large diesel cars must no longer be sold in Delhi. Moreover, we asked for cleaner fuel and technology to be introduced fast, and the central government promised to introduce the EU's current emission standards (Euro VI). This is another major step forward.

Private vehicles matter. Because of sheer numbers, two-wheelers contribute the bulk of vehicle emissions in Delhi. Only 10 to 15 % come from car tailpipes, but the contribution of cars rises when you consider road congestion. Experts have found out that, in certain congested

areas, cars cause 60 to 90 % of the most toxic PM pollution.

Since cars matter, the odd-even scheme has made a difference. Taking half the cars off the road meant that the pollution spike was moderated in January. This is a big achievement. However, due to bad weather conditions – still air and high moisture – pollution levels increased in the first week of implementation nonetheless. Without the scheme, it would have increased even more.

The long-term solution is to free Delhi and its vicinity of two-wheelers and cars permanently. We must invest massively in public transport. Today, only 10 to 15 % of the people in Delhi and neighbouring areas drive cars. There is no way we can plan for the rest to do so too. Odd-even should be our way of life. Let's share cars; take a bus or metro; cycle or walk.

P.S.: The Volkswagen scandal should have taught everyone that diesel is not as clean as car makers want us to believe. The sad truth, moreover, is that even the powerful EU is currently relaxing its norms, prioritising industry needs over the health of people in cities like London, Milan or Stuttgart. ←

Sunita Narain



heads the non-governmental Centre for Science and Environment in Delhi and edits its fortnightly magazine Down to Earth.

cse@equitywatch.org



Congested traffic in Delhi.

Building a democratic order

To ensure a country is run democratically, holding elections is not enough. Institutions matter too. If they are absent or weak, voting cannot, in itself, result in government of the people, by the people and for the people.

By Hans Dembowski

→ Ultimately, institutions are what people expect. They must expect leaders to observe and respect constitutional principles. Actual experience matters. If a country only has first-hand knowledge of violence, abuse and criminal action, people will not insist on clean governance. However, expectations can change. Education can make a difference, and so can

dictatorial powers and will want to stay in power for the rest of his life.

Burundi is a striking example. It is on the brink of civil war. Last year, it saw mass protests, a failed military coup and many incidents of violence because President Pierre Nkurunziza insisted on running for re-election once more after having served

much later – and most recently in February this year, an event marked by manipulations, intimidations and arbitrary arrests.

Unfortunately, this is typical of elections in countries where a strongman culture lives on. After civil war or dictatorship, it might be better to hold elections only once a country has found some institutional stability under UN rule. The Security Council might assign an international administrator to run the country according to globally accepted standards and guided by the UN Sustainable Development Goals.

Local people should be involved in such an administration, but there should be no dominant national leader. The idea would be to start economic growth, create livelihoods and improve standards of life as well as to nurture the rule of law and promote education. Collier argues that growing prosperity provides more legitimacy than winner-takes-all elections do.

On such a basis, a new constitution could eventually be designed – and elections would make sense. This approach deserves consideration. It might have helped the troubled Central African Republic start anew. Instead, it recently spent months grappling with a confusing and unconvincing election with no immediate benefit for development. Critics will say that it is impossible to introduce a democratic order without elections. They have a point. We know from experience, however, that holding elections too early without the necessary institutional underpinning is no reliable way to build a democratic order either.

Given time, human development and space for civil society, democratic change is possible. In Asia, Africa and Latin America, elections have led to peaceful changes of government in recent times – consider Taiwan, Indonesia, Sri Lanka, Nigeria, Senegal, Chile or Argentina. This does not mean that governance is perfect there – but it does show that people's expectations can change for the better. ←

Debate



The wrong role models: Yoweri Museveni of Uganda (with hat) and Pierre Nkurunziza of Burundi in Bujumbura in July 2015.

civil-society activism and the media. Experience of safety and opportunities increasing in a climate of transparency and accountability will help.

Things are particularly difficult in very poor and traumatised societies. Paul Collier of Oxford University pointed out years ago that elections often cause more problems than they solve in post-crisis countries. In his eyes, democracy promotion must primarily be about defining and enforcing standards of governance. Holding elections too early, however, only means picking a leader who gets almost

the two terms the constitution and the Arusha peace agreement of 2000 limited him to. Masses fled, but elections were held after various manipulations and postponements. Nkurunziza is still in office, his credibility is tarnished, and peace has not been restored.

Now Uganda's President Yoweri Museveni is expected to broker a negotiated solution for Burundi, but he cannot raise the right kind of expectations. He has been in power for three decades after toppling the previous government as rebel leader. Elections reaffirmed him in office

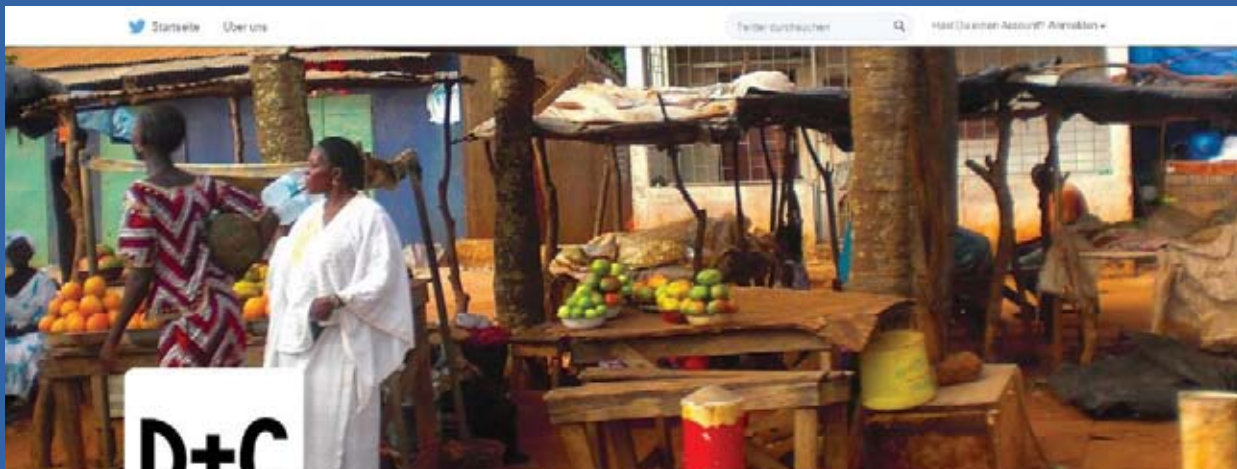


Follow us on Twitter!

To stay in touch with what is happening on our website, follow us on twitter. We'll make you aware of what we post and other things concerning our brand.



www.twitter.com/forumdc



Editorial office D+C

@forumdc

D+C Development and Cooperation is a monthly magazine with a website and the identical German twin D+Z. RTs are not always endorsements.

📍 Frankfurt, Germany
🌐 dandz.eu
📅 Begonnen Januar 2010

📷 37 Fotos und Videos



Tweets Tweets & Antworten Fotos & Videos

D+C Editorial office D+C @forumdc · 2 Std.
Global Brainstorming Project: #Art project with & about #refugees from #Syria and #Palestine ow.ly/TJEFm



Neu bei Twitter?

Wende dich jetzt an, um Deine eigene, personalisierte Timeline zu erhalten!

[Registrieren](#)

Vielleicht gefällt Dir auch:

- AERI_Group** @AERI_Group
- The Global Fund** @GlobalFund
- African Union** @AU_ahmed_ahmed
- Africa Renewal, UN** @africanrenewal
- giz** @giz_gmh

