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SUMMER SPECIAL

Our editorial team
reviews films, novels
and other visual arts

ODA 1

Kurt Gerhardt spells
out why he does not
believe in aid

ODA 2

Stephan Exo-Kreisler
explains why he
endorses aid



The lessons of structural adjustment

Summer Special

In this year's summer special we feature recommended movies, books and artists |
Nowadays: Border crossing in West Africa | Imprint

4

Debate

This month's comments deal with the usefulness and success of development policy and aid:

KURT GERHARDT

The journalist and co-initiator of the "Bonn Appeal" issues a fundamental critique of Germany's development policy

15

STEPHAN EXO-KREISCHER

The leader of the German office of ONE explains why development policy is successful internationally

16

HANS DEMBOWSKI

Whether official development assistance (ODA) succeeds or fails depends on many things, argues D+C/E+Z editor in chief Hans Dembowski

18

Focus: The lessons of structural adjustment

INTERVIEW WITH IWAN J. AZIS

Indonesian economist looks back at conditions of international financial institutions in Asian crisis

21

JÜRGEN ZATTLER

The international community is in need of a joint coordinated approach to heed lessons of past decades

23

INTERVIEW WITH SALMAN ANEES SOZ

India's economic reforms of the early 1990s triggered high growth rates for the long term

27

NDONGO SYLLA SAMBA

Failed policies in Africa: structural adjustment did not trigger fast growth, but had a contractive impact

29

JÜRGEN KAISER

Why the International Monetary Fund must do more to fight poverty and reduce inequality

32

TILMAN ALTENBURG

Developing countries must foster more economic activity to generate jobs and at the same time switch to eco-friendly production

35

HANS DEMBOWSKI

Harvard economist Dani Rodrik demands policy space for developing countries instead of only focusing on market dynamics

38

FOCUS

Structural adjustment

IFIs' conditions in Asia

Asian countries' experiences with international financial institutions (IFIs) are mixed. In the 1980s and 1990s, the conditions of IFIs' crisis lending sometimes proved very painful. At other times, economies rebounded fast. In a D+C/E+Z interview, economics professor Iwan J. Azis assessed the matter.

PAGE 21

More efficient multilateralism

The World Bank and the International Monetary Fund have drawn lessons from the experiences of recent decades. However, to tackle the challenges ahead, the international community needs a joint approach to help countries reforming their policies, argues Jürgen Zattler, German representative on the World Bank's Executive Board.

PAGE 23

Fast results

India's structural-adjustment programme in the early 1990s focused on first-generation liberalisation. It delivered results fast, as development consultant Salman Anees Soz told D+C/E+Z in an interview.

PAGE 27

Negative impacts on Africa

In Africa, many people consider the International Monetary Fund and the World Bank agencies of misery, poverty and social distress. This perception is driven by the experience of the structural-adjustment programmes in the 1980s and 1990s, explains Ndongo Samba Sylla of the Rosa Luxemburg Foundation in Dakar, Senegal.

PAGE 29

Interfering in national sovereignty

The IMF has learned the lessons of past mistakes. It has understood that it is unwise to micro-manage national policies. Nonetheless, it could do more to fight poverty and reduce inequality, thinks Jürgen Kaiser from the civil-society organisation Erlassjahr.de.

PAGE 32

Progress for developing countries

Developing countries must foster more economic activity to generate jobs and at the same time switch to an eco-friendly production. Tilman Altenburg of the German Development Institute assesses how a green industrial policy could achieve both goals. D+C/E+Z editor Hans Dembowski introduces the ideas of Harvard economist Dani Rodrik, who demands policy space for developing countries.

PAGES 35 AND 38

This time, they must get it right

Structural adjustment is a term that was much used in the 1980s and 1990s. It stood for a mix of deregulation, privatisation and budget cuts that were supposed to make developing countries competitive in global trade. The International Monetary Fund (IMF) and the World Bank required countries to adopt such policies in return for lending when those countries desperately needed funding in view of economic crisis. The idea was to liberate the private sector and trigger growth. The background was that, in the 1960s and 1970s, governments had tried to manage economies, but that had not delivered the desired development. Post-colonial governments, moreover, were often marked by corruption and state-capture by elites.

Structural adjustment has a terrible reputation. It failed in far too many countries. Debt-burdens became excessive, and the international donor community had to reverse course in the late 1990s. It adopted debt-relief programmes that were linked to poverty-reduction policies. According to leftist narratives, structural adjustment only exacerbated poverty. Indeed, typical downsides included worse public health care, less spending on schools and fewer jobs in the public sector. It is a myth, however, that the poor in Africa and Asia lost access to health care because of structural adjustment. The colonial powers had never built social infrastructures to serve all people, and after independence, health care was only nominally free. To actually get access, people typically had to bribe doctors, nurses or administrators in urban-based institutions. In rural areas, there was hardly any modern health-care system.

The donor assessment of state agencies often being dysfunctional actually made sense. Nonetheless, the structural adjustment paradigm failed. It underestimated the indispensable role of government institutions: the state must ensure prudent regulation, build infrastructure and serve the common good. Prudent policy is needed to reduce poverty and inequality.

It is noteworthy, moreover, that structural adjustment did not play out in the same way everywhere. Small African countries were typically plunged into recessions, as state agencies' role in the economy was trimmed down. In the Asian crisis of the late 1990s, Indonesia suffered a brutal recession which was made worse by the conditions international finance institutions made for fresh lending. At the turn of the millennium, Argentina suffered a dreadful default after adhering to structural-adjustment orthodoxy for many years. Other countries, however, rebounded fast. Examples include India in the 1990s or Turkey, Brazil and Pakistan in the first decade of this millennium.

We need to understand what economic policies result in. Structural adjustment has not been a disaster everywhere. The international community must heed the lessons. Neither the global community nor any individual country can afford to lose yet another decade because of ill-designed loan conditions. After a long period of exceptionally low interest rates, however, central banks have begun to tighten monetary policy. Debt is becoming more expensive again. And since debt levels have risen in many developing countries and emerging markets, international financial institutions may soon be involved in crisis lending once more. This time, they must get things right. Indeed, the IMF granted Argentina a huge stand-by loan in June. When this e-Paper was finalised in late July, Turkey and Pakistan looked vulnerable – and other countries may soon be at risk.

► You'll find all contributions of our focus section plus related ones on our website – they'll be compiled in next month's briefing section.



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Summer Special



Recommended works of art

This summer, the editorial team of D+C/E+Z presents an art mix: we recommend movies and books as well as a visual artist and an author – all of them tackling issues relevant to development.

PAGE 4

Debate



Too many failures

Development aid claims to fight poverty. But according to journalist Kurt Gerhardt, it actually perpetuates the problem.

PAGE 15

Not an end in itself

Development cooperation is better and more effective than many people think. That is the opinion of Stephan Exo-Kreischer of ONE, the global campaigning and advocacy organisation.

PAGE 16

Lessons learned

Official development assistance (ODA) is neither poison nor a panacea. Whether it succeeds or fails depends on many things, argues Hans Dembowski of D+C/E+Z.

PAGE 18

Muslim girl reading from
the Quran at a Madrasa.

Summer Special

This summer, the editorial team of D+C/E+Z presents an arts mix: We recommend movies and books as well as a visual artist and an author – all of them tackling issues of developmental relevance. The works of art and the artists have impressed us, and we think you, our readers, might like them too.

SUMMER SPECIAL

Resolving the Middle East conflict in a soccer stadium

A comedy about one of the world's longest-running violent conflicts? Can that work? It certainly can! "The 90 Minute War" uses a soccer match to highlight the issues of the Israeli-Palestinian conflict, taking a humorous and sarcastic look at what is actually a deadly serious and ideologically charged debate.

By Eva-Maria Verfürth

"Israel's prime minister and the president of the Palestinian Authority have decided there is only one logical way to resolve the longest-running conflict in modern history: a soccer match." A serious-faced television

Palestinian conflict, so a soccer match is arranged to settle the matter once and for all. The winners can stay, the losers must find another homeland.

Agreeing on the football match is only the first step, of course. The film follows the two teams and their managers as they prepare for the momentous encounter. Nothing is easy, and the public pressure is immense. Where is a neutral venue for the match? Who can serve as truly impartial referee? And where will the losers go?

Right from the outset, there are heated negotiations, replete with allegations, re-creations and recurrent threats to call off the match. And even when the main is-

to travel between the West Bank and Gaza for squad training. An Israeli soccer player with Palestinian roots is plunged into a crisis when he has to choose which team to play for. Thus, the fundamental question of who should be allowed to play for which team arises. When it is finally decided that players need to have spent at least two weeks in the respective country in the two years prior to the match, the Israelis immediately close the borders – while the Palestinians smuggle an international soccer star into Gaza through an underground supply tunnel.

The world of sport is not spared either: the negotiations are brokered by the president of "Ifa" – the thinly veiled counterpart of the real international soccer association Fifa. Ifa has a keen interest in the match taking place – especially since it will be a lucrative major sporting event. But what about the problems presented by such a highly political match? "There are always problems. But if anyone knows how to solve problems, it's us." The Ifa president smiles into the cameras, adding that his association is also tackling problems in South Africa, Brazil and Qatar.

The main characters of the film, the two team managers, are played by Moshe Ivgy and Norman Issa. Both actors who are well-known in Israel are active peacebuilders in private life. Moshe Ivgy is an Israeli born in Casablanca, Norman Issa a Palestinian with a Jewish wife. In the film, the two managers are driven to despair by public pressure and their sense of responsibility. They drive each other crazy in interminable negotiations. But in the end, they are the ones who take a step towards each other – on neutral ground and without international pressure. What it means for the fate of the two nations, however, and who actually emerges victorious are questions the film leaves unanswered. But there may be a clue in the title: a "90 Minute War" is surely less likely to end in peace than in a renewed displacement.

FILM

The 90 Minute War, 2016, Germany/Israel, directed by Eyal Halfon.

LINK

Trailer "The 90 Minute War":
https://www.youtube.com/watch?v=WMHZCizkQ_M



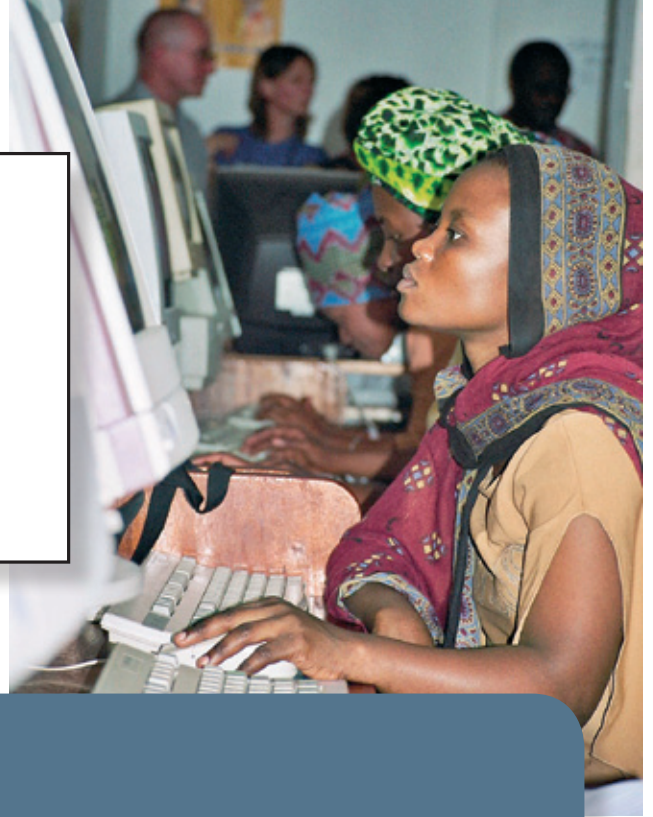
The manager of the Palestinian team, played by Norman Issa.

correspondent is addressing the camera against a panoramic backdrop of Jerusalem with the golden cupola of the Dome of the Rock. His introduction perfectly sums up the story of "The 90 Minute War". This comedy by Israeli director Eyal Halfon feels like a documentary, but the action is obviously fictitious: after half a century of wars and bloodshed, political negotiations and peace accords have failed to resolve the Israeli-

sues have been settled, new obstacles keep popping up.

The film plays with stereotypes, takes a scathing and politically incorrect look at all parties involved and, in doing so, accurately highlights the absurdities of the conflict. While the Israelis arrange for a star coach to be flown in – from Germany of all places – the Palestinian team bus is regularly held up at checkpoints when players try

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SUMMER SPECIAL

Amusing and philosophical



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SUMMER SPECIAL

Black revolutionary artist

Few artists who died so young have made such an impact as Jean-Michel Basquiat. The African-American artist, poet and musician lived and worked in New York City. He died in 1988, only 27 years old. In the short span of his life he changed the face of modern art forever.

By Sheila Mysorekar

Starting out as a poor graffiti sprayer who left cryptic messages on New York's streets, he became an internationally renowned artist in his early twenties. He worked with oil and canvas, stencilled poetry, drawings or mixed media on cardboard. A recent exhibition in Frankfurt, Germany, showed the immense scope of this exceptional artist.

"I never went to arts school, I failed at all the arts courses I did take in school. I just looked ... that's where I think I learned about art, by looking at it." Jean-Michel Basquiat was, in his own words, a self-trained artist. Having grown up in a middle-class family of Haitian and Puerto Rican background in New York's Brooklyn neighbourhood, it was clear early on he was unusually talented.

In his late teens, with a friend he started spraying walls in New York with short lines of poetry, invented pictograms and unusual drawings. They signed these graffiti art pieces and lines of poetry with "SAMO®". Only they knew who was behind this name. Basquiat also played music and began to draw. He tried to make a living by painting postcards, selling them for one dollar each to tourists in front of the Metropolitan Museum of Art, but was usually chased away by the janitor.

A few years later, Basquiat was one of the US art scene's hot new painters. His eclectic style is called Neo-Expressionism. He was inspired by many different things – old travel books, TV shows, African art, advertising, rap music texts or even plain dictionaries. Bits and pieces show up in his paintings. Ancient African symbols and advertisement claims may appear in the same painting. Basquiat worked fast, and collec-

tors sometimes even bought pictures when the paint was still wet.

In 1982, when he was only 21 years old, he was invited to present his work at the "documenta", the major modern art exhibition that the German city of Kassel hosts every five years. The most interesting and innovative current artists worldwide are invited

up in galleries in his pyjamas, scaring away possible collectors. The fact that he was the first African-American artist to be successful in the global world of galleries and first-rate museums made him into a trailblazer for black artists – a role that he was very conscious of.

In his paintings, Basquiat usually used black protagonists, which was quite unusual in his time. In one of his last interviews he said in 1987: "I'm black, and that's why I use it as the main character in all the paintings." Many of his paintings include African pictograms or have references to liberation struggles.



The painting "Dos Cabezas" (1982) is a self-portrait of Jean-Michel Basquiat with Andy Warhol, on display at a recent exhibition in Frankfurt, Germany.

to take part – and Basquiat was the youngest artist ever to be invited to a "documenta".

One of his friends and supporters in the early 1980s was Andy Warhol, the iconic pop-art artist. They did a series of paintings together. Warhol's fame and Basquiat's innovative energy were beneficial to both of them. Basquiat had finally made it as an internationally known artist.

However, in many ways, Basquiat mocked his fame; well known for his disdain of social convention, he sometimes turned

Basquiat often challenged the white-dominated art scene for its racism. The same scene celebrated him as a prodigy and revolutionary. He refused to be stereotyped as "ghetto" or "graffiti artist", giving black life a space in his art instead. "I think black people are glad to be represented and recognised in my paintings."

LINK

Website on Jean-Michel Basquiat:
<http://basquiat.com/>

SUMMER SPECIAL

Amusing and philosophical

In the west, we remain convinced that everyone would adopt our way of life, because surely ours is the only way to live. We reserve the right to define what constitutes progress within a culture and civilisation, and pity people we deem underdeveloped. Now an enchanting documentary, "Ghostland – the view of the Ju/'Hoansi" clearly reflects just how odd our way of life can seem from the outside.

By Sabine Balk

The film opens in northeastern Namibia, in a village of the Ju/'Hoansi San in the Kalahari desert. The San are the oldest indigenous people on the planet. Some still follow the ancient traditions, living in simple straw huts and wearing leather loincloths. But the

foundation that holds up their world has eroded. In 1990, Namibia outlawed hunting by the Ju/'Hoansi. Farmers have fenced in what was once an endless expanse of dry savannah, leaving this nomadic people with nowhere to roam. Deprived of their livelihood and forced to stay in one place, they depend on state welfare and the income tourists bring in.

The Ju/'Hoansi can still demonstrate their traditional hunting skills with a bow and arrow for tourists, but cannot eat the wild animals that were once a staple diet. The sorrow inherent in losing a world we find anachronistic resonates from the outset of the film, though it is neither melodramatic nor maudlin. The villagers describe their situation fairly impartially, and the filmmakers refrain from judgement or comment. So the encounter between the small, tanned, mostly naked people and some mildly sunburnt tourists comes across as entertaining rather than anxiety provoking.

The film takes a truly amusing turn when a group of Ju/'Hoansi boards a coach and sets out on a tour of Namibia. San of all ages marvel at the goods that line the supermarket shelves, take their first dip in a swimming pool and drink their first can of cola. The sincere joy of discovery as young and old explore a more familiar world is delightful.

Part three accompanies two men and two women from the Ju/'Hoansi on a few days in Germany. Here the film grows more philosophical while still main-

taining its lighthearted approach. Unsurprisingly, the city of Frankfurt is a huge culture shock. The film team stays low key, content to just record as the African visitors talk about their impressions. They are both funny and profound: "People in Germany never sleep; they work all the time. And then they're so stressed out, they have to visit us to recover."

The 2016 film has been a great national and international success and has been shown at a number of festivals and won various film and audience awards. The road movie's charm lies in the authenticity of its actors and the unbiased narrative style. It doesn't point a finger at anyone or falls back on sloppy sentimentality, choosing instead to reveal the sources of the problems without interpretation. The protagonists hold a mirror up to us and our society. Their excursion into modern, urban Germany reveals that our way of life is not as universally appealing we think it is. People living in supposedly primitive conditions do not immediately envy our apparent land of milk and honey.

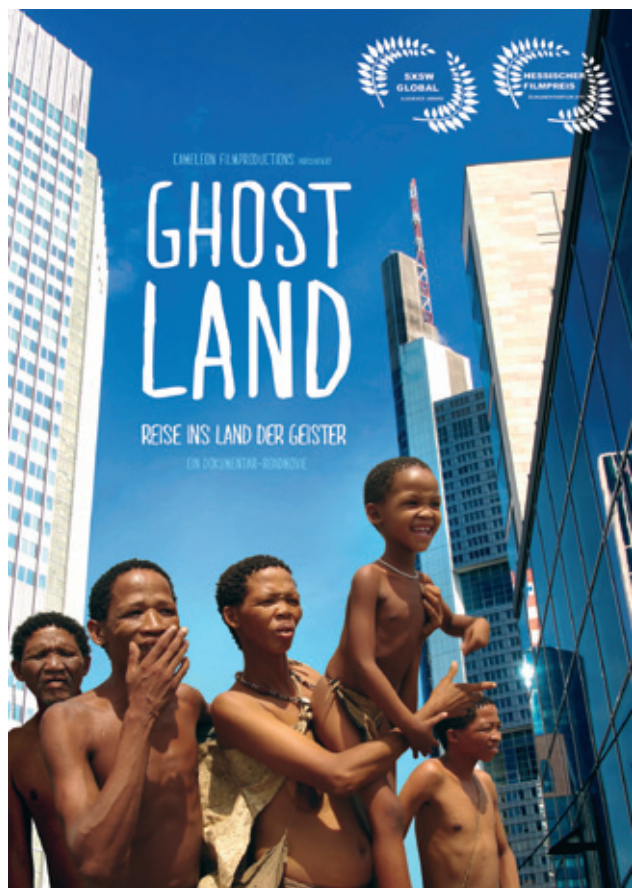
The visitors enjoy their time in Germany, seeing Frankfurt from the top of a skyscraper, catching a film at the cinema and other western activities. Ultimately, though, none of the four San express an interest in staying in Germany. They are homesick and long to return to their village community. To them, our western ideals of individualism and self-realisation seem foreign and wrong.

Director and ethnologist Simon Stadler was a bit taken aback at his film's success. Maybe it captures the spirit of our times, he suggests: "Our world is very selfish and consumption-oriented. A lot of people are looking for other solutions and a different meaning." Ghostland offers some alternatives. The Ju/'Hoansi supplied the title, by the way, when then said that white European men looked like the ghosts of the San's ancestors.

FILM

Ghostland – the view of the Ju/'Hoansi, 2016, Germany, directors: Simon Stadler, Catenia Lerner, Sven Methling.

Ghostland is available on DVD and via multiple streaming services in many countries around the world. Many TV stations in Europe, the USA and Africa have purchased the rights and still broadcast the documentary. For more detailed information, please visit: <http://www.ghostland-themovie.com/index.php?lang=en>



Charming documentary: Ghostland – the view of the Ju/'Hoansi.

SUMMER SPECIAL

Constructed justice

In the resource-rich east of the Democratic Republic of the Congo (DRC), local claims to power overlap with global interests. Corruption, government failure and lawlessness lead to disastrous living conditions. Murder, rape and eviction are part of daily life. Nobody atones for these crimes, no court ensures accountability. That's why Milo Rau created a tribunal. For theatre – but with real life implications.

By Katja Dombrowski

In reality there is no Congo tribunal. What the film shows is fiction: the judges' bench and witness stand are constructed on a theatre stage, and at the beginning of each session, the clapperboard claps. The crimes, however, are real. And so are the feelings that show on the faces of victims, witnesses and observers: rage, sadness, desperation, helplessness. Some speak

with a shaking voice, others have tears in their eyes.

The Congo Tribunal by Swiss director Milo Rau deals with crimes against the people of South Kivu, a province in eastern DRC. It is a rich region with exceptionally fertile land and precious mineral resources. But the people who live there don't profit from this wealth – on the contrary, it brings them the worst evils. Eastern Congo is a battlefield for a multitude of ruthless armed groups (see interview with Christoph Vogel in D+C/E+Z e-Paper 2018/02, p. 26).

International mining corporations, exploiting gold, diamonds and rare earths on a large scale for the world market, destroy the local people's livelihoods. Many are evicted without compensation. Many lose their work, because they themselves used to dig in the mines that now belong to multinational companies. Goats die be-

cause of poisonous water, and agriculture is impossible in the contaminated areas.

On top of that there are various rebel groups fighting for power and natural resources, who attack mining corporations, each other and innocent villagers. Murder, rape and human-rights violations of all kinds are daily business. The film shows all this in a way that is rather sober and documentary than emotional and accusing. And – from what we know about this world region – all this is real. Armed conflicts have been haunting eastern DRC for more than 20 years; millions of people have lost their lives.

Apart from the tribunal, that was staged in Berlin and South Kivu's capital Bukavu in 2015, the film documents Milo Rau's research on the ground. "Nobody defends our interests," one villager says – summarising the people's complete helplessness in a single sentence. Nobody cares for them, nobody protects them. Neither their own state, whose troops watch massacres standing by – if not participating – nor the international community that is present in the area with a huge UN mission since 1999, but fails to grant security for civilians.

There is no tribunal that punishes these crimes. No local or international court



The fictive court during a hearing.

deals with them. But there should be one. That's why Milo Rau started this huge multimedia art project. Apart from the theatre play and the film it involves a book, a website with a documentary game and archive as well as a symposium tour. The artist wants to give a voice to the victims, raise awareness for the crimes and the reasons why they continue to happen. To this end, the tribunal exemplarily deals with three real cases: a massacre of women and children in the village of Mutarule that left more than 30 people dead and expropriations and evictions in connection with mining in Twangiza and Bisié.

Through his art Milo Rau denounces the total failure of the state and the impunity in eastern DRC, while at the same time alluding to international responsibility. From DRC, once dubbed by Joseph Conrad, the Polish-British author, the "heart of

darkness", today we get the materials that make up the heart of our communication gadgets: coltan, cobalt, tungsten.

Milo Rau successfully casted real jurists, victims and even perpetrators for his Congo Tribunal. In a production statement he writes: "Until today I don't fully understand why the (later dismissed) minister of mining and the (equally dismissed) minister of interior [of the province of South Kivu, editor's note], who were more or less directly responsible for the massacre in Mutarule, participated in the tribunal. How did we manage to stage it in the centre of the conflict area – in front of 1,000 spectators, filmed by seven cameras, in a place that hardly has enough electric power for a handful of light bulbs."

Two of the actors involved now fight for a real tribunal: Jean-Louis Gilissen, defence lawyer at the International Criminal

Court in The Hague and presiding judge in the fictive tribunal, and Sylvestre Bismwa, a Congolese human-rights lawyer who played the investigator-in-charge. In order to fund such a court, the German NGO Doctivism has started a crowdfunding initiative. At the end of the staged tribunal in Bukavu, the Congolese state and army are found guilty. In reality that would be a sensation.

FILM

The Congo Tribunal, 2017, Germany/Switzerland, director: Milo Rau.

LINKS

The Congo Tribunal by Milo Rau:

<http://www.the-congo-tribunal.com>

Crowdfunding for a real Congo tribunal:

<https://www.indiegogo.com/projects/justice-now-for-dr-congo#/>

SUMMER SPECIAL

"Just being born a woman is a provocation"

"Bilqiss" is a provocative novel that hit French bookstands in 2015, telling a sardonic tale of a courageous woman in an unidentified Muslim country where it is a crime to read poetry, use make-up or own lingerie.

By Dagmar Wolf

The young widow Bilqiss awaits trial in her cell. Her crime is not that she killed her violent and abusive 33-years-old husband with a hot frying pan. With the help of the two American soldiers who hang around the village, she managed to pass that off as an accident.

The charge against her is that she stepped in for a drunken muezzin and summoned the faithful to morning prayers from the minaret. In her country, that alone would have been a criminal offense for a woman.

But she went further: she changed the wording of the call to prayer to make a statement.

The sentence that awaits her at the end of the trial is clear from the outset. It is the maximum punishment: death by stoning. Bilqiss, speaking from a locked cage in the courtroom installed to protect her from the lynch mob, conducts her own defence – with cynical vigour and rhetorical skill. She does not beg for mercy but uses the trial as a platform to say what she thinks about her life and her country. Instead of showing humility, she remains provocative and reveals the hypocrisy of a fundamentalist male world in which women are despised for the mere fact that they are not men.

Bilqiss attaches no blame whatsoever to the Quran. On the contrary, she is a very religious woman and prays to Allah in her cell. But she dares to have her own under-

standing of the Quran, to which she makes repeated references in her valiant defence. Bilqiss shows how men instrumentalise religion in their fundamentalist society to make life hard for women. Her portrayal of religious fanaticism seems like satire when she reports that it is forbidden for women to buy phallus-shaped vegetables at the market for fear that they might be tempted. Aubergines and courgettes thus need to be chopped into smaller pieces by the stallholder. Satire also raises its head when she mocks the religious police, who check whether a woman is wearing a bra – something that is also forbidden – by making her hop up and down.

As a childless widow, Bilqiss has no chance from the outset in this male-dominated world of archaic tradition. So she does not see herself as an actor, able to shape her own life. But now the courtroom becomes her stage, and she fights for a role in the drama. She is not driven by a desire to live longer but by the desire to be a protagonist. Bilqiss manages to postpone her execution day after day to gain more time for her performance.

The judge presiding over her case is a representative of fundamentalist Islam, but even he has recognised its hypocrisy and injustice. Nevertheless, he is a prisoner of

the system, compelled to fulfil his designated role. That becomes clear when he has to sentence Bilqiss to 37 lashes for an offensive answer because the howling mob demands it. At night, however, he secretly sneaks to her cell to give her ointment to relieve the

around self-empowerment, professional fulfilment and sexual harassment at work. Live coverage of Bilqiss' trial comes to the attention of American journalist Leandra Hersham while she is trawling the internet for material. She is appalled by the case but at

the blinkered interpretation of the Quran, the hypocrisy and universal lack of freedom. At the same time, however, she is not sparing in her criticism of the well-meaning observers in the west who feel sorry for Muslim women but fail to see the arrogance inher-



Muslim girl reading from the Quran at a Madrassa.

pain and beg her to show more humility so that he may be able to save her. He is fascinated by Bilqiss, in whom he finds a valiant adversary in debate – in stark contrast to his own wife, who never learned to read or write and who might be able to satisfy his physical needs but certainly not his intellectual ones.

The author juxtaposes Bilqiss' archaic world with the sophistication of New York, where the problems women face revolve

the same time senses a good story. She travels to the scene and manages to get an interview with Bilqiss in her cell. But Bilqiss accuses the journalist of instrumentalising suppressed Muslim women. "The more barbaric the persecution, the more you are interested."

The novel "Bilqiss" reflects the rage and anger of its French-Moroccan author Saphia Azzeddine. She denounces the suppression of women in fundamentalist Islam,

ent in making rash judgements about other cultures.

"Bilqiss" is a tragic tale but it is a tale told with humour and irony – making it a thoroughly enjoyable read.

BOOK

Saphia Azzeddine, 2015: *Bilqiss*. Paris: Éditions Stock (in French).
(German: 2016, Berlin: Wagenbach).

SUMMER SPECIAL

Robbed identity

Unlike most other internationally known Indian bestseller authors, Uday Prakash writes in Hindi. His novella “Mohandas” has been published in English and German.

By Hans Dembowski

India has many fiction writers of international fame, Salman Rushdie, Amitav Ghosh, Jhumpa Lahiri, Chitra Bannerjee Divakaruni and Shashi Tharoor, for example. They all write in English and tend to tell stories from the perspective of middle-class people with good educations.

Prakash, in contrast, uses Hindi. He is interested in the social environments that trap poor people, keeping them marginalised and exploited. He writes about deeply entrenched power structures, and how masses of people are denied opportunities.

One of his best-known novellas is “Mohandas”. It tells the story of a young man in a rural district of central India. He manages to graduate from college with excellent grades. His low-caste family thinks he will now find a job and they will all escape the misery they live in. That dream turns out to be an illusion.

Mohandas applies for many jobs, is invited to interviews, but somehow never gets employed. A local mining company promises to hire him, and the manager tells him he will surely get the job, but the confirmation letter never arrives. The company does not even return the documents he handed in along with his application.

Mohandas and his wife have two little children. His mother is blind and his father is sick. His hopes of good employment dwindle slowly, but he keeps returning to the company head office, insisting that he must get his chance. Eventually, he finds out that someone has assumed his name and taken his job. He challenges the cheater several times, but his opponent belongs to an upper caste and is well-connected. Mohandas is denied more than the professional career that his academic achievement should entitle him to. He is denied his very identity.

Prakash has a home in Delhi and another one in the central Indian village he is originally from. His writing shows that he is familiar with the region where he has set the story. He first travelled to Europe when he had already written many stories. He has, nonetheless, been influenced by western lit-

erature. He says that Bertolt Brecht is one of his favourite authors. His novella became the base of a Hindi screenplay of the same name, and the movie was released in 2009. Critics praised it. According to a review in the magazine Outlook, it chronicles “the misuse of power and blatant manipulation of a feeble administration and judiciary” and tells the story of “how those who inhabit the fringes are pushed further to the margins, physically and metaphorically”.

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In 2010, Prakash was given the Sahitya Akademi Award for Mohandas. This award was established in 1965 and is meant to pro-

mote Indian literature in all of the nation’s official languages. Prakash did not keep the prize however. He returned it because the Sahitya Akademi did nothing in response to the murder of M. M. Kalburgi, who had won the award in 2006. Prakash says the institution fails to help to protect the authors its prize celebrates.

The sad truth is that Prakash is feeling increasingly uncomfortable in his home country. He resents the populist Hindu nationalism Prime Minister Narendra Modi is fostering. Indeed, for critically minded intellectuals, the climate is becoming increas-



The Indian author
Uday Prakash.

ingly hostile. It seems deeply ironic that Prakash now says he does not even feel comfortable using Hindi anymore. He argues that it is a Brahmanic language that inherently serves the interests of the upper castes.

LINK

<http://www.musicandliterature.org/features/2015/3/26/a-conversation-with-uday-prakash>

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MOVIE

Nordic tragedy in Afghanistan

The film “A war” was released in 2015. The original Danish title is “Krigen”. The movie was nominated for an Oscar (best foreign language film).

By Hans Dembowski

“A war” tells the story of a Danish officer. Its first part is a war movie, and the second part is a court drama. The film does not teach you much about Afghanistan’s problems, but it gives you a good assessment of ethical dilemmas European troops have faced in that far-away country. Some are still deployed there, of course.

The officer commands a rural outpost. His troops regularly patrol the area and sometimes get involved in skirmishes with the Taliban. The morale in the compound declines after one of the soldiers is killed. Some soldiers say they feel like targets. They do not have the impression that they are marking any meaningful difference.

The officer tells them their duty is to protect civilians so they can rebuild their country. To show his solidarity, he decides to lead patrols himself. In the next skirmish, another soldier is severely wounded. A helicopter is needed to save him. To ensure airborne support, the officer tells headquarters that enemies are shelling his troops and a helicopter is needed to bomb the building the attackers are in. The helicopter arrives, destroys the bombed building and rescues the injured soldier.

Soon after, an investigation is started. The reason is that the bomb raid killed civilians, but neither insurgents nor weapons were found in the ruins of the building. The officer is accused of a war crime and sent back to Denmark to be put on trial.

He is happy to be reunited with his family, but he must now worry about a prison sentence that might separate him from wife and children once more. His lawyer tells him he must say that his request for bombing the building was based on reliable information. If he does so, he is likely to be acquitted. Otherwise, he will certainly go to jail. The lawyer admits that he is neither

interested in ethics nor the truth; his job is simply to get an acquittal.

In a private conversation, the officer tells his wife that he cannot lie. His wife responds that she and the children need him. Before the court, the officer therefore claims to have had reliable information but that he can not recall the source. His statement does not seem credible. One of the soldiers wore a helmet with a camera during the skirmish, and the footage shows the officer shouting that he wants the helicopter, but does not care who is in the building. In the end, one of the soldiers appears as a witness and claims that he saw gunfire coming from the building during the skirmish. He says he informed the officer. The statement is awkward, to put it mildly, but the officer comes free.

The movie makes it quite clear that the commanding officer faced a dilemma during the skirmish. By ordering the building to be bombed he broke the rules according to which he had to protect civilian people. On the other hand, his duty was to save his soldier’s life, and the attack of the building served that purpose. Had he not given the order, the injured man would have died. In this setting, every option the officer had was bad.

The screenplay makes no judgment. It shows that judge and jury happily accept the dubious witness statement as valid because they do not want to punish the officer. It is made quite obvious that they empathise with him. The implication is impunity after a war crime. The movie shows the officer’s strong feelings of guilt, but does not offer a solution. In the ancient Greek sense, the ethical dilemma is tragic because however the hero acts, he is doomed.

The film shows the great disparity between Denmark and Afghanistan. In Denmark, everything is ordered well. Parents worry about how their children’s emotions develop, and in a medical emergency, they simply rush to the hospital. In Afghanistan, parents worry about their children’s mere survival and cannot protect them from violence. In Denmark, the rule of law is taken seriously, while in Afghanistan various armed groups, including NATO troops, take the law into their own hands. People who live in Denmark cannot understand what is going on in Afghanistan, and even the troops deployed to the country largely remain clueless. They don’t speak the local language, they are homesick, and they do not think their mission is helpful. In the end, the court emphasises with the soldier and takes the rule of law less seriously than Danish norms would normally demand.

FILM

A war, 2015, Denmark, director: Tobias Lindholm.



Movie scene: Finally re-united with his family, but for how long?

Extorting travellers

According to official regulations, crossing borders in West Africa should be easy. It only requires a valid ID and a health certificate. On the ground, things are far more complex, and many people use their wallet to bribe their way.

According to the law, citizens of member countries of the Economic Community of West African States (ECOWAS) have the right to travel and reside in any other member country for up to 90 days, without being subjected to any form of harassment. Nor must they pay for a residential permit. Travellers just need valid travel documents and an international health certificate. However, the practice on the ground can be quite different.

A Togolese student who lives in Ghana complains that he must bribe Ghanaian officers every time he crosses the border: "Whether you have valid papers or not, you have to pay 1000 CFA francs." That is the equivalent of € 1.50. A local luggage carrier's assessment is less damning. He says the officers "sometimes" require regular travellers to pay.

Similar complaints are made in regard to Togo's border posts. "It's an organised mafia. They report to their bosses," says a Nigerian trader.

In theory, the borders are open to people with documents and closed to those without. In practice, people without proper papers are simply forced to pay bribes. Sums range from 300 CFA

francs to 1000 CFA francs. They may seem small, but to the low-income people in this world region, they are substantial. Some people, moreover, have to pay them often. "The cops collect more than 1000F CFA francs per day," complains an illiterate Beninese merchant who crosses the border every day. "I cannot get an identity card, because I don't have a birth certificate." The man sells smoked fish at a market in Lomé. This city is close to the border and Togo's capital.

In Benin, health officers facilitate travelling on for similar sums. A local entrepreneur states: "They do not even check if the vaccination cards are up-to-date, they only want our money." He reports that he once demanded a receipt, but was simply told: "Keep going, if you don't want to get in trouble."

Border-crossings in return for cash are serious business. "This illegal cash flow escapes the public treasures of the concerned states," says Bassir Talaki, a public tax consultant in Togo. "Thousands of travellers cross the border each day," he says, "Where does all this money go?"

LINK

ECOWAS – free movement of persons

<https://www.uneca.org/pages/ecowas-free-movement-persons>



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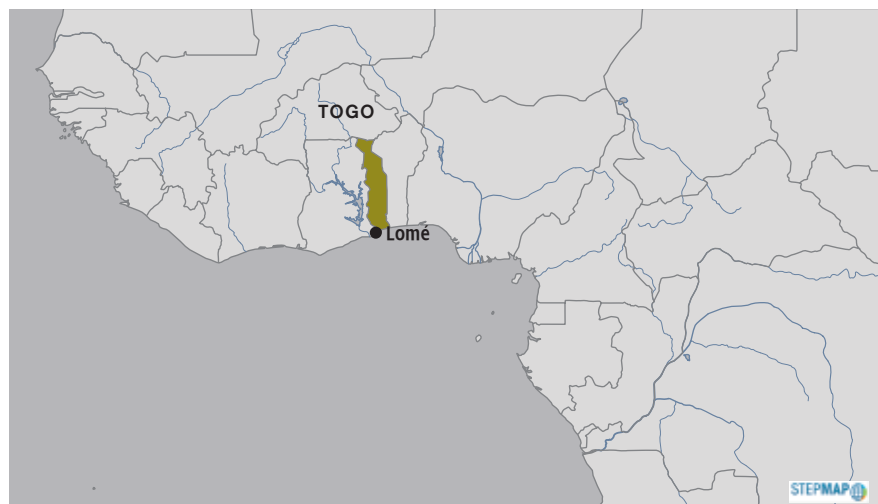
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DEVELOPMENT POLICY

Too many failures

Development aid claims to fight poverty. But according to journalist Kurt Gerhardt, it actually perpetuates the problem.

By Kurt Gerhardt

Whoever can look at Africa's economic stagnation, poverty, failing governments, generally deplorable education and health-care systems, civil wars and corruption and see it – as Gerd Müller, the Federal Minister for Economic Cooperation and Development, does – as a “continent of opportunity” has lost sight of reality. The same is true, when he calls the masses of unemployed young people with no prospects for the future “a vibrant youth”. Those who fail to understand reality, however, are incapable of solving its problems.

The flipside of such sugar-coating is to find fault with everything we are doing for Africa: we provide too little official development assistance (ODA), we are exploiting Africa, we are still practicing colonialism and dictating unfair trade conditions – all of which have nothing to do with reality.

Such wrong-headed views are widespread in German Third-World circles. With a baffling desire to incriminate themselves, such people assert that European agricultural subsidies have ruined every opportunity for African traders, European trawlers have emptied the waters off Africa's coasts of fish and our chicken thighs and powdered milk exports have destroyed the livelihood of African farmers. None of that is true.

The narrative that dominates the Third-World scene is: we are the villains who are blocking African development. Such attitudes are common in church circles and faith-based aid agencies as well.

The people who talk this way are inadvertently making themselves accomplices of many African rulers who are indeed exploiting their citizens. Our self-incrimination is music to their ears.

These misjudgements are accompanied by an attitude that is also hindering Africa's development. No country can develop

another; each and every society can only develop itself. Responsibility for this task cannot be transferred to anyone else. Those who do not stick to this insight violate the principle of subsidiarity, which underlies all aid. Violations of the insight have become all too common in the context of ODA.

World Bank President Jim Yong Kim calls his employees “the army that will end

And they can actually do much more than that. For instance, they could build their own roads and revegetate the Sahel, like the Israelis did with the Negev desert. Millions of unemployed people could earn an income from such initiatives. For obvious reasons, however, they have comfortably become accustomed to us assuming too much responsibility, so they do not come up with the idea in the first place.

Because we are doing too much, Africans are doing too little. The wrong attitude on our end has had disastrous consequences: Why should Africans maintain roads and networks for power and water supply? Why should they pursue responsi-



Africans could improve infrastructure on their own: country road in Angola.

poverty”. One of the most famous activists in the “scene”, the singer Bono, adds: “We have the money, we can do it”. In a similar vein, Minister Müller says: “We have the solutions”.

Such statements stem from an assumption of responsibility that infringes upon the principle of subsidiarity. We have no right to rob Africans of the responsibility for their own development. A banal and at the same time outrageous example of this reversal of responsibilities was Müller's 2016/17 initiative, “More Space for Sport – 1,000 Chances for Africa”. It is an absolutely absurd idea that Africans need our support to set up football fields. Of course, they can do that themselves.

ble demographic policies and hesitate before taking on new national debt? According to the logic that dominates ODA, doing so would be dumb. And that is why they don't do it. The beggar mindset that our attitude is exacerbating and that has long since become entrenched in Africans' relationships with “donors” is one of the most serious obstacles to development.

Instead of fighting this problem, we keep compounding it. We are making the worst possible mistake under these circumstances by increasing development aid. Africa does not need more money. It needs more self-reliance and initiative, which are being eroded by additional aid. Development policymakers ought to be able to

understand this. But obviously they don't. Whenever Germany gets a little closer to the senseless and destructive goal of spending 0.7% of GDP on ODA, the Bundestag erupts in almost childlike joy, shared by politicians from left to right. The fact that more money has nothing to do with more development – quite the opposite, usually – is well understood in enlightened development circles, including in the Federal Ministry for Economic Cooperation and Development (BMZ). However, this knowledge has not translated into political leadership.

The degree of irrationality in development policy is high. For instance, it is often boldly asserted that development cannot happen without democracy. However, the enormous “tiger leaps” made by East Asian countries occurred under authoritarian rule. And Rwanda and Ethiopia, whose economic policies are widely praised, are hardly models of democracy. The ideologues who hold sway in the Third-World scene do not let this bother them.

The inconsistencies are many. In policy circles, it became popular at some

point to say that Africans, meaning African politicians, must be treated as equal partners. They must be treated with respect, of course. But beyond that, does it really make sense to treat as equal partners the many leaders who have grossly neglected their duties to their citizens? And to demand that these people be given more decision-making powers in large international bodies like the World Bank?

German development policy has largely failed. For example: development requires industrialisation, which is best organised by entrepreneurs. But Africa has hardly any. Therefore it makes sense to convince our entrepreneurs to invest in Africa. So far, they have had next to no involvement in most African countries. In order to change that, the Federal Government is providing financial incentives to German companies to encourage investment in the continent. However, they are putting the cart before the horse, because business leaders are interested in other things: functioning governments, justice systems, infrastructure, development-minded policies, et

cetera. We cannot achieve those things; only Africans can. Any policy that disregards this truth is doomed to fail. Semantic gimmicks that emphasise development “cooperation” instead of “aid” and a Marshall plan “with” Africa do not do any good either.

If development aid continues down the same road it has been on for a long time, it will never produce autonomous and sustainable development in Africa.

It is high time to stop playing this disgraceful game and leave Africa alone, so it can rediscover its strengths and harness them for its development.



KURT GERHARDT

is a journalist. Ten years ago, he was one of the authors of the “Bonn Appeal”,

a fundamental critique of development policy by experts in the field. In the 1980s, he worked for the German Development Service (DED), which now is part of GIZ, in Niger.

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DEVELOPMENT POLICY

Not an end in itself

Development cooperation is better and more effective than many people think. That is the opinion of Stephan Exo-Kreisler of ONE, the global campaigning and advocacy organisation with the mission to help end extreme poverty by 2030.

By Stephan Exo-Kreisler

Development cooperation is repeatedly being criticised. Some people complain that it is a “waste of money” that would better be spent at home. Others wonder whether investments make sense in view of corruption in many places. Yet others claim that official development assistance (ODA) actually causes poverty by creating dependencies and absolving governments of their responsibilities. Such reasoning misses three points:

- Development policy has led to evident successes.
- Recipient countries are being held accountable.
- Development cooperation, in itself, cannot solve every problem, especially if its positive impacts are undermined by incoherent policies in other areas.

Since 1990, the share of people living in extreme poverty around the world has fallen from 35 to 10.7%. Seventy-two developing countries have achieved the UN's Millennium Development Goal of halving the proportion of people suffering from hunger. Almost 21 million people now have access to life-saving AIDS medications. That is over 20 million more than in 2000. For the first time, there are more people with access to AIDS-fighting drugs than there are new

cases of HIV infections. Between 2010 and 2016, the number of deaths from malaria fell by 37%. The number of children who die before their fifth birthday has fallen by more than half since 1990. In 2013, in sub-Saharan Africa alone, 65 million more children attended primary school than in 1999. These very specific successes would never have been possible without ODA.

Abstract numbers of such a scale are hard to imagine. But behind every number is a human life. In May of 2017, I had the opportunity to meet Connie Mudenda in Zambia. Connie lost three children to AIDS because she lacked access to the medications that would have prevented the babies from contracting HIV at birth. I also met Connie's five-year-old daughter Lubona. In all likelihood, she is alive only because the medications in question have been available in Zambia since 2012, thanks to international aid.

Contrary to what many people think, development cooperation is not simply spending German money to dig a well or build a street somewhere. The reality is much more complex. A variety of innova-



Tanzanian schoolgirls about to receive a Gavi vaccine in 2013.

tive solutions bring the most diverse actors to the table in order for them to rise to major challenges together.

A good example is Gavi, the Vaccine Alliance. Gavi's goal is to give all children worldwide access to vaccines. Over 20% of all children under the age of five still die from diseases that could have been prevented by vaccines. Gavi can dramatically reduce the cost of the vaccines in negotiations with pharmaceutical companies by pooling demand and purchasing massive volumes. The countries that Gavi operates in pay a share of the immunisation costs, moreover, so they assume responsibility. Their involvement increases as their economies grow – until they ultimately become able to provide immunisation without foreign support. Countries like Angola and Congo-Brazzaville are on track to meet that goal. From 2000 to the end of 2018, a total of 700 million children will have been vaccinated with Gavi's support and 10 million lives will have been saved. That is the opposite of ineffectiveness.

Those of us who work in development policy are often asked why we should invest in countries, where the funding is likely to trickle away. Yes, corruption is a problem. No development agency that takes its mission seriously would dispute that. It is not only a problem for development cooperation. In total, every year, \$ 89 billion of money belonging to African states flows out of the continent through money laundering, shady transactions and illegal tax

evasion. If only a portion of these stolen and diverted funds – keep in mind, these are not development funds – were lawfully taxed, developing countries could use the resulting additional tax revenue to fight extreme poverty. They could, for instance, invest in education, health care and infrastructure.

Without a doubt, it is first and foremost the responsibility of African governments to take action against corruption. However, we also know – thanks to revelations like the Panama Papers – that the international financial system abets tax evasion and corruption. Ultimately, the established “donor countries” profit from the illegal outflow of funds from developing countries. It cannot be repeated too often: while corruption is a problem in Africa, it is not a genuinely African problem. It is a global problem.

The most effective medicine in the fight against corruption is transparency. If citizens have access to information on how much money a government earns through the sale of commodities, how much development funding it receives and how many taxes large corporations pay, they will be able to track what is actually done with government revenues. That is why ONE encourages policymakers of the EU, the OECD or the G20, for instance, to create the political environment we need to drain the swamp of shell companies and illegal tax practices. African civil society must be empowered to hold African governments accountable. Otherwise, sustainable progress will be im-

possible. Calling on African governments to practice better governance, greater transparency and due process is hypocritical, to put it mildly, if such demands do not go along with action to boost transparency at the international level.

Last but by no means least, one must consider that development cooperation can only be successful if actions in other policy fields are coherent with its goals. It is difficult to diversify African economies and promote local value creation if at the same time we have obstructive trade regulations, for example. As long as the EU continues to flood African markets with highly subsidised agricultural products, it should come as no surprise that local farmers are disadvantaged. Many simply cannot sell their produce at Europe's cut-rate prices.

Development aid is certainly not a panacea. Without it, however, the entire world, not just developing countries, would be much worse off. What is at stake is ultimately the fate of people like five-year-old Lubona. She represents thousands of children who are only alive thanks to development cooperation. I cannot think of a better argument for our work.



STEPHAN EXO-KREISCHER leads the German office of ONE, an international campaigning and advocacy organisation.

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ODA

Lessons learned

Official development assistance (ODA) is neither poison nor a panacea. Whether it succeeds or fails depends on many things, argues Hans Dembowski of D+C/E+Z.

By Hans Dembowski

The reasoning of radical aid sceptics regularly includes the following points:

- Aid was invented to abolish poverty 70 years ago. Poverty persists, so aid must be useless.
- Aid spending is well meant, but it only makes receiving nations dependent and complacent and corrupts their elites.

There is a grain of truth to these arguments, but the critics' arguments are overblown. First of all, it is important to stress that humanity has been making considerable progress (see D+C/E+Z e-Paper 2018/04, p. 11). In 1970, some 60 % of 3.6 billion people on earth lived in extreme poverty. In 2011, that was true of only 14 % of 7 billion people. In the past decades, statistics for school enrolment, infant mortality or access to safe drinking water improved considerably. It would be absurd to claim that all suc-

cess stories are due to ODA, but it is equally absurd to state that ODA somehow blocked progress towards the goals it was meant to serve.

Some countries have made excellent use of aid. South Korea is an example. In the 1960s, its standard of life resembled that of African countries. Today, it is a member of the OECD, the umbrella organisation of rich countries. It "graduated" from being an aid recipient decades ago, and has since joined the donor community. Quite obviously, ODA did not block progress in South Korea.

Aid sceptics have a tendency to pick countries like the Central African Republic or Niger, where things have gone badly wrong, to prove aid is poisonous. Social disasters, however, normally do not only have one single cause. What aid sceptics regularly fail to do is explain how more successful countries managed to progress with aid receipts, if aid is poisonous. Indeed, many countries have made reasonably good use of ODA – including, for instance, Bangladesh, Ghana or Rwanda.

Development professionals like to emphasise that their job is not aid, but de-

velopment cooperation. Where all parties involved accept their respective responsibilities, that term makes sense. In those places, very ambitious programmes can be launched, such as improving national revenue services, for instance. Unfortunately, such a sense of responsibility cannot be taken for granted, and corruption does indeed sometimes thwart aid efforts.

Things would be much easier if ODA was exclusively focused on fighting poverty and its causes in developing countries. In the real world, things are more blurry, because ODA is a component of foreign policy-making. Sometimes aid money is used in the pursuit of geostrategic goals. It can also be a component of policies designed to safeguard access to commodities or to ensure that refugees do not come to rich nations' borders.

It is well understood that development only happens where there is a sense of national ownership. On their own, donor governments cannot bring about positive change in far-away countries. They depend on forces within the societies concerned assuming responsibility for a better future. To make ODA work, donors are well advised to accept their partners' priorities and rely on their institutions. This doctrine was actually spelled out in the Paris Declaration on Aid Effectiveness of 2005.

In principle, donors should only cooperate with governments of developing coun-



South Korea used to be an aid recipient and has become a donor: high-rise buildings in Seoul.

tries if and when those governments adopt reasonable policies. This is easier said than done. The big challenge is that the need for humanitarian assistance is greatest where governments are irresponsible or – even worse – no longer have any impact. Where things go well, a nation will eventually graduate from being an ODA recipient the way South Korea did. Where disaster strikes, in contrast, the suffering is so great that humanitarian relief becomes indispensable. Therefore, donor governments keep getting involved in the affairs of developing countries with poor governance. Failed states matter in particular.

Andrew Mitchell, the former British secretary for international development, used to say that every pound invested in ODA delivered results. Such rhetoric is politically expedient, but it is nonsense. ODA is about risky investments. Some are successful; some fail.

Some aid critics argue that the rich nations are not responsible for the poverty of disadvantaged nations, so there is no rea-

son why they should get involved. In this perspective, the wealth of prosperous consumer societies is not based on the exploitation of workers in developing countries. Again, this is not totally wrong. Shoppers in Frankfurt or San Francisco do not benefit from the poverty of Africa's smallholder farmers. And while textile workers in Bangladesh are indeed exploited, they would be even worse off without their jobs – and that is why solidarity campaigns are not calling for boycotts.

In several ways, however, the rich world does live at the expense of the disadvantaged countries in several ways. Aid critics not only tend to downplay the global impacts of industrial-scale overfishing, for example, they also neglect that health-care systems in rich nations depend on skilled nurses and academically trained doctors from developing countries. The “brain drain” compounds health-care problems in Africa, Asia and Latin America. Moreover, the rich world has contributed most to the emissions that cause climate change, while

the developing world is most exposed to the impacts.

Aid does not always succeed, but it is not the root problem. It can be part of the solution. In coming decades, climate finance will become ever more important. It will be essential to heed the lessons learned in ODA affairs, not to discontinue international transfers. In view of the global challenges, humankind needs more cross-border cooperation and burden sharing, not less.

Ultimately, the aid sceptics are promoting the kind of right-wing populism that urges rich nations to put their own interests first and leave others to fend for themselves. The strategy cannot work, because global problems will only become more daunting unless the international community tackles them in joint efforts.




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G8 leaders in 1999
(clockwise): Bill Clinton (USA – waving), Tony Blair (UK), Gerhard Schröder (Germany), Keizo Obuchi (Japan), Massimo D'Alema (Italy), Jacques Santer (EU), Sergej Stepaschin (stepping in for then Russian President Boris Yelzin), Jean Chrétien (Canada) and Jacques Chirac (France).

Lessons of structural adjustment

In Cologne in 1999, the G8 initiated multilateral debt relief. Implicit was an acknowledgement, that the structural adjustment policies had failed. These policies had been designed by international financial institutions on behalf of major donor governments. The lessons are of lasting relevance, especially as debt levels are rising once more in many world regions.

Conditions of international financial institutions in Asia

Asian countries' experience with international financial institutions (IFIs) is mixed. In the 1980s and 1990s, the conditions IFI crisis lending was tied to sometimes proved excessively painful. At other times, economies rebounded fast. In a D+C/E+Z interview, Iwan J. Azis assessed the matter.

Iwan J. Azis interviewed by Hans Dembowski

Why was structural adjustment so painful in Indonesia? India underwent structural adjustment with much less suffering.

I disagree with you. The experience in Indonesia was essentially similar as in India. In both countries, the macroeconomic data improved fast, and that was what you would expect. There are positive effects in the beginning, especially when you are making it easier to do business in markets that, so far, were highly restricted. The problems arise later, because the benefits of the reforms are not shared evenly. So even if the macroeconomic numbers stay good, underlying inequality is likely to increase, and many people will feel left behind. But at first, the dynamism is good, and that was the case when structural adjustment first started in Indonesia in 1984. And it was the case again in India in 1991.

I was actually thinking of Indonesia during the Asian crisis of 1997/98, when the conditionalities of the IFIs and especially the International Monetary Fund (IMF) deepened the crisis.

Oh – well, yes, that was a totally different story. It was a disaster.

What went wrong?

Well, the IMF misunderstood what was going on. IMF experts had stated as late as January 1997 that things were going well with Indonesia. Growth was said to be good, the budget situation was considered satisfying. Social issues, including disparities among different groups, were not considered. And when the crisis hit, the same peo-

ple from the IMF blamed the government, complaining about corruption, institutional weaknesses et cetera. Ultimately, the crisis put an end to the Suharto regime. The irony was that the same people, the same IFIs, who had previously praised Indonesia's economic policies suddenly blamed the country and "crony capitalism" for every problem.

But that was wrong?

Yes, it was. Indonesia was a case of contagion in the Asian crisis. In view of Thailand's financial crisis – that is where the 1997 Asian crisis began – international investors started to withdraw capital from all South-East Asian emerging markets. That kind of thing was not supposed to happen, according to the dominant IFI doctrine of those years. The IMF believed that the free flow of capital was always good. However, if capital suddenly flows out from a country, the impacts are devastating. The demands the IFIs made actually worsened things in Indonesia. In retrospect, we see that the crisis impacts affected the country worst, though it had not originated there.

So based on a faulty diagnosis, the IFIs insisted on the wrong therapy in the late 1990s?

Well, they insisted that the government had to cut spending, even though they had previously appreciated its budgets. If austerity is applied in a downturn, it can turn a recession into a depression. The way the IFIs handled

the Asian crisis actually compounded the problems, not only in Indonesia. Now the IMF has modified its stance. In 2012, a few years after the 2008 global financial crisis, its economists have started emphasising what they call "macro-prudential" policies. That is really only soft phrasing for accepting that capital controls are sometimes useful because sudden in- or out-flows of capital cause problems. I think the IFIs have learned some lessons. Today, their stance tends to be far more nuanced and less orthodox.

Let me return to the basics of structural adjustment as understood in the 1980s and 1990s. It was typically a mix of deregulation, privatisation and austerity. My impression is that deregulation is often useful, privatisation may cause trouble, and austerity often proves counterproductive.

That sounds like a very simplistic rule of thumb. The essential thing is to consider what adjustment policies are supposed to achieve. Since they are supposed to improve a nation's general welfare, it is sensible to make it easier to do business. So yes, if you have an over-regulated economy, as Indonesia was until the 1980s and India was until the 1990s, deregulation will prove helpful and accelerate economic activity. In the same sense, privatisation can be means to that end. Private-sector companies can indeed be more efficient than state-owned behemoths, but if privatisation is not done well, it will cause new problems.

Please give an example.

Just consider Russia, where privatisation resulted in a small group of oligarchs controlling vast business empires without facing the kind of competition that drives market efficiency. In that case, privatisation did not lead to free markets; it created crony capitalism. Of course, we should promote market dynamism, but we must consider carefully what the appropriate steps are.

What about austerity?

Cutting wasteful government spending can be useful too, but it isn't always. You certainly do not want to reduce social protection precisely at a time when it is needed most. That kind of austerity will not only result in political resentment; it can even slow down the economy because it further reduces aggregate demand when demand is weak already.



Government-sponsored social protection is, by definition, redistribution. The state takes money from those who are better off in order to support those in need. Part of the old structural-adjustment doctrine, however, was that governments must not distort markets.

Yes, and that has caused long-term problems. As I indicated earlier, inequality is likely to grow if all you do is to “unleash” market forces. In theory, playing fields are level, but in real life, they normally are not. Weak institutions are another serious constraint. Worsening inequality, however,

means that the public will stop supporting economic policies. And that is so even if the dynamism helps to reduce poverty, as it did in Indonesia in the 1980s and India in the 1990s. People do not think in terms of absolute poverty; they compare themselves with others. People who feel left behind become angry, and that is evident in the USA and Europe too. So what you need in the long run is not only the facilitation of market-driven growth, but also some kind of compensation for those who do not get a fair share of that growth. The lesson is that one must not neglect distributional aspects. The most ef-

fective interventions in this regard are not investments in physical infrastructure but in human capital. Indeed, the health and education sectors enable a wider segment of the society, not just a selected few people, to take advantage of market opportunities.

Is there another long-term lesson?

Yes, there is. In the past, the general idea was that all that was needed to improve a nation's welfare was growth. Nothing else seemed to matter. Today, however, we know that we have to pay attention to multiple objectives, especially the institutional factors including distribution, but also the condition of the natural environment, and other things. We must pay attention to qualitative dimensions of economic development.

When we discussed global-trade issues (D+C/E+Z e-Paper 2018/05, p. 16), you said that you expect turmoil in financial markets in the not too distant future.

Well, something is going to happen. Instability is evident, especially in emerging markets. They have become used to cheap money, as I explained in our previous interview. The price of debt has been very low for a decade, ever since the global financial crisis of 2008. If I counted correctly, five central banks actually introduced negative interest rates at some point or another. In search of higher returns, international investors used cheap capital from the rich world to hand out loans with comparatively higher interest rates abroad, especially in emerging markets. Accordingly, debt levels have been rising, especially in the private sector. Because interest rates are rising in the USA and the dollar is appreciating internationally, there is going to be trouble. My impression is that too many analysts are still looking at the wrong indicators, especially growth and financial markets, and overlooking important ones, including financial instability and social and distributional issues.



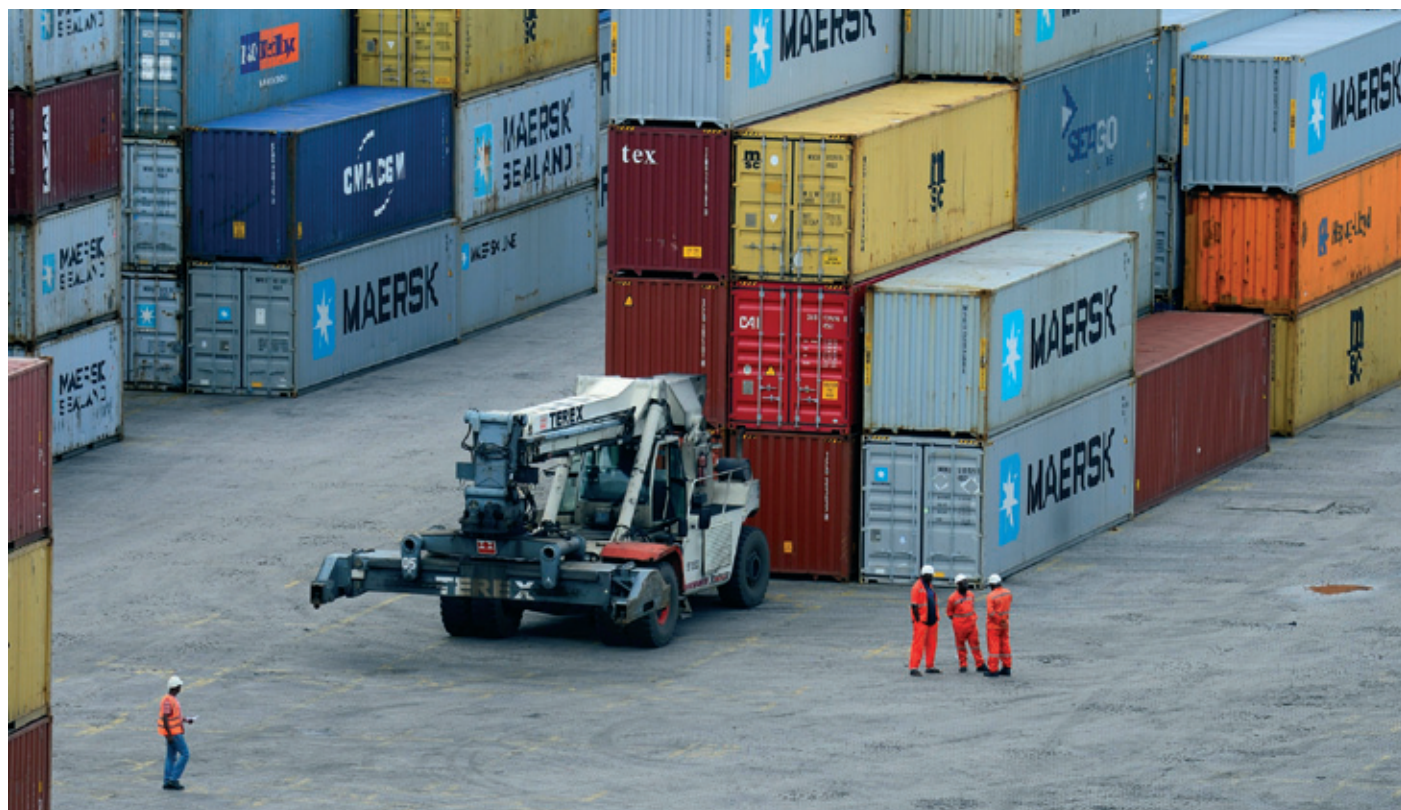
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In Indonesia, IFI reputation has suffered long-term: protestor in Jakarta in 2006.



Exporting industries need infrastructure: container port in Conakry, the capital of Guinea.

More efficient multilateralism

The World Bank and the International Monetary Fund have drawn lessons from the experience of recent decades. However, to tackle the challenges ahead, the international community is in need of a joint coordinated approach to help countries reforming their policies.

By Jürgen Zattler

Adjustment programmes are usually launched for countries in deep economic crisis in view of excessive budget and current-account deficits. In such circumstances there are no easy ways out. All options are painful.

The policies the country has pursued so far cannot be kept up since they would lead to insolvency and cut it off from new loans. The consequences would include inflation, restricted imports and the collapse of economic activity. The only alternative is

some kind of tough adjustment – either with or without support from international financial institutions (IFIs) such as the International Monetary Fund (IMF), the World Bank and other multilateral development banks.

IFI support has the advantage of additional financial resources cushioning policy. The disadvantage from a country perspective is that IFI experts get a say in policy-making and may impose conditions.

In the 1980s and 1990s this disadvantage was very pronounced. At the time, the IFIs more or less imposed their ideas on crisis countries. All too often, the governments of the countries concerned were only marginally involved in the drafting of policies, and thus they did not feel responsible for the results. Another cause of failure was the resistance of affected people, whose interests and relevance the IFI experts did not understand properly.

IFI conditionalities sometimes proved counterproductive. For example, the Asian crisis proved contagious in the 1990s, spreading to economies where economic policy had actually been quite sensible. Nonetheless, the countries suffered as capital was suddenly withdrawn and they lacked the foreign exchange reserves that would have allowed them to respond effectively. The rapid outflow of capital, however, was made possible by the liberalisation of the financial markets. In this situation, IMF-led IFIs made their support dependent on tough austerity policies, exacerbating the crises of several national economies.

Unfortunately, IFI concepts also sometimes proved counterproductive in cases where crises had largely domestic causes. The guiding idea was always to make an economy competitive on the world market through deregulation, privatisation and budget restructuring. The devaluation of the national currency was also considered to be an important tool.

Criticism of this approach, which became known as the “Washington Consensus”, was already being expressed in the

1980s. By the end of the decade, a department of the EU Commission was working on an alternative approach. I was involved personally, and found the discussion with the IFIs very instructive. In retrospect, the adjustment programmes of that time had two main weaknesses:

- **Lack of focus.** The list of reforms imposed on “partner governments” were too long. The programmes often included 30 to 40 items. The idea was to implement a broad range of reforms, inspired by the Washington Consensus. In purely administrative terms, most governments were overwhelmed by this massive agenda.
- **Short-term nature.** The IMF wanted to make up for macroeconomic imbalances as fast as possible. It insisted on radically cutting government spending in order to encourage new confidence among private investors. The World Bank, on the other hand, hoped that liberalisation of foreign trade, the financial sector, the labour market and agriculture would have a rapid impact on the supply side of the economy. It was argued that poverty would decrease quickly

once politically motivated “market distortions” were eliminated. The charm of most of these reforms was also that they were relatively easy to implement, often through rapid legislation.

As some of us warned back then and is generally accepted today, this approach was unrealistic. Market liberalisation cannot succeed unless the necessary institutional and administrative environment is created at the same time. Without a sound competition policy, for example, privatisation often leads to harmful oligopolies. Moreover, financial market liberalisation only makes sense if banks are, from the outset, subjected to the necessary rules and competent supervision. Experience also shows that austerity policies were too harsh and damaging. Indeed, they aggravated and prolonged economic crises.

The policies pursued by the IFIs all too often led to over-indebtedness rather than to new competitiveness. Accordingly, the G8 embarked on a new course at their Cologne summit in 1999. They agreed to multilateral debt relief for affected developing countries

The condition was that the governments concerned would reallocate the freed-up funds to policies designed to reduce poverty (see box below). On top of that, donors even agreed to support such policies with fresh money.

EMPIRICAL KNOWLEDGE

The experience with the new approach was largely positive. We now know that adjustment programmes turn out “cheaper” in the medium term if government spending is supported more generously at the start. The reasons are that economies do not stall as badly, and the social impacts are less severe accordingly. It matters, after all, that structural reforms take time to deliver results.

In principle, successful adjustment requires comprehensive reforms that go beyond short-term stabilisation. Core problems need to be tackled long term, so a comprehensive development programme is needed. Moreover, the government of the country concerned must assume responsibility (“ownership”). A solid common basis

Successful debt relief

In 1999, the G8 summit in Cologne launched multilateral debt relief in the HIPC initiative. The acronym stood for “highly-indebted poor countries”. The approach for reaching consensus with developing countries proved successful and has been adopted in subsequent policy initiatives as well.

Thirty-six countries, of which 30 are African, benefited from the HIPC initiative. Their debt situation improved substantially. They also made solid progress in economic and social terms. About 75 % of the economies concerned grew continuously for at least 10 years. Some diversified, with new industries emerging. That happened in

Rwanda, Ghana, Ethiopia and Senegal for example. Statistics on health and educational performance improved fast.

The way the initiative was designed made the difference. The countries concerned had to draft “poverty reduction strategy papers” (PRSPs). The term itself proves they were not just about improving short-term competitiveness on world markets. The focus was now on issues that earlier structural-adjustment programmes had largely ignored.

PRSP implementation was monitored regularly. IMF, World Bank and other international donors made further support dependent on PRSP performance. A particular in-



New industry: team leader and operator in a Senegalese call centre in 2004.

centive for governments was that considerable debt-relief would be the reward for full implementation. It turned out, moreover, that the PRSPs were a good basis for ongoing debate between donors and recipient

governments, ensuring that donor support was aligned to national exigencies. Another strong point was the long-term outlook. The development of institutional capacities was a core objective. (jz)

between government and foreign lenders must be established. Broad-based popular involvement in policy debate is helpful. After reaching consensus on measures, IFIs and other foreign lenders should then monitor policy implementation. If their expectations are met, they should provide adequate financial support.

First of all, attention must be paid to reform steps following each other consistently (“sequencing”). The temptation is great to do first what seems to be easy and achievable fast. Let us take trade liberalisation as an example. The problem is that trade liberalisation does not really stimulate a national economy properly and boost companies’ competitiveness unless the institutional environment is appropriate.

I remember well the disputes the EU Commission had with the IFIs on this subject some 30 years ago. Practical experience has confirmed the EU view. For example, if companies are supposed to expand exports, they need the necessary transport infrastructure, and that includes export loans from financial institutions. It is a demanding and lengthy task to creating the kind of institutional environment that is conducive to exports. One must also consider that liberalisation will create losers – and that the people affected deserve to get new opportunities.

All governments have only limited capacities. This is especially so in developing countries. Moreover, governments, in particular democratic ones, must not overstretch what their citizens are willing to accept temporarily for the sake of the long-term common good. It is therefore important to focus on the essential reforms right from the start of a reform programme. The faltering economy must be stabilised and the crucial structural bottlenecks that are paralysing it must be removed. Since the constraints are always country-specific, there can be no blueprint that would fit all countries.

In view of these things, austerity policies must always be selective and well targeted. They must neither hinder the recovery nor exacerbate social injustice. Hardship for the poor should be avoided, and the infrastructure must not be harmed either. As budget consolidation is not only about cutting spending, it is important to also increase government revenues.

Today, the IMF is acting more pragmatically and less ideologically than in the past. It has become more sensitive to the negative consequences of austerity. It also recognises that the liberalisation of capital movements carries risks and should therefore be done with some caution. Moreover, the Fund is now concerned about growing inequality – not only because inequality undermines the social fabric of societies, but also because it actually hampers growth. Accordingly, the IMF has recently paid attention to excluding social spending from austerity. It is noteworthy that the IMF advocated for more debt relief than the European Central Bank and the European Commission in the euro crisis. For this reason, it no longer contributed funding to the Greek bailout in 2015.

DIFFERENT APPROACH

The World Bank has similarly learned some lessons. It no longer pays out the programmes in instalments, each of which is conditioned separately. Rather, it now requires governments to undertake reforms in advance, thus strengthening national ownership. The measures it supports are also more focused and more in line with the administrative capacity of the respective government. As the IMF does, the World Bank too appreciates the relevance of maintaining social benefits during the adjustment process.

This change in position results from the experience of past decades, but it also reflects the growing influence of successful and self-confident emerging markets, some of them having become important IFI shareholders. The national development experience of countries such as China, Malaysia and Vietnam partly contradicts the old IFI doctrines. Emerging-market representatives present their views constructively in discussions of the World Bank’s Executive Board. Serving efficient multilateralism, such debate is intense and relies on rigorous data analyses.

It cannot be denied, moreover, that industrialised countries are not always pursuing policies that correspond to their free-trade rhetoric. The protectionism of US President Donald Trump is only the tip of the iceberg. In the face of such facts, the IFIs can no longer simply insist on their old doctrines.

However, change at the IMF and World Bank does not mean that the problems relating to adjustment programmes have been completely resolved. The idea is still widespread that the state should stay out of markets to the extent possible. Industrial policy aimed at promoting certain sectors is still frowned upon, although related measures have proven their worth in China, for example. In the face of technological upheavals, only insufficient attention tends to be paid to “transitional” problems of layoffs and more generally the concerns of those negatively affected by structural change. The need for international regulation has rarely been high on the IFI agenda.

In addition, the IMF and the World Bank are also reaching the limits of their capacities. The resources with which they can support economies are limited. Therefore, they cannot always act as generously as would make sense. A resource increase for both institutions is under discussion. However, given the Trump administration’s scepticism, any such step is currently very difficult.

A reform package which includes a capital increase has been negotiated at the World Bank in the past 12 months. The USA proved to be a very difficult partner. Nevertheless, a consensus has been reached. The package was adopted in principle at the Spring Meetings in April this year. Germany has played an important role. In close cooperation with other countries, particularly EU members, we are doing our best to fill the vacuum US withdrawal has created.

This is the ninth year after the global financial crisis. The current upswing is already one of the longest of the world economy since the Second World War. The risks of a downturn are increasing. The proposed reform package would equip the Bank to provide better support to countries in crisis. However, it is important that the Bank and the donors learn the lessons of the past (see box next page).



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In this essay, he is expressing his personal views rather than

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Multiple adjustment needs

Debt levels are rising in many low-income countries, so future crises are becoming ever more likely. The World Bank must support the countries concerned with regard to other policy challenges as well. After all, they are forced to respond to climate change and other urgent issues.

Measured as share of GDP, the average indebtedness of sub-Saharan countries has increased from 30% in 2011 to more than 50% today. In 29 low-income countries, the debt ratio has risen by more than 10%. The International Monetary Fund (IMF) reckons that eight countries are in an acute debt crisis, and the risk of 16 others sharing their fate soon is high.

It is worrisome, moreover, that the ways debt has accumulated differs from what happened in the past. Compared with previous decades, the share of multilateral lending is rather small. In contrast, the lending role of emerging markets – and especially China – is growing. Private-sector lenders, including domestic ones, are prominently engaged as well. In recent years, 16 African nations have issued bonds on financial markets. The higher share of private creditors comes with additional risks as:

- private-sector loans tend to be on shorter terms,
- the interest rates attached to them are more volatile, and
- private capital can be more easily withdrawn from a country.

Due to this creditor structure, it will be harder to nego-

tiate solutions should a crisis erupt: talks will have to involve many players with rather diverse interests.

Most likely, more cash-strapped governments will soon turn to multilateral institutions such as the IMF and the World Bank, asking for fresh liquidity. It is high time to prepare for such scenarios. Experience teaches us that close coordination of all partners is essential in a debt crisis. Two things, in particular, are needed:

- a comprehensive accounting of the total debt and
- consensus on policy goals.

This lesson of the past must be heeded.

One option would be to take an approach similar to the HIPC (highly-indebted poor countries) initiative at the turn of the millennium.

- First, the governments concerned and the donors, under the lead of the World Bank, would negotiate with the governments agreements on future development plans. For a successful implementation, it would be key that all donors align their own support to this agreed programmes. Additional fora might be needed for ensuring this alignment.

- Second, all creditor governments would have to be involved. In future, China should take part. It is promising that the IMF has begun to cooperate with China with an eye to preventing debt crises in countries where Chinese loans serve to finance the expansion of infrastructure (see related D+C/E+Z Blog).

Adjustments are not only necessary in the event of a debt crisis, however. Humanity must mitigate climate change and adapt to its by now inevitable impacts. The Paris Agreement has spelled out what needs to be aimed for, and developing countries definitely deserve support for action (see Anthony Nyong in D+C/E+Z e-Paper 2017/09, p. 27).

A similar approach would also make sense with regard to the “Compact with Africa”, which Germany’s Federal Government proposed at the G20 summit in Hamburg last year. This initiative focuses on private sector reforms to stimulate private sector mobilisation and job creation. With World Bank support, African governments have begun to identify rel-



Africa must prepare for flooding: a flood-destroyed bridge in Mozambique in 2015.

Within the World Bank system, Germany is currently promoting so called „development policy loans“ to support national climate protection plans, the so-called nationally determined commitments. These instruments aim at supporting countries in drafting and implementing climate policies, while providing funds for implementation. As was the case in the HIPC context, disbursement depends on convincing implementation of agreed schemes.

evant bottlenecks. Systematically basing the “Compact with Africa” on systematic World Bank analysis and linking it with World Bank orchestrated policy reform and investment programmes would give this initiative a great boost.

One lesson of the HIPC multilateral debt relief is that this kind of joint policymaking worked out well, and that in order to tackle the new challenges ahead, applying a similar approach would be helpful. (jz)

Low-hanging fruit

India's structural-adjustment programme in the early 1990s focused on first-generation liberalisation. It delivered results fast, as development consultant Salman Anees Soz told D+C/E+Z.

Salman Anees Soz interviewed by Hans Dembowski

When structural-adjustment programmes fail, the IMF and the World Bank get the blame. When they succeed, the national government gets the credit. To what extent did the international financial institutions (IFIs) define India's structural-adjustment programme, which they supported with crisis lending, and to what extent did then Finance Minister Manmohan Singh do so?

India has a long-standing relationship with both the IMF and the World Bank. However, that does not mean the Bretton Woods institutions "defined" the reforms enacted under the leadership of Dr. Singh. India's economic situation was under stress and faced serious balance of payments challenges. The government felt that reforms, especially those related to investment, trade and private-sector development were absolutely necessary and the sense of crisis around that time helped it to push the reforms through.

Some say that India was a case of a socialist overregulation, so structural-adjustment policies that normally involve deregulation, budget consolidation and privatisation simply had to succeed. To what extent do you agree?

Many countries are burdened by overregulation. At the same time, excessive deregulation can lead to serious failures as we saw during the 2008 global financial crisis. I can't tell if structural-adjustment programmes resulted in successful deregulation everywhere. The fact is that while we can learn lessons from other countries, the particular circumstances of each country are unique. India took a measured approach, and I think that helped.

Some say that policies of reducing government deficits, deregulation and privatisation only plunge countries deeper into poverty. That did not happen in India. Was the rea-

son that Manmohan Singh's policy focused more on deregulation than on consolidation of public budgets and privatisation?

In 1990, when India faced its reforms challenge, the focus was on first generation liberalisation. Deregulation was an urgent task. The private sector had been under a regulatory burden and the public sector was dominant. The context was that, after the British, there wasn't much of an economy and public sector-led growth was natural. Over time, however, the need for a more balanced approach was evident. To implement major change, a phased approach is sensible. In phasing reforms, one must try to go for low-hanging fruit first. Instead of fighting over the mass privatisation of public-sector enterprises, the government tried to let the private sector do its work without excessive interference. That was the top priority, and it delivered results. Growth rates increased and have stayed high ever since. If the government had tried to push through additional reforms, that could have led to a broader political backlash and likely failure. Economic growth helped the government to reduce budgetary problems. Disinvestment of public-sector enterprises has been going on but at a measured pace. India now has a fairly large private sector, so disinvestment is not as big an issue anymore. On the other hand, in view of vulnerabilities of society's weaker sections, India did work on developing new social-protection mechanisms with some success. An example is the Mahatma Gandhi National Rural Employment Guarantee Scheme, according to which one adult member of every village



household is entitled to 100 days of work paid according to the legal minimum wage. This has certainly made a difference. Rural roads and electrification have improved living standards of millions. Many schools and health centres have been established, but quality remains a concern. Unfortunately, we now face rising inequality that we must find solutions to. But I believe the rising inequality is in part due to fewer decent jobs being created and not necessarily – or only – because of economic reforms.

Why did Manmohan Singh have such strong bargaining power vis-à-vis the IFIs?

I think the most important factor was that India's economy was under stress and the technocrats were able to convince the politicians that reforms could not be delayed any further. The IFIs saw that Dr. Singh was able to draft a sensible programme and had the government's support for implementation. Besides, India was a major client, and when a country of this size and development challenges seeks assistance, IFIs don't want to miss an opportunity to advance global economic development. As far as geostrategic considerations are concerned, the Soviet Union had already disintegrated, so I don't think western governments were worried much about Delhi's long-standing alliance with Moscow anymore. It probably helped that Dr. Singh was intimately familiar with the institutions such as the World Bank, with people working there and contemporary economic thinking.

In what sectors did liberalisation have the greatest impacts?

Services did pretty well, especially those that had modern technology linked to them. Mobile telephony and information technology clearly did well. One reason is that the government bureaucracy had found it hard to regulate things that were new and dynamic. Mobile phones and computers were new for everyone, and India was in a fortunate position to experience this shift almost contemporaneously with the rest of the world.

Are there lessons for other countries concerning liberalisation that does not exacerbate poverty?

Every country is different, so it is hard to draw general lessons. I would say that policymakers should carefully evaluate their own situations, review lessons of experi-



India's private sector has grown fast: pharma lab in Hyderabad.

ence from around the world, especially from countries similar to their own, and then develop a phased approach to reforms, making sure those who are in danger of losing out, have institutional support to get back up on their feet.

Structural-adjustment policies have failed in many countries, leading to over-indebtedness. That is why the G8 initiated multilateral debt relief at the Cologne summit in 1999. The new conditionality was that governments had to draft and implement poverty-reduction strategies. Did the new approach work?

I cannot say if this succeeded. What I can say is that drafting poverty-reduction strategies makes sense. These strategies help push forward a discussion on the circumstances of an individual country and unleash a debate about how living standards can be improved. The process is important and it should be transparent and inclusive. The final product in the form of a document is less important. The policies and programmes that take shape as a result of thinking through a country's challenges and priorities must then face the test of implementation. Some of the best ideas falter due to poor implementation.

Structural adjustments are supposed to attract investors who want to manufacture

goods for the world market. Did that happen in India?

India's growth is primarily driven by domestic investments and consumption. It is true that foreign direct investment (FDI) in India has grown significantly, and it actually kept growing in this century. However, FDI still only accounts for two to three percent of gross domestic product (GDP). The country's investment ratio is typically about 30% of GDP and higher, though it has declined in recent years. India is a huge market in absolute numbers, but individual people's purchasing power is still relatively limited. We still have a lot of catching up to do. As India's market continues to reform and the economy grows, I expect greater investments to flow to India than to any other major economy. In some ways, it is already happening.

International-business media still demand more and massive reforms in India. Is structural adjustment unfinished business in your country?

I wouldn't call what is needed "structural adjustment". Yes, India needs reforms in a number of areas such as health, education, labour markets, banking sector as well as continued progress on improving the business environment. I think no country is ever done with the process of reforms. So, yes, there is a major reforms agenda and it is important for the country's development.

Is Prime Minister Narendra Modi a serious economic moderniser, or is he driving a supremacist agenda of Hindu chauvinism?

In my opinion, Prime Minister Modi has unfortunately squandered his massive mandate of the 2014 election. His election had raised hopes that a government with a big political mandate would be reformist and squarely focus on economic development. Those high expectations remain unmet. I don't believe he is an economic moderniser at heart. He is deeply political and under his leadership the focus of the ruling party appears to be on winning elections rather than on ensuring shared economic progress. I have written numerous articles on his government's stewardship of economic policy. In spite of some promising rhetoric, his party and its associates are implementing a divisive agenda that is unlikely to create a conducive environment for the kind of economic development that millions of Indians need and deserve.



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Informal employment is the norm: mobile CD shop in Moshi, Tanzania.

Descent into hell

In Africa, the International Monetary Fund (IMF) and the World Bank do not have a good reputation. Many people consider them agencies of misery, poverty and social distress. This perception is driven by the experience of the structural-adjustment programmes that the international financial institutions (IFIs) insisted on in the 1980s and 1990s.

By Ndongo Samba Sylla

The story begins in the 1970s. Oil prices were high after the oil shocks of 1973 and 1979, and oil-exporting countries deposited substantial revenues in western private banks. Lethargic western economies, however, could not absorb the “petrodollars”, so banks encouraged developing countries to borrow. African governments bit the hook. The opportunity looked good and they had to finance development. Given that prices of the commodities that African countries exported were solid, debt burden seemed bearable.

In the 1980s, commodity prices fell, however. At the same time, interest rates and the dollar exchange rate increased. This was the worst-case scenario. The external

debt became a huge burden on many countries. Their balance of payments started to deteriorate. As they became less and less able to service their debts, they had to turn to the IFIs for emergency loans and rescheduling of loans.

According to the IFI’s division of labour, the IMF deals with the short term, macroeconomic stabilisation. Typically it insists on two things:

- budgetary measures to “clean up” public finances by reducing government spending (cutting subsidies, reducing public-sector employment, decreasing social expenditure et cetera) and
- monetary-policy measures, including devaluation of the national currency to promote exports and higher interest rates to fight inflation.

In contrast, the World Bank’s role is to manage medium and long term development through “structural measures”. They consist of:

- unilateral trade liberalisation, in particular the reduction of tariffs and quotas that protect certain sectors, and
- the privatisation of public enterprises, which is supposed to make them more efficient.

The term “structural adjustment programmes” refers to this set of measures as demanded by the IMF and the World Bank. In the USA and the UK, similar strategies were implemented by President Ronald Reagan and Margaret Thatcher respectively. The slogan was “austerity”. Thatcher famously liked to argue “there is no alternative”, though that stance was disputed by the opposition.

African governments were cornered. Depending on funding in currencies they had no control of, they indeed had no alternative. In the hope of “consolidating” their budgets, they cut capital expenditure and social spending. The education and health sectors were affected in particular. Moreover, they exposed more of their economies to global competition.

The full impact of structural adjustment is hard to assess. The issue is controversial. Things would be different if this specific policy mix had not been implemented throughout the developing world. We have no empirical evidence of what results a different approach might have delivered. The IFIs, which always praise competition, actually enforced a monopoly on policymaking.

In lack of counter-factual evidence, the best approach to assessing the results of structural adjustment is to consider what they were supposed to deliver. The IFIs promised to liberate market forces so African countries would become competitive internationally and prosper fast. Things

turned out differently. For most countries concerned, the 1980s and 1990s were descent into hell.

STALLED GROWTH

Economic growth slowed down. It fell below the rates of previous decades. Agriculture suffered as state support was radically withdrawn. In West Africa, this sector has actually never recovered from that blow. After independence in the 1960s, industrialisation had begun encouragingly in some places, but it was now wiped out. Ill-considered trade liberalisation hurt budding industries. Because of devaluation, the imported equipment they needed became more expensive. At the same time, the costs of inputs such as electric power, fuel, water et cetera rose, as governments reduced their expenditure.

In 1980, seven African countries had had a per-capita manufacturing output that was comparable to that of Thailand. With the exception of Mauritius, all of them were lagging far behind Thailand two decades later. The UN Conference on Trade and Development (UNCTAD) made this comparison in a report in 2005. Its conclusion was that structural adjustment had “failed to restore an economic climate conducive to investment and employment”. The UN Children’s Fund (UNICEF) had issued a warning call in 1987, pleading for an “adjustment with a human face” (Cornia et al. 1987).

The impact was worst in social dimensions. After independence, schools served more or less as a social elevator. Due to structural adjustment, the quality of public education deteriorated significantly. That was true from primary schools to universities. Access to education became more unequal, with poor people becoming ever more marginalised. Instead of expanding the health infrastructure, which basically served urban areas, into the rural hinterland, governments reduced spending on public health, compounding problems of inequality. The rich can afford expensive private clinics or go abroad for treatment, but the poor must depend on informal medicine or decaying public health facilities.

It bears repetition that the Ebola crisis in Guinea, Liberia and Sierra Leone would have been less deadly, had these West African countries had a proper health infra-

structure. In lack thereof, they witnessed the fast spread of the disease, which, according to the World Health Organization’s conservative estimates, killed some 11,000 persons. Structural adjustment is partially to blame, though civil wars certainly compounded the problems.

Instead of making economies grow fast, the structural adjustment policy actually had a contractive impact. Fast growing populations made matters worse. Formal employment was in ever shorter supply. Impoverished peasants looked for livelihoods in the cities. Factory workers lost jobs. Housewives wanted to earn money to supplement the dwindling incomes of households’ main breadwinners, and so did youngsters who dropped out of school. Ever more families could no longer afford school fees or educational materials. Cohorts of young girls in disadvantaged neighbourhoods resorted to prostitution to earn the money they needed for eating once a day or obtaining sanitary napkins.

Poverty, lawlessness and exploitation added up to a fertile ground for corruption. With stagnant incomes, public sector employees – regardless of their rank – were tempted to make ends meet with ethically reprehensible practices. Police officers took bribes from motorists. Bureaucrats demanded money for services that are supposed to be free, such as issuing IDs. Teachers and professors cheated at exams and charged high sums for private lessons.

DOWNWARD SPIRAL

It is particularly depressing that all this suffering led to nothing. Structural adjustment had the tendency of worsening the financial issues that it was supposed to resolve. According to the Committee for the Cancellation of Third World Debt, the debt repayments from the Global South to the Global North between 1980 and 2000 amounted to the equivalent of 52 Marshall Plans. These massive sums were basically wasted on a downward spiral of ever more debt being restructured ever more often.

In view of this vicious cycle, a global movement emerged, demanding the cancellation of debt. By the end of the 1990s, the established economic powers of the G8 finally admitted that structural adjustment had failed. Its Cologne summit initiated multilateral debt relief in 1999 by launching

the Highly Indebted Poor Countries (HIPC) initiative (see box next page).

In the early 2000s, economic growth returned to Africa. The driving forces were:

- relative political calm instead of strife,
- rising commodity prices and
- debt relief.

Though growth was quite vigorous, it only generated few formal-sector jobs. It was not propelled by manufacturing or higher productivity in agriculture. Therefore, masses of people still depend on the informal sector which is marked by low pay, no social protection and permanent insecurity (see my essay in D+C/E+Z e-Paper 2017/10, p. 24).

The sad truth is that Africa has been experiencing jobless growth. It is striking, moreover, that average growth rates of about five percent in the millennium’s first decade equalled the share of GDP that was transferred abroad (repatriated profits, interest on loans and expat incomes). Africans are definitely not prospering.

Structural adjustment was a dark chapter in Africa’s postcolonial history. The IMF, however, is still the main administrator of the currencies of the most vulnerable African economies, which need its approval before borrowing money in international markets.

On the other hand, countries’ debt levels are rising fast again, while interest rates and the dollar exchange rate are set to increase. It seems that the scenario that led to the structural-adjustment concept in the first place is currently being replicated. We must hope that the lessons have been learned and the same mistakes will not be made again.

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New paradigm needed

Debt relief has helped to reduce suffering in Africa, but it did not tackle the underlying problems.

The Heavily Indebted Poor Countries (HIPC) initiative was launched at the G8 summit in Cologne in 1999, based on concepts that the World Bank and the International Monetary Fund (IMF) had begun to draft as early as 1996. The idea was to liberate the countries concerned of a part of their excruciating debt burdens.

The savings from debt relief were to be allocated to areas such as health, education and infrastructure. To be considered for debt relief, countries had to meet several criteria, including:

- unsustainable debt levels,
- eligibility for loans from the International Development Agency (IDA), the World Bank branch that funds low-income countries,
- a good track record of implementing reforms proposed by the international financial institutions (IFIs), and
- a poverty reduction strategy paper (PRSP).

Implementation of the PRSP was a condition for continued support. The HIPC initiative was later followed up by the Multilateral Debt Relief Initiative (MDRI) from 2005 on. Along similar lines, it allowed 100% of the money owed to the IMF, the World Bank and the African Development Fund to be cancelled.

According to an IMF report of October 2017 (IMF, 2018), \$ 76 billion worth of debt were cancelled in the past twenty years. The economic

scenario has improved considerably in the countries concerned, and high commodity prices supported that trend.

In terms of medium-term financial criteria, debt relief was successful. Other things must be considered too, however. On the downside, the root causes of African countries' structural indebtedness was not dealt with. They are:

- the specialisation on commodity exports,
- inadequate development in agriculture and manufacturing,
- the dependence on technology and capital from more advanced countries (including China today) and
- significant transfers to these countries (repatriated profits, interest on loans and expat incomes).

The PRSPs made sense in principle, but they did not tackle these challenges. The truth is that the international division of labour, according to which Africa supplies

raw materials, buys processed goods and depends on more developed world regions, has been perpetuated. Ultimately, debt relief only ensured that it stayed viable.

The C2D policy is evidence. C2D stands for "Contrats de désendettement et de développement" (Deleveraging and Development Contracts). France concludes C2D agreements with countries that benefit from debt relief. Each country concerned must repay the money it owes France to

system in which poor countries have room for manoeuvre to develop their agriculture and industry in an environmentally sustainable way. Instead of fierce competition, we would need a new globalisation paradigm that emphasises solidarity.

In contrast, debt levels are rising again in many African countries. From 2008 to 2016, the ratio of public debt to GDP doubled to about 45% in sub-Saharan Africa. The pendulum scenario of the 1980s seems to be repeating itself moreover.



African countries are still commodity exporters: workers handling a cocoa shipment from Cote d'Ivoire in Amsterdam.

the French government who spends it in the same country on "poverty alleviation" projects that are run by French companies. So far, around 20 C2Ds have been signed.

Debt relief was neither unconditional nor disinterested. In return for debt relief, countries had to stick to market-orthodox policies, including deregulation, liberalisation and privatisation.

The indebtedness of African countries results from their underdevelopment and asymmetrical international relations. To escape the debt trap, we would need an international

Excess liquidity induced by the economic sluggishness of the developed countries has been used to lend to poor countries. Lower commodity prices, an appreciating dollar and rising interest rates can fast make debt levels unsustainable once more. (nss)

LINK

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Interfering in national sovereignty

The IMF has learned the lessons of past mistakes. It has understood that it is unwise to micromanage national policies. Nonetheless, it could do more to fight poverty and reduce inequality.

By Jürgen Kaiser

The provision of loans almost always goes along with conditions. Only among friends, if at all, is money lent with no strings attached. The conditioning of loans is therefore neither unusual nor objectionable.

A special situation arises, however, when sovereign states experience balance of payments problems. In such a setting, they need fresh loans from other governments or international financial institutions (IFIs). By definition, these are crisis scenarios. The solvency of the borrower is uncertain, so it needs to be safeguarded. Consequently, governments asking for credit must typically agree to comprehensive structural-adjustment measures. These measures are meant to restore their economic viability. All too often, however, such measures have failed.

Loans to restore solvency are not development finance. They do not relate to a specific project, but to macroeconomic exigencies. Loan conditions therefore do not apply to an individual project either, but to economic policymaking in general. Recipient governments must strive to improve economic performance and consolidate public budgets. According to the division of labour of IFIs and bilateral lenders, the International Monetary Fund (IMF) decides what these efforts should look like.

In the worst cases, countries are excessively indebted. If that is so, their fiscal capacity to act cannot be restored through new loans and adjustment measures alone. Debt relief becomes a necessity. As a precondition for debt relief, however, lenders typically demand even more structural adjustment.

In principle, a sufficient criterion for conditioning would be a government's ability to service its debt again in the future. After all, once contractual obligations are

met, every lending agency should respect the national sovereignty of the borrowing country. Indeed, the IMF does offer loans of this kind through its "Flexible Credit Line". However, only a very small circle of potentially unproblematic borrowing countries are eligible.

RESTRUCTURING THE ECONOMY

In practice, adjustment programmes are geared to many things apart from future debt-servicing capability. The starting point is often to examine why a borrower has become insolvent. This question obviously makes sense. The problem is that it often becomes a gateway to demanding the restructuring of entire economies according to radical market-orthodoxy. Therefore, the conventional structural-adjustment programmes emphasised liberalisation, deregulation and privatisation.

The leading role of the IMF has proven problematic in many ways. Particularly in the 1980s and 1990s, when many structural-adjustment programmes were drafted, the Fund and its macro-economically trained experts took over the micromanagement of many sectors which they did not properly understand. For instance, IMF economists saw expenditure on primary-school education merely as costs, rather than as an investment in youth that gives opportunities to disadvantaged communities. Moreover, the fact that inequality harms economic growth was systematically overlooked. In the meantime, however, such criticism has even been expressed by IMF's own Independent Evaluation Office (IEO).

Nowadays, the IMF commits to no longer define such granular adjustment programmes. In practice, however, it does not always seem to have stayed entirely true to its word. The dispute it is engaging in with critics over whether IMF policies worsened the Ebola crisis in Sierra Leone, Liberia and Guinea is awkward, to put it mildly. Yes, the IMF did force those countries to dismantle public health systems.

Generally speaking, however, it is evident that the IMF has accepted the charge

that many programmes were inherently flawed. It has also acknowledged that it frequently demanded too many adjustment measures and that those measures were often overly complex. At the start of this decade, the Fund therefore pledged to reduce the number of policy-related conditions per programme. By and large that has happened. According to the latest IEO report, the number of conditions dropped from an average of 9.3 between 2003 and 2007 to just 6.2 between 2010 and 2017.

MAIN POINTS OF CRITICISM

One of the core problems with conventional structural-adjustment programmes is the disproportionate cutting of social spending. When public budgets are slashed, the primary victims are disadvantaged communities who typically are not well organised. For instance, such communities include shopkeepers, people working in the informal sector, unskilled labourers, small farmers or the landless. Only very few of them receive transfers according to the model of western welfare states. Given that their social-protection benefits are tiny, budget cuts must affect masses of them in order to substantially contribute to consolidation. The same people, however, suffer indirectly when state expenditure on infrastructure is reduced.

The communities concerned rarely have constitutional means to fight policies that harm them. Therefore, their reactions tend to oscillate between apathy and violent resistance.

An almost classic criticism of structural adjustment is pointing out the dramatic cuts in the education and health sectors. In many cases, governments ended up spending less money on these essential services than on servicing international debts. The global debt-relief movement turned this fact into an effective narrative. It helped to bring about the debt relief initiative for Heavily Indebted Poor Countries (HIPC), which was launched in 1996 and enhanced at the G8 summit in Cologne in 1999.

As a matter of fact, many countries were stuck in a debt trap at the end of the 1990s. This situation had been exacerbated by structural adjustment programmes. Changes to economic policy had not spurred economic growth, but all too often hampered growth. At the same time, ongoing

debt servicing remained unbearably expensive. It was not until the second debt-relief initiative, the Multilateral Debt Relief Initiative (MDRI), that the poorest countries were able to escape this trap. The MDRI started in 2005.

More recently, we have seen a debt-trap scenario in Greece. After ten years of crisis, conditionalities, bailouts and insufficient debt relief, EU lending countries seriously consider demanding that Greece generate budget surpluses until the year 2060 (or even, according to other calculations, until the 22nd century) so it can service its debt. Such policy ideas systematically over-estimate what structural adjustment can achieve. At the same time, they underestimate how much public spending on infrastructure and social policies contributes to growth. To some extent, these ideas remind one of ancient debt slavery. It is commendable that the IMF no longer supports such policies in regard to Greece.

The G8 summit in Cologne in 1999 launched the HIPC initiative and decided to modify adjustment programmes. While the conventional adjustment goals were not changed, they were supplemented with the demand that the countries concerned had to draft a Poverty Reduction Strategy Paper (PRSP).

MORE OR LESS INEQUALITY?

This approach led to real success stories in many places. One example is Bolivia, where the people were involved in designing policies. In cases like this, power relations within society changed. However, a recent study (Sembene, 2015) found that the PRSP approach hardly made a difference in sub-Saharan Africa. Neither absolute poverty (assessed by the income of the poorest fifth of the population) nor inequality were reduced there.

The conventional structural-adjustment approach of the 1980s assumed that

a certain degree of inequality would boost economic performance and thus drive growth. While giving partial evidence of individual incentives, the aforementioned study shows that great inequality actually inhibits growth. In macroeconomic and socio-political terms, excessive inequality is definitely harmful.

In the meantime, the IMF has modified its discourse. While it still insists on cutting too-broadly conceived social spending, it now wants the savings to be used for two purposes: Fiscal consolidation is first, but the second is better targeted social programmes in support of the most vulnerable people.

Better focused social policies actually make sense. The truth is that social spending all too often primarily benefits middle classes and the elite. One example is fuel subsidies, which especially benefit those who use a lot of energy – for instance the owners of large cars. However, official statis-



Successful poverty-reduction programmes have reduced inequality in Bolivia.

tics are unreliable in many countries, so the IMF can hardly demonstrate the efficacy of more targeted social services.

The IMF has certainly learned some lessons from its mistakes. However, there are alternatives to its policies. Both civil-society organisations and multilateral institutions like the ILO (International Labour Organization) or the UN Economic Commission for Africa, have suggested other approaches. While appreciating that deficiencies in a country's governance and its social and economic policies can cause problems

and lead to excessive debt, the alternative approaches emphasise that these problems could be solved by other than market-orthodox measures (see box below).

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Alternative structural adjustment

The structural adjustment programmes of recent decades were often unsuccessful or even counter-productive. Therefore alternatives have been discussed for many years.

Important criteria for such options include:

- Distribution effects must be explicitly taken into account during the design of adjustment programmes. In case of doubt, these concerns should guide decision-making.
- The link between structural adjustment and debt relief needs to be redefined. Whatever is achieved in terms of adjustment, must be sufficiently rewarded through debt cancellation. And in line with this principle, people must see that their country's efforts pay in terms of a reduced debt burden.
- The IMF is the decisive actor in the definition of adjustment policies. Its lack of democratic legitimacy, however, is reflected in its policies. It drafts programmes that over-indebted countries cannot reject.

Several steps would boost the legitimacy of the IMF:

- The Fund could gear decisions more stringently to

reducing inequality. Doing so would improve the lot of the poorest people at the expense of both local elites and international lenders.

- Developing and newly industrialising countries should be given more of a voice inside the IMF. With its present governance structure it is being dominated by the G7 countries.
- The IMF should step back from its current triple role as lender, monopolist of mandatory evaluations and primary author of reform programmes. The quality of reform programmes would benefit from such a step. They would no longer exclusively be drafted by an institution that is focused on ensuring the servicing of its own loans, and also has the monopoly on interpreting countries' need for debt relief.

Pioneers of proposing alternative adjustment strategies are the UN Economic Commission for Africa, Oxfam and the ILO (International Labour Organization). The UN Economic Commission presented its African Alternative Framework to Structural Adjustment Programmes for Socio-economic

Recovery and Transformation (AAF-SAP) as early as 1990. Oxfam developed the concept of "structural transformation" and thus made suggestions from a civil-society perspective. The ILO formulated the notion of "adjustment with a human face". Various proposals for pro-poor growth are also relevant. (jk)

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Protests in Argentina against the government's loan application to the IMF.

Reducing poverty whilst transitioning to a green economy

In regard to structural change, developing countries face a double challenge: they must foster more economic activity to generate jobs and overcome poverty, and, at the same time, they must switch to eco-friendly production. How a green industrial policy could achieve both goals is the topic of a new report. It was produced and published by the German Development Institute (Deutsches Institut für Entwicklungspolitik – DIE) in cooperation with UN agencies.

By Tilman Altenburg

Developing countries need to modernise their economies so their economically active population will be productive enough to enjoy a decent standard of living and generate enough taxes to finance public services. At the same time, the global economy needs to be radically reorganised in the coming years in order to address global warming and other environmental challenges. The implication is that economic growth and wealth creation must be unlinked from resource consumption. Carbon emissions, in particular, have to be reduced to a minimum.

Developed countries have a historical responsibility and must act accordingly. Nonetheless, developing countries too must transform their economies and put an end to their dependency on fossil fuels. They must adopt the resource-efficiency principle, develop closed-loop production systems and consider alternatives to GDP growth as the crucial economic indicator. “Catch-up development” in the sense of fast replicating the model of today’s high-income economies is no longer an option.

So far, no country in the world has managed to achieve an acceptable level of human development without over-exploiting resources. Studies of the Global Footprint Network show that all countries with a moderate or high Human Development Index live beyond their environmental means. On the other hand, all countries whose resource consumption is within environmen-

tally sustainable limits are at an unacceptably low level of human development.

Our new international report “Green industrial policy – Concept, policies, country experiences” spells out an alternative approach. The title requires an explanation: the term “industrial policy” refers to policy measures that accelerate structural change in an economy – in this case towards green, sustainable sectors. We are not referring to industrialisation in the narrow sense of expanding manufacturing. The report is a collaborative effort, produced by five international organisations – UNEP, UNIDO, UNDP, ILO and UNITAR – in partnership with the DIE.

DOUBLE DISCOURSE

The great merit of the report lies in the fact that it links two knowledge-intensive discourses that have so far been largely unconnected:

- the debate on developing countries’ economic strategies and
- the debate on sustainable economic activity.

Attempts to green the economy will fail unless they impact positively, not negatively on the scope for socio-economic development. This is particularly so in developing countries, so the big question is: how can we reconcile the instruments of industrial policy, which have created broad-based wealth in East Asia, for example, with up-to-date environmental approaches and goals?

The report opens with a summary of the experience made with industrial policies in various developing countries. In most countries, governments intervened forcefully in domestic markets in pursuit of structural change in the 1960s and 1970s, but then adopted more or less radical policies of deregulation from the 1980s onwards. Neither approach resulted in sustained and productive structural change.

A number of East Asian countries, however, largely ignored ideology. They

took a pragmatic approach to industrial policy, and it proved quite effective, first in South Korea, Taiwan, Singapore and Malaysia, and later – and most spectacularly – in China. It is no coincidence, of course, that all economically successful member countries of the OECD, the umbrella organisation of high-income nations, pursue pragmatic industrial policies, providing incentives to manage market dynamics.

GOOD INDUSTRIAL POLICY INSTRUMENTS

There is a broad consensus today about what constitutes good industrial policy. An essential point is that politicians and technocrats must not set targets arbitrarily; they should do so in dialogue with stakeholders. Particularly when the desired change is complex (such as establishing an aerospace industry, transitioning to clean energy systems or switching to electric mobility), the public sector must coordinate the implementation of the numerous components of development. On such a base, market participants can then deliver technological and commercial innovations. The state can have a positive impact by:

- supporting research, staging competitions and calling for tenders to guide market players’ creativity in desired directions,
- shielding market players from risks,
- paying subsidies, which should be time-limited and conditional upon significant investments, and
- monitoring the impact of measures in order to fine-tune policy even better.

Such performance criteria obviously apply to green industrial policy too. In view of the global environmental crisis, green industrial policy must rise to additional challenges however. First and foremost, the costs of environmental pollution must be factored into every investor’s calculations. There are various instruments for making that happen. Examples include taxes on environmental impacts or systems for capping emissions and trading emissions allowances.

The problem is that environmental taxes or emissions trading can undermine competitiveness in certain sectors, especially if the costs cannot be passed on to other enterprises. The challenge is thus to draft smart policies. The burden on enterprises that are exposed to international competition must not be excessive, for instance.

On the other hand, eco-tax revenues can be used to cut other taxes.

When Germany initiated its “eco tax” on fossil fuels in 1999, some of the additional revenue was used to cut payroll taxes, which serve to fund state-run social-protection schemes. The reform therefore reduced non-wage labour costs. Polluting industries were made less competitive in financial terms, while labour-intensive industries became more competitive.

It deserves to be pointed out that environmental taxes always drive innovation. Enterprises reduce resource consumption and develop clean alternatives. If they do so ahead of their competitors, they have a competitive edge when other countries eventually tighten regulations.

Typically, green industrial policy is supposed to bring about systemic change. The aim is not just to modernise specific technologies, but to back off from a waste-generating “throw-away society” that consumes vast resources and dumps residues. The goal is to transition to a circular economy geared to reducing, reusing and recycling. Moreover, energy systems must no longer be based on fossil fuels. Transport systems too must switch from oil-based

private transport to new concepts based on public transport and electric mobility for the last mile (see Gihir and Bauer in D+C/E+Z e-Paper 2018/07, p. 32). This kind of systemic change calls for a particularly high degree of societal dialogue and coordination.

Green industrial policy is also special in the sense of distinguishing good and bad practices *ex ante*. By and large, industrial policy is normally technology-neutral. Market forces determine which technology prevails in a competitive environment. Matters are obviously different when clean technologies compete with dirty ones. In view of the clear societal preference, governments have reason to offer targeted support to specific technologies.

GUIDING HAND OF THE STATE

A core task of green industrial policy, moreover, is to remove dangerous technologies from the market. This includes phasing out the internal combustion engine, for example, and gradually replacing it with clean alternatives. It is certainly necessary to discontinue fossil-fuel subsidies (see Jha in D+C/E+Z e-Paper 2018/01, p. 38).

Another difference to conventional industrial policies lies in the urgency of action.

If global warming is to be kept below two degrees, the global economy must become carbon-neutral by the end of this century. The agenda for making that happen needs to be set in the next few years. It will not be done by simply relying on market competition. Powerful political incentives are needed to accelerate the transition. Pricing carbon and other environmental resources is important, but not sufficient as they do not repair well-known market failures for example in research and development or in coordinating complex system transitions. Relevant measures include massive support programmes to promote the development and roll-out of energy-storage systems, for example, or biofuel products that do not crowd out food production. Seen holistically, the green transition depends on governments assuming a proactive role in terms of guiding, coordinating and supporting market forces.

One of the primary – and most challenging – governance tasks is to organise this transformation in a way that ensures that social costs of adaptation do not rise excessively high. Wherever possible, the new alternatives should contribute to employment and prosperity at least as much as



Recycling – as here in Cape Town, South Africa – needs to play a greater role in a green economy.

the phased-out approaches did. The opportunities of the paradigm shift in economic policymaking must be grasped. Change in the private sector must be monitored. Inevitable hardships from structural change must be cushioned in ways that lead to the public's acceptance. In market economies, it is impossible to achieve everything by decree, and innovations essentially result from market competition. The implication is that governments should thus provide incentives that convince business and households to save resources, recycle waste, rely on clean technologies and stick to certified standards.

All summed up, the challenges that green industrial policy must rise to are

huge. For this reason, none of the world's national economies has yet made the transition to real environmental sustainability. The interest groups of those whose profits or wages depend on polluting activities are quite powerful. Even many consumers are not prepared to switch to sustainable consumption (yet). Developing countries, in particular, are highly sceptical about the short-term financial viability of the green economy. Those worries are exaggerated. Our new report provides evidence that socio-economic development can go hand in hand with a shift towards greener economies, and it shows how remaining trade-offs can be mitigated (see box below).

LINK

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How green industrial policy can boost prosperity

A new report drafted by international partners shows how green industrial policy could work in developing countries (see main article). Based on empirical evidence, it argues that green industrial policy can boost prosperity:

1. To a large extent, smart industrial policies depend on recognising structural shifts in markets early on and finding appropriate solutions before competitors do so. The green transformation of economic activity is underway worldwide. Wind and solar power are getting cheaper than electricity generated from coal and oil. In the energy sector, companies are now investing more in renewable energy generation than in conventional power stations, and that is so in developing countries too. Stock-market investors consider high carbon emissions a risk and factor such concerns into a company's share price. Environmental standards are

increasingly being adopted in global supply chains. Sales are booming for organic farmers. Developing countries would be well advised to appreciate these trends and draft policies accordingly.

2. All major tools of economic policymaking – eco

taxes, emissions trading, dismantling of environmentally harmful subsidies, gradual tightening of mandatory environmental standards – can be used in ways that reduce or even prevent adjustment shocks. When tightening environmental rules, governments can reduce burdens on business and private households in other areas. They can also offer support for the transition and time to adjust. The report is full of examples.

3. Greening the economy can ultimately lead to more employment. It is methodologically impossible to establish whether the new “green” jobs will outnumber the old “dirty” ones that are phased out. But it is clear that some green sectors will generate significantly more employment. A jobs boost will come from the circular economy, which will no longer dump waste. The alternatives to dumping are to repair broken goods and to collect, sort and recycle waste. Eco-friendly energy systems will also boost employment – through widely distributed investments (solar roofs, combined heat and power systems, improved insulation et cetera). Organic farming is labour-intensive as well. China's automotive industry is interesting in this context. The Chinese government is aggressively promoting the production of electric vehicles. One result is better air in China's cities. Another one is that the People's Republic is becoming a technology leader in important segments of the automotive industry. (ta)



There is growing business investment in renewable energies: wind farm in Ceará in north-eastern Brazil.

Straight talk on economics

Unlike many of his mainstream colleagues, Harvard economist Dani Rodrik is not only focused on market dynamics. He spells out things that sociologists and political scientists understand well and that policymakers should consider. Among other things, he demands policy space for developing countries.

By Hans Dembowski

In his new book “Straight talk on trade”, Rodrik points out that “markets depend on non-market institutions because they are not self-creating, self-regulating, self-stabilising or self-legitimising.” Perhaps the most important of the many things systems of government must ensure are:

- investments in transportation, communications and logistics,
- enforcement of contracts, and
- arrangements to bring distributional outcomes into conformity with social norms.

For such reasons, the scholar insists, “well-functioning, sustainable markets are

backed by a wide range of institutions that provide critical functions of regulation, redistribution, monetary and fiscal stability, and conflict management.”

These things cannot be said too often. Recent discourse tends to overemphasise the role of markets and belittle the role of the state. One reason is that economists often pretend to reveal universal truths, and policymakers believe that their formulas are more relevant than the insights of other social sciences.

Rodrik disagrees fundamentally. He argues that economics does not deliver truths that apply always and everywhere. In truth, economic insights are entirely context-specific since economists design mathematical models that help to analyse settings that are very narrowly defined. The results are very precise, but they only apply to an empirical situation that is accurately reflected in a model’s parameters.

The prominent professor appeals to his colleagues to make policymakers aware of this point. He argues convincingly that governance must be inadequate if policy-

makers fall for the platitudes of market dynamics always being preferable to state action. Getting the balance right is essential for tackling world-wide challenges such as globalisation, inequality, technological change, global warming and democratic accountability.

Given that he emphasises the relevance of national governance, it is no surprise that Rodrik does not offer policy blueprints for all countries. On the contrary, he calls for context-specific policy innovations. He wants leaders to move on from conventional thinking and embrace new ideas. Rodrik points out areas in which innovative approaches can help to overcome vested interests:

- For both developing countries and advanced nations, he proposes more investment in building and maintaining infrastructure. Public spending that builds assets, he argues, should not be confused with consumptive expenditure.
- Rodrik considers industrial policies favourably, in particular in regard to eco- and climate-friendly approaches (also see Tilman Altenburg and Wilfried Lütkenhorst in D+C/E+Z e-Paper 2018/01, p. 16). In his eyes, mainstream economists underestimate the extent to which government agencies in the rich world, including the USA in particular, have been driving technological progress and, by implication, the development of high-tech industries. The internet, for example, was initially developed for the US military. Public funding of university research often lays the groundwork for entrepreneurship moreover.
- Rodrik wants governments to become even more involved in innovation. He suggests that they set up equity funds to promote new high-tech businesses. In successful cases, they could then boost social-protection programmes with the returns from such investments. Gains and losses of innovation should be repackaged in a manner that benefits everyone.” He wants the “innovation state” to replace the “welfare state”.
- In regard to developing countries, Rodrik warns that it is not enough to rely on the commodities boom to drive growth. The key challenges, according to him, are “the acquisition of skills and education by the workforce, the improvement of institutions and governance and structural transformation from low-productivity to high-productivity”.



No coherent vision: BRICS leaders in Xiamen, China in 2017.

tivity activities (as typified by industrialisation)."

Rodrik is well known for the "impossibility theorem" he spelled out in 2007. The trilemma is that "democracy, national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full." In "Straight talk", Rodrik argues that democracy should be the priority – and it is impossible to achieve at the global level. Accordingly, governments need policy space to draft prudent policies that respond to their people's demands and reflect specific national circumstances.

Technocratic governance that subjects countries to international treaties that basically endorse the demands of international investors must undermine people's trust, he warns. In this view, global and bilateral trade agreements have become intrusive as rules on investor rights or intellectual property, for example, excessively restrict developing countries' policy space.

Ultimately, Rodrik calls for a different kind of globalisation. He wants the interna-

tional community to promote democracy instead of maximising the scope for foreign trade and cross-border investments. In his eyes, the EU must choose between either devolving economic policymaking back to its member states or democratising decision-making at the EU level.

LACKING LEADERSHIP

The way Rodrik challenges conventional wisdoms is inspiring. His proposal for redefining globalisation looks utopian however. According to the professor's assessment, the established economic powers have lost the dynamism and the credibility to lead the global community, and Donald Trump's erratic presidency of the USA is compounding the problems. At the same time, Rodrik does not see the BRICS (Brazil, Russia, India, China and South Africa) rising to the leadership challenge. He considers them to be stuck in simply opposing the west, without offering a coherent vision. In general, he finds that every BRICS country is only pursuing its narrowly understood national interest.

Moreover, he writes that the authoritarian regimes of China and Russia lack the moral authority required to for international leadership.

If the G7 can no longer lead and the BRICS are not ready to do so, who is supposed to drive the transformation to democracy-promoting globalisation? And does it matter that major powers – including India, Brazil and most prominently the USA – are currently becoming more authoritarian rather than more democratic? There are no easy solutions, whether at the global or national levels. But Rodrik's demand that policymakers should look for – and test – innovative approaches certainly makes sense.

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Indian industries have progressed fast in recent decades.

Page 27



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