

# D+C

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COOPERATION

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China has been  
outperforming India  
for a long time

## SOCIAL THEORY

Reconciling functional  
differentiation with the  
common good

## MUNICIPAL AFFAIRS

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## FOCUS

# Sustainability and finance

## Long-term thinking

Entrepreneurs must consider what impacts their operations have on the environment and society, and they must ensure their companies stay financially viable. The Nigeria-based Tony Elumelu Foundation promotes these causes in cooperation with start-up companies, as chief executive Ifeyinwa Ugochukwu writes. The financial sector in general must contribute to achieving the Sustainable Development Goals, argues Kathrin Berensmann of the German Development Institute. Criteria for identifying sustainable financial products are needed – and they should be applied internationally. Long-term perspectives must matter more than short-term profits. **PAGES 18, 19**

## Boosting digitalisation

Covid-19 shows once more just how important sustainable development is. By supporting small and mid-sized enterprises, the German development finance institution DEG is committed to making it happen, as its board member Monika Beck elaborates. **PAGE 22**

## New breathing space

Argentina just escaped sovereign default thanks to a restructuring agreement with international financial institutions. Much more must happen to solve the underlying problems, warns José Siaba Serrate, who teaches economics at the University of Buenos Aires. **PAGE 24**

## Coherent strategies needed

African governments must rise to several daunting tasks. They must make their nations' economies more productive, gear them to sustainability and ensure their own finances stay balanced. Dereje Alemayehu of the Global Alliance for Tax Justice told D+C/E+Z in an interview that African governments must assume responsibility and adopt coherent development strategies. A favourable international environment is obviously helpful. **PAGE 26**

## Consider the quality of debt

Even in a global pandemic, across-the-board debt relief does not make sense. Decisionmakers should consider what was achieved with a government's debt, state Leny van Oijen and Christian Penda Ekoka, two development consultants. Unless lessons are learned from past experience, new debt problems will keep emerging and countries will stay stuck in poverty. **PAGE 28**

# No ethics, no sustainability

The two terms “financial sustainability” and “sustainable finance” sound similar, but mean different things. Financial sustainability is about a person or institution staying able to fulfil financial obligations, while sustainable finance stands for a niche market of the financial industry and is synonymous with “ethical investing” or, more recently, “ESG investing” (the three letters stand for taking into account environmental, social and governance impacts).

In the past, the professional community did not link the two issues, but that is changing because of fast global warming. Storms, floods, droughts, wildfires et cetera are causing tremendous costs. These costs neither figure in market transactions nor in economic statistics. Indeed, repair spending often counts as “growth” whereas unrepairable damage tends not to figure at all.

Central bankers worry that extreme climate events may undermine the stability of the financial system (see Hans Dembowski in Monitor section of D+C/E+Z e-Paper 2020/03). They know that such events are becoming ever more likely and that the financial industry’s risk models systematically underestimate them. The models are based on past experience, which does not offer useful guidance in a fast changing environment. Moreover, the models do not take into account so called “stranded assets” that are losing value because of the damage their use causes. As central bankers know all too well, underestimated risks can undermine financial stability. That happened in 2008, after banks had done their best to make mortgage risks invisible.

It is becoming ever more obvious that investing without concern for ESG impacts is indeed unethical. It means disregard for likely damages. When other parties bear those costs, their financial viability suffers. If, on the other hand, the culprits are eventually forced to pay compensations, that will threaten their own financial sustainability. That is one reason why private-sector corporations are increasingly shying away from fossil-fuel investments.

The Covid-19 pandemic has shown once more how forceful external shocks can be. Lockdowns limit the spread of infection, but they also reduce businesses’ revenues. Things get worse as jobs are lost and purchasing power evaporates. In such a scenario, unrestrained market dynamics lead into ever deeper depression, and government spending becomes essential – both in terms of social protection and business subsidies.

The world economy never quite recovered from the 2008 crisis. A lasting impact is excruciatingly low interest rates. Many blame central banks because they want to stimulate economies with cheap money. The underlying problem, however, is that long-term interests are low. They are not dictated by central banks, but result from market dynamics. As private investors, especially in advanced nations, have been backing off from large real-economy projects, demand for long-term credit has been weak.

Governments should take advantage of this situation, borrow cheap money and invest heavily in the kind of infrastructure we need to make economies sustainable. Government debt is not inherently bad. It is indispensable for protecting employment when aggregate demand is too small, and it is needed to build essential public infrastructure. Of course, debt is never risk-free, so government debt too must be handled responsibly.

One thing is certain in our uncertain times: these issues transcend national borders. They require global cooperation and solidarity.

► 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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## Debate



### Activists see a new dawn

The international community has condemned the military coup in Mali. Many people in the country, however, feel that their demands are now finally being heard. Grit Lenz of Fokus Sahel, a civil-society network in Germany, sees opportunities for reforms and warns that sanctions must not hurt civilian people.

PAGE 7

## Tribune



### China is ahead of India

China and India are the world’s two most populous countries. Together, they account for one third of humankind. Both countries have basically been shaping their fate independently of the imperial powers since the late 1940s. Statistics prove that Communist China has outperformed formally democratic India, writes Praveen Jha of the Delhi-based Jawaharlal Nehru University.

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### Shared experience

Aachen in Germany and Cape Town and South Africa are sister cities. Exchange of staff is designed to improve cooperation and help both cities transition to sustainability. Those who took part consider the experience positive. Several-society activist Gabriele Schütz-Lembach and scholar Ulrike Devers-Kanoglu assessed matters.

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Photos: picture-alliance/AP Photo; picture-alliance/ZUMAPRESS.com|Xu Jimbo





Minister Gerd Müller visiting a waste disposal site in Accra, Ghana.

GERMANY'S FEDERAL GOVERNMENT

## Encouraging enthusiasm

**Gerd Müller spells out progressive ideas in his new book. This conservative policymaker is Germany's federal minister for economic cooperation and development.**

By Hans Dembowski

Müller belongs to the CSU, the Bavarian Christian Democrats, who tend to be a bit more right-wing than its ally, the CDU, the party of Chancellor Angela Merkel. However, he is definitely not in thrall to the kind of populist ideologies that Conservatives in Britain or Republicans in the USA have fallen for.

The German title of Müller's book means: "Rethink – issues of humankind's survival". The introduction's headline states: "It is five past twelve". The author argues that global crises have escalated to a point where harm can no longer be prevented, though it can still be reduced. Issues at stake include the climate crisis, refugees and population growth, for example. Müller wants every effort to be made to minimise the damage. It fits the picture that he fast

demanded that Germany provide shelter to more refugees after the devastating fire in the Greek camp Moria this month. The book was published before the fire, of course.

To a large extent, Müller reports what he has seen. He is not an elitist who never leaves the comfort zone of government buildings. He has a pattern of visiting refugees in improvised camps, patients in makeshift slum hospitals or garbage recyclers on waste disposal sites. He engages with people suffering misery and invites readers to empathise. Müller, who is 65 years old and intends to retire next year, makes strong statements. According to him, waste exports from rich countries to poor ones should have been stopped long ago. He warns that, if global markets are not regulated, profits will be maximised to the detriment of the natural environment in faraway countries. He insists that developing countries are suffering the impacts of climate change which they did not bring about. According to his assessment, the number of 20 million climate refugees around the world today may fast rise to 100 million.

His party, the CSU, has a long history of courting farmers, but Müller leaves no doubt that EU farm subsidies are excessive and that the EU should do much more to promote sustainable development in poor countries, and especially in Africa. He states that both continents must come to terms with the history of colonialism in a way that allows EU and African Union to forge a strong, productive and lasting partnership.

Müller emphasises that Europe's future depends on Africa's future. European countries will fare much better if the neighbouring continent flourishes. African disasters have repercussions in Europe. Müller points out, however, that the media are overeager to portray misery, but tend to miss African opportunities.

In view of population growth, Müller declares that active family-planning must no longer remain a taboo. He writes that this is something he tells all of his international partners, whether they are presidents or ministers. For a devout member of the Catholic Church, that stance is not trivial. He also shows a keen interest in interfaith dialogue, reinforcing the humanitarian values that are inherent to all world religions but are far too often overshadowed by polarising identity politics.

This book is encouraging because this cabinet member spells out with enthusiasm what can and must be done. He takes pride in what his ministry has achieved, for instance regarding reform partnerships with major African countries or the enforcement of social standards in supply chains. At the same time, he leaves no doubt that much more must happen. Close to the end of the book, he lists the Sustainable Development Goals that the UN General Assembly adopted in 2015, from SDG 1 (eradicating poverty) to SDG 17 (building global partnerships).

German citizens are Müller's target group. He wants to convince them, stresses tangible action and does not deviate into expert debate. According to him, we know what needs to be done, and it is high time we did it. One hopes that his colleagues in the federal cabinet will pay attention.

### BOOK

**Gerd Müller, 2020: Umdenken – Überlebensfragen der Menschheit (Rethink – issues of humankind's survival). Hamburg, Murmann.**

INTERNATIONAL COOPERATION

# New partners, global goals

**Redesigning international cooperation serves several purposes, including, for example, better involving countries that graduate from low-income status or transcending the asymmetric aid mentality.**

By Luiz Ramalho

International cooperation has been changing in recent years. Reasons include the shifting balance of global power and the United Nation's adoption of the Sustainable Development Goals. A recently published book assesses such trends. Its title is „Trans-

Mexico, Brazil and China as well as 25 other countries should be affected in the course of this decade.

Further cooperation with these countries is important, and Germany's Federal Ministry for Economic Cooperation and Development (BMZ) is aware of the matter. It recently updated its strategy (see Hans Dembowski in Monitor section of D+C/E+Z e-Paper 2020/07), introducing a new cooperation category called "global partnerships" for this group of countries. According to the BMZ, the idea is to tackle global challenges and promote global public goods,

Americas consider the global framework in which cooperation takes place and assess major factors that influence it. They discuss the relevance of multilateralism in an era of growing nationalisms. In spite of rather different backgrounds, the authors come to some shared conclusions. They basically agree on the following points:

- New governmental and non-governmental players have entered the arena of international cooperation, so new patterns of partnerships have emerged. Multi-stakeholder dialogue is an example.
- A new division of labour is emerging. It transcends vertical donor-recipient attitudes and makes thinking in terms of North and South obsolete. The universal approach of the SDGs exemplifies this trend.
- The new scenario requires new formats for cooperation. Triangular cooperation, which involves an established donor, an emerging market and a low-income country, is an example. It may yet be rare, but it is proving its worth. It is noteworthy, moreover, that ever more fields of policy-making will be affected as conventional development cooperation increasingly becomes broader international cooperation due to countries graduating from ODA.

As the book illustrates, global goals are becoming ever more important. Achieving them will require more – and more intense – cooperation by countries with middle and high incomes. Sharing knowledge and experience is of increasing relevance, with all partners contributing to joint learning. The precondition is that countries in the global North appreciate that they themselves must learn. The book suggests that conventional development aid will stay relevant for least developed countries, but must nonetheless adapt to the changing global context.

REFERENCE

Kolsdorf, J., Müller, U. (eds.), 2020: *Transforming international cooperation. Thoughts and perspectives on moving beyond aid.* Nomos eLibrary. <https://www.nomos-elibrary.de/10.5771/9783748908388/transforming-international-cooperation?hitid=0&search-click>



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China is expected to become a high-income country soon: shops in Jianshui in Yunnan Province.

forming international cooperation“ and it is the result of a GIZ research project.

The core issue is countries' graduation from being eligible for official development assistance (ODA) into the categories of middle- and high-income countries (see Michael Krempin in Focus section of D+C/E+Z e-Paper 2019/07). The (OECD) reckons that

including climate protection and environmental protection in general. This debate is not new. After the turn of the millennium, the BMZ used the term "anchor countries" in a similar way.

The book goes beyond issues of ODA graduation, however. Contributors from 15 countries in Africa, Asia, Europe and the



## So as not to forget

Guatemala is no stranger to violence. From the brutal Spanish conquest in 1511 through the bloody civil war of 1960 – 1996 and on to the current plague of gang-related violence, acts of bloodshed have repeatedly shattered the peace.

Corruption, drug trafficking and extortion by powerful criminal groups remain serious problems in Guatemala, prompting many people to try to flee the country, according to Human Rights Watch, a NGO.

Against this background, it is worth taking a close look at the Casa de la Memoria, a museum in one of Guatemala City's poor neighbourhoods. Its aim is to bring Guatemala's strife-torn history to life. Under the slogan "para no olvidar" ("so as not to forget"), the museum explores some of the most painful episodes in the country's long history of internal conflict.

The installation is supported by the Washington, D.C.-based Centro Para la Accion Legal en Derechos Humanos (CALDH – Centre for Legal Action in Human Rights), a human rights advocacy group.

The museum's curators and sponsors do not shy away from the most painful parts of Guatemala's history. The themes include the Spanish conquest, persistent attacks on indigenous Mayan communities, a series of harsh dictatorships, the 36-year civil war and violence on the streets.

These themes are illustrated in innovative ways. For example, one exhibit shows a large collection of 16<sup>th</sup> century

swords, as well as a series of ropes that recall forced conversions of indigenous populations to Christianity. The ropes were used to hang those who refused to accept the conquerors' faith.

Other exhibits focus on the civil war of the 20<sup>th</sup> century. In that conflict, government forces committed widespread human rights violations against civilians, particularly indigenous populations, leading to 200,000 deaths.

One of the rooms shows a hastily-abandoned house, with belongings strewn about and silhouettes of family members who were forcibly taken away. Nearby stands a whirlpool with Mayan clothing on top, representing the kidnapping and subsequent disappearance of many civilians.

The exhibits include plaques with individual testimony recounting acts of rape, kidnapping and murder during the civil war.

There are also uplifting sections. One exhibit highlights individuals who fought against the violence, such as Monsignor Juan José Gerardi Conedera, a Roman Catholic bishop who brought many human rights abuses to light.

The museum's message is that knowing one's history helps to prevent repeating it. The museum focuses its outreach on young people, using youthful volunteers to provide tours and carry the message.

To become tour guides, volunteers take a five-day training course. One of the graduates is 19-year-old María José Arismendez. "What I learned at school was not enough; I wanted to know more," she says. "As a tour guide, I have learned the background of events in Guatemala's history."

She adds, "finding this place where you can learn about our culture in a critical way is very important. You can learn about who we really are as Guatemalans, how our ancestors thought and lived, what they believed in, what they suffered through, and why we are who we are today."



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CHANGE OF POWER IN MALI

## Civil society sees new dawn

**The international community has condemned the military takeover in Mali. But most of the people of Mali perceive it as a political breakthrough for their demands. Mali should not be rushed into hasty elections and should not be hit by sanctions that harm the people.**

By Grit Lenz

On 18 August, President Ibrahim Boubacar Keita and the entire government of Mali resigned under pressure from the military. The Comité National pour le Salut du Peuple (CNSP – National Committee for the People's Salvation) took over the reins of government and said it would lead the country during a transition to parliamentary and presidential elections.

These events were preceded by mass protests by a broad coalition of civil society and political opposition. Initially the protests focused on electoral fraud, corruption and governance deficiencies, but later they evolved into demands for the president's resignation. The government reacted to the demonstrations with massive police violence. At least 14 people were killed and more than 100 injured. The military takeover, in contrast, was almost bloodless.

The international community fundamentally opposes power changes forced by military means, as was the case in Mali. Focus Sahel shares this position. But we also recognise that most Malians do not see the power takeover as illegitimate, but rather as a political breakthrough for their demands.

In response to the change of power, the Economic Community of West African States (ECOWAS) imposed economic sanctions and border closures. These are problematic. FONGIM, an association of international NGOs in Mali, points out the serious potential consequences of these measures. It calls for ensuring that the sanctions do not aggravate the country's humanitarian crisis or restrict people's freedom of movement.

It is also important to ensure that Mali is not coerced into hasty elections by international pressure. It will take time for the

country to come to terms with the abuses of the past and to reorganise its political parties.

There is justifiable scepticism as to whether the military government is actually committed to implementing the announced transition process. Moreover, it remains to be seen which military and political factions will try to exploit the current situation for their own interests. In any case, Mali will need international support to overcome its deep crisis.

We call on the German government and the European Union to consider the following appeals from Malian civil society:

- Avoid seeking a restoration of the overthrown government, particularly since Keita has declared that he is no longer available for the presidency.
- Regard the current situation as an opportunity to overcome political deadlock, loss of control and an ever increasing spiral of violence.
- Critically examine its own engagement in Mali, since this crisis could have been avoided. This includes recognising that military training, arms supplies and troop deployments have not brought sus-

tainable peace. The focus should be on initiatives for civil peace and dialogue.

- Call upon the military government to initiate political and institutional reforms – including constitutional reform – as part of a peaceful transition process and to put the needs of the people first. This process requires a clear roadmap and time frame. The interim government should guarantee protection of human rights and punish past human-rights violations.
- Refrain from imposing its own sanctions and work towards the lifting of economic sanctions and border closures imposed by ECOWAS, as these aggravate the humanitarian crisis. Where needed, sanctions should be imposed specifically on those in power in order to exert pressure for a transfer of power to democratically legitimate structures.
- Prevent embezzlement by better control and transparency in the administration of funds in future development projects.
- Offer support that strengthens the Malian economy and creates better economic opportunities for the people. That should include a substantial increase of funding.



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The military under Colonel Assimi Goita (centre) has taken over the government in Mali.



**EU Commission President Ursula von der Leyen and the chairperson of the African Union Commission, Moussa Faki Mahamat, at a meeting in February in Ethiopia.**

## AFRICA-EUROPE PARTNERSHIP

## Building bridges

**There is an urgent need for close and equitable collaboration between Africa and Europe. The EU Commission has repeatedly announced that it will raise the AU-EU partnership to a “new level”, but little has been done so far. Therefore civil-society actors on both continents must become even more involved in political processes like the upcoming AU-EU summit.**

**By Bernd Bornhorst**

EU Commission President Ursula von der Leyen began her term in office with a highly symbolic move: during her first trip abroad, at the end of 2019, she visited the African Union (AU), a trip that was followed up in February 2020 by a meeting between members of the AU and EU Commissions.

But more than half a year later, the momentum in African-European relations has dissipated. Neither the EU Commission nor the European governments have proposed forward-looking plans. Even under the German EU Council presidency, tangible efforts are lacking. Instead, contentious negotiations over the EU budget and the coronavirus recovery fund have revealed that the EU is neglecting its “partner countries” in the global south.

There are, however, many shared concerns that should be addressed: the response to the coronavirus pandemic, multi-lateralism and climate protection, fair trade

relations and safe migration routes, gender and generational equality, stemming corruption and illicit financial flows, digitalisation and participation, as well as confronting the colonial past.

At the AU-EU summit originally planned for the end of October, the course should have been set for a fair partnership. But the meeting has been postponed to 2021 at short notice as both sides seem to have other priorities. In one way or another, an “equal partnership” is only possible if local perspectives and voices play a central role. The postponement of the AU-EU summit now at least offers an opportunity to involve civil-society actors much more.

African and European civil societies are important actors who make constructive contributions to political processes, as their efforts during the coronavirus pandemic clearly show. Civil-society actors are helping to slow the spread of the virus and absorb its negative social impacts. In many African countries, initiatives like #FollowTheMoney (Nigeria) and 211CHECK (South Sudan) were developed to examine the use of coronavirus relief funds or information about the pandemic.

New forms of digital cooperation can help harness the knowledge of local people and promote political participation. VENRO, the umbrella organisation of development and humanitarian aid non-governmental organisations (NGOs) in Germany, tapped into this dynamic and organised the

multi-week Digital Africa Forum. The discussions between approximately 70 NGOs from Africa and Europe formed the basis of a position paper on Africa-related policy addressed to the German EU Council presidency.

On 16 October, VENRO will also present the hybrid conference “Civil society driving change: Towards a new quality of the Africa-Europe partnership” with broad participation from policymakers and civil-society actors.

In its capacity as a digital bridge between the local and the policy level, civil society can render the African-European partnership more transparent and accessible. The over 1.6 billion people who will be impacted by the new Africa-EU strategy to be adopted at the next AU-EU summit will only benefit from it if participation is possible. For that reason, digital formats must support the inclusion of civil society.

Afterwards, meetings and projects will be needed in order to perpetuate relations between the two continents. The implementation of the AU-EU strategy must be reviewed on the basis of clear criteria and with the help of the Africa-EU Civil Society Forum. The forum’s mandate and capacities must be strengthened so that African and European representatives can participate equally in the monitoring process.

Germany’s federal government can already act on many of these points during its EU Council presidency. Doing so would be an important step toward raising the quality of African-European relations.

### LINKS

**VENRO Policy Paper, 2020: For a fair partnership between Africa and Europe.** [https://venro.org/fileadmin/user\\_upload/Dateien/Daten/Publikationen/Positionspapier/Positionspapier\\_06-2020\\_\\_en\\_WEB-UA.pdf](https://venro.org/fileadmin/user_upload/Dateien/Daten/Publikationen/Positionspapier/Positionspapier_06-2020__en_WEB-UA.pdf)  
**VENRO conference: Civil society driving change (16.10.2020).** <https://venro.org/servicebereich/veranstaltungen/detail/africa-europe-civil-society-conference-2020-civil-society-driving-change-towards-a-new-quality-of-the-africa-europe-partnership>



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Hong Kongers have been rallying for civic liberties for many months.

#### PROTEST MOVEMENT

## Fighting for democracy

**Many countries are ruled by authoritarian autocrats, but civil society is rising up against them in many places. Such activism requires courage and determination, because the regimes often resort to brutal repression. All too often, protesters suffer violent abuse and end up in detention.**

By Sabine Balk

Belarus is currently getting global attention. Week after week, masses of citizens are demonstrating against Alexander Lukashenko, the president who has been in office for 26 years. His regime quite obviously manipulated elections in August and claims that he was re-elected by 80% of the voters. Hundreds of thousands keep rallying against election fraud, and Lukashenko was unable to suppress the demonstrations with police violence. More recently, he has started to arrest opposition leaders. Some of them have fled abroad.

Africa too has seen demonstrations against rulers who cling to power. Mali is an example. When it became obvious that President Ibrahim Boubacar Keïta had lost

people's trust, the military staged a coup. The Junta now speaks of a transition period of 18 months. The future of this West African state is obviously uncertain.

Anti-government protests also rocked Lebanon, Israel, Thailand and Bulgaria in recent months. Typically, young people demand more say in public affairs. They resent ossified structures and demand a better life.

In Algeria and Sudan last year, similar movements caused the downfall of presidents who had been in power for a very long time. Appointing a transitional government did not help Algeria's Abd al-Aziz Bouteflika. Now a constitutional referendum is to be held in November. Sudan's military toppled Omar al-Bashir after mass protests. He had ruled as a ruthless dictator. Now the transitional government is trying to bring about peace. It has indeed concluded agreements with several rebel groups in August. In both countries, a democratic future is now possible, though it is not guaranteed.

Unrest and instability are also evident in Latin America. Frustration with deep inequality is a driver of protests, and so is the demand for more democratic participation.

In Bolivia, a transitional government which is led by right-wing populist has promised elections, but observers note that its governance has been becoming increasingly authoritarian. In Venezuela, left-wing populists are clinging to power. The democratic legitimacy of several other governments in the region is fragile, and so is the rule of law.

Protests inspire hope. They often deliver results. The more people become involved in a movement, the more forceful it becomes, and those in power find it ever harder to ignore. Depressingly, some regimes prefer waging war on their own people. Syria is an example – with countless victims. That regimes of this kind find support from the likes of Russia and China compounds the problems.

In Hong Kong, masses of people have been rising up against the Chinese government which no longer accepts the former British colony's special democratic rights. The security forces have been responding with teargas, water cannon and non-lethal ammunition.

A few years ago, democracy movements around the world would have enjoyed at least rhetorical and diplomatic support from Western powers. However, principles of democracy and the rule of law are currently at risk in London and Washington. Prime Minister Boris Johnson has announced he wants to pass a national law to override binding clauses of the withdrawal agreement that he concluded with the EU. Beijing will read this as an invitation to do away, in the name of sovereignty, with Hong Kong's special status. That status, after all, was agreed with Britain in an international treaty at the end of the 1990s. As for the USA, high-profile Op-Ed writers there are warning that the elections in November may lead to scenes as are now being witnessed in Belarus. They are not joking; President Donald Trump's authoritarian tendencies are well known.

In the current global setting, the EU must rise to its responsibility. In cooperation with its member countries, it should do more to support democratic ambitions around the world.



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By 2018, agriculture only accounted for a little more than a quarter of the labour force in China.

ASIAN GIANTS

## China is ahead of India

**China and India are the world's two most populous countries. Together, they account for one third of humankind. Both countries have basically been shaping their fate independently of the imperial powers since the late 1940s. Statistics prove that communist China has outperformed formally democratic India.**

By Praveen Jha

It is generally agreed that “growth” and “development” are not the same. The former term has a narrow, strictly economic scope, whereas the latter also relates to a broad range of other indicators of well-being, including social, political and cultural aspects. However, scholars disagree on how growth and development are interrelated. Relevant questions include: which of the two comes first? How can policymakers bring both

about? What is the role of the market? And what is the role of the state?

Comparing China and India helps to understand these issues better. This brief essay summarises some insights from the long-standing, controversial and complex debate concerning the two countries’ development trajectories. But two fundamental truths, which are both borne out by historical evidence, need to be stated first:

- Both the market and the state have had profound roles in promoting growth and development. It does not make sense to think in terms of either/or. What really matters is the appropriate balance between the two. The respective roles, moreover, are not permanently fixed, but keep evolving. Governments clearly have a huge responsibility for ensuring that the prerequisites for dynamic market interaction are in place. Indeed, exclusively market-driven growth

occurs very rarely, if at all. Especially in the early to middle stages of economic transformation, markets on their own hardly address very basic concerns, such as building the kind of infrastructure that serves all or ensuring minimal social protection for everyone. At the same time, climate change and other harmful global environmental trends show that market transactions all too often have unintended side effects. Governments definitely have a role to play.

- It is a fallacy to equate socialism with authoritarianism and capitalism with democracy, as western observers tend to do. Both equations are profoundly misleading. Democratically elected governments have opted for socialist policies, and autocratic rulers have endorsed market principles. Moreover, there is neither a clear correlation of democracy with developmental success nor one of despotism with failure. In either scenario, the kind of market-state synergy that facilitates development may occur (see box next page).

The empirical evidence shows that development success results from the interplay of market dynamics with government action. Given the right synergy, basic needs



## Poverty in a formal democracy

According to western conventional wisdom, democracy is good and dictatorship is bad. This simplistic distinction is not helpful for understanding different levels of progress achieved by China and India in regard to poverty alleviation in the past seven decades.

India is a parliamentary democracy according to its constitution. Nonetheless, our democracy is substantially flawed. Government agencies have a reputation for corruption. To a considerable extent, the poor are politically marginalised. Among others, the reasons include:

- traditions of the hierarchical caste system and
- their extreme social and economic vulnerability.

In India's representative democracy, the poor have always been underrepresented. Their human rights, moreover, are hardly protected. That the legal system largely operates in English affects them particularly hard. To a large extent, it is still only the educated and prosperous classes who can make full use of constitutional liberties.

It is true that multi-party elections have provided opportunities for parties that predominantly represent lower castes and marginalised communities. Nonetheless, the political system has an anti-poor bias. The truth is that formally democratic India has a pattern of neglecting the needs of the poor.

China's track record is mixed. Under Mao Zedong, good progress was made on ensuring mass access to primary education and basic health care. On the other hand, there

were policy disasters like the Great Leap Forward or aspects of the Cultural Revolution. Brutal oppression led to millions of deaths that would probably have been avoided, had there been scope for speaking truth to power and challenging the top leader's decisions.

Under Deng Xiaoping, governance remained "autocratic" but was more accommodating. The regime tested different approaches and then opted for those that showed good results. It did not tolerate explicit opposition, but nonetheless loosened the reins in many areas, and when discontent with environmental problems or labour relations escalated into protests, it strived to find solutions. The labour code it introduced in 2008 was an example. It addressed many concerns workers had. India's labour force would benefit from such a law. Indians who

visit China, moreover, find it striking that air pollution in Beijing today is not as bad as it is in many of our cities (see Aditi Roy Ghatak in D+C/E+Z e-Paper 2020/01, Focus section).

It is noteworthy, moreover, that the systems of governance were decentralised from the 1980s onward. In India, the state governments became even more important than they were already after central planning ended in the early 1990s, and China has developed a complex system of testing different policies in different regions. However, Indian governments must accommodate powerful interest groups, whereas China's leaders seem to have more scope for focusing on development goals.

A troubling trend in both countries is that the central governments have been becoming more authoritarian as well as more assertive in the past five years or so. India's current Prime Minister Narendra Modi wants to turn the country into a Hindu nation (see interview with Arfa

Khanum Sherwani in Focus section of D+C/E+Z e-Paper 2020/08), and China's President Xi Jinping is reversing progress made towards rule-bound governance (see Nora Sausmikant in Focus section of D+C/E+Z e-Paper 2017/02). He is adopting ever more refined systems to monitor his people, but apparently showing ever less interest in understanding what they want or need as his predecessors did.

China's repression of Muslim Uighurs is unacceptable, but India's treatment of Muslim Kashmiris is awful too. Dozens of people died in Indian pro-democracy protests and anti-Muslim riots in recent months. By mid-September, the repression of Hong Kong's pro-democracy movement had not lead to comparable bloodshed there. India's relatively free press means there is generally more information about abusive government action than in mainland China - and probably henceforth in Hong Kong too. pj



India's workers would benefit from a law like China's labour code: construction worker in Kolkata.



such as health and education can be taken care off at comparatively low levels of material prosperity. Indeed, Bismarck laid the foundations of western welfare states in the late 19<sup>th</sup> century in Germany when his country was recently unified and began to industrialise large scale (see my contribution in Focus section of D+C/E+Z e-Paper 2019/12).

For related reasons, Kerala has been topping the rankings of Indian states for literacy rates and life expectancy in recent years, though measured by its gross domestic product per head, it is only number nine. Observers agree that governance has been particularly good in Kerala, ensuring the appropriate synergy of state and market. As



will be shown below, the comparison of India with China also shows that social indicators do not simply depend on GDP.

India became independent in 1947, and China became the People’s Republic in 1949, after the communist People’s Liberation Army triumphed in the civil war. At the time, both countries were severely impoverished, not least due to the imperialist exploitation they had suffered for centuries. Until the 1980s, China’s economy was state-controlled, in contrast to India’s, which was state-led and mixed, with private-sector business operating with considerable liberty on markets.

In the early 1950s, standard economic indicators such as per capita income or infrastructure constraints were not much different for China and India, though India’s were generally somewhat better. According to World Bank data, both countries trudged along with reasonable success for the next three decades. Measured in US dollars at constant 2010 prices, China’s GDP per cap-

ita increased from \$141 to \$360 in the years 1961 to 1981. The comparable figures for India were \$335 in 1961 and \$438 in 1981. India was ahead, but advancing more slowly.

If one considers data for school enrolment, literacy, infant mortality et cetera, moreover, it is quite clear that China was outperforming India even by 1980. For example, life expectancy at birth was 67 years in China, but only 54 years in India. China’s literacy rate was 65.5%, but India’s was only 43.8%. Quite obviously, India’s higher per-capita income did not mean that Indians lived longer or better.

### THE COLOUR OF THE CAT

In the 1980s, both countries gradually changed their approach. In either case, the top leadership appreciated the “logic of the market”. China shifted from state control to a mixed economy, and India from a mixed economy to an increasingly market-driven system. Chairman Deng Xiaoping famously stated that the colour of the cat does not matter as long as it catches the mice, signalling a willingness to experiment with market forces, first in special economic zones, later throughout the entire country (see Ayumi Konishi in D+C/E+Z 2014/12, p. 460).

India’s policymakers, incrementally but steadily, pushed for pro-market reforms during the 1980s. That culminated in a decisive shift away from dirigisme after a financial crisis in 1991 (see Salman Anees Soz in Focus section of D+C/E+Z e-Paper 2018/08).

The new policies led to faster GDP growth. From the 1980s on, both economies have consistently been among the fastest expanding internationally. However, growth was more impressive in mixed-economy China than in increasingly free-market India. By 1991, China’s GDP per head was \$786 (at constant 2010 prices), while India’s was \$575.

Since then, the gap has widened further. The most recent data the World Bank makes available are for 2018, when China’s GDP per head was \$7752 and India’s was \$2100. Its statistics also show China leading in regard to social indicators. Life expectancy, for instance, was 77 years there in 2018, compared with 69 years in India. China’s literacy rate was 96.8%, but India’s only 74.4%.

Structural change has been much faster in China. The share of the workers in ag-

riculture dropped from 60% in 1991 to 27% in 2018. In India, that share only decreased from 63% to 44%. Possibly the most impressive feature of China’s structural transformation is that the country became the “factory of the world”. By contrast, share of manufacturing in India’s GDP and workforce has largely stagnated, while the service sector is now employing more people. The problem, however, is that many of them only have low-skill, low-income jobs.

Run by a communist dictatorship, China has clearly outperformed India both in terms of growth and social development. The communist regime has done a good job of maintaining macroeconomic stability, while striving to achieve several development objectives through an elaborated mix of industrial policy, trade policy and social-protection policies. It has fostered unprecedented leaps in higher education, research and development. Infrastructure improvement has been spectacular too. At the same time, the Chinese state still plays a much stronger role as owner and shareholder of major corporations than the Indian one does. Undeniably, the synergy resulting from market-state interaction has been very effective in the People’s Republic.

Today, both countries face huge challenges. Inequality is rising. Informal and insecure employment affects far too many people. Environmental problems including desertification, pollution, the impacts of climate change and others are increasing. In both countries, governance is becoming more repressive, moreover, and political antagonism between the two Asian giants has been intensifying in recent months.

Nonetheless, Indian scholars find China’s developmental progress impressive. On the other hand, Chinese intellectuals and civil-society activists – especially in Hong Kong – envy our “freedom of speech”. China’s regime used to argue that it prioritised economic and social human rights over political human rights in order to fight poverty fast. It cannot be denied that it delivered results. Today, unfortunately, neither the top leaders in Beijing nor Delhi emphasise human rights at all anymore.



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SOCIOLOGY

# Reconciling diversity and the common good

In a conversation with Anna-Katharina Hornidge, the new director of the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE), Hans Dembowski assessed the relevance of systems theory for understanding development.

Anna-Katharina Hornidge interviewed by Hans Dembowski

Functional differentiation is what distinguishes modern societies from pre-modern ones. The term means that social systems such as the economy, science or law operate according to their own logic. That makes them especially dynamic, which in turn facilitates broad-based prosperity and scope for many individual decisions on how to live. Are development and functional differentiation essentially the same?

No, I don't think so, but functional differentiation is certainly an important precondition for development. The core determinant is the powerful division of labour, not just between different sectors but between functional systems. The science system is geared to discovering truths, the economy to maximising profits and the legal system to law abidance. Functional differentiation results in a pluralisation of society and ultimately requires democratic discourse because top-down governance in an authoritarian style becomes impossible. In regard to careers and personal identities, merit, personal achievements and qualifications matter more than family, faith and ethnic affiliation. Many societies with advanced functional differentiation have strong, successful economies. Examples include the Scandinavian countries, Germany and Singapore. These countries mostly, though not always, are democratically organised. The point is that democratic discourse can resolve the tensions that arise between functional systems, even if that of course cannot be taken for granted. It thus makes sense for international development agencies to pay

attention to good governance, inclusive institutions, transparent decision-making and the recruitment of leaders according to merit, rather than family ties for instance. These things are essential for a nation to harness its full potential.

**Functional differentiation does not require democracy right from the start. One can use the term to explain China's spectacular success under Deng Xiaoping. His authoritarian development regime actually started separate branches of the state from one another, for example by testing certain rules in certain areas and creating an environment in which free enterprise became possible. To a considerable extent, property law and labour law were codified and no longer subjected to the regime's arbitrary whims. A capital market was established. The public education and health systems were strengthened, and in these fields government institutions do not restrict markets. They facilitate them. There is a human-rights dimension too. Beijing insisted for**

many years that social and economic human rights took precedence over civil liberties. And indeed, formal democracy may actually slow down functional differentiation in places where a huge share of the people remain excluded from public life due to poverty and a lack of education. That is also the case where powerful interest groups block change. I wonder, however, whether China still has a development regime today. I do not think Xi Jinping is bringing about more functional differentiation and more scope for independent action.

There are other examples of successful authoritarian development regimes. Consider Singapore, where I have done substantial research over the years and lived for some time. This city state is much smaller than China, of course. It calls itself a one-party democracy, and it has laid the foundations for impressive economic growth. Yet, market enthusiasts tend to overlook the fact that Singapore does not simply allow market forces free reign. The government redistributes wealth with determination. It has built strong, well-functioning and performing education and health-care systems. It ensures that there is enough affordable housing, attracts 'foreign talents' and strategically builds up economic sectors of future global relevance, such as biotechnology or creative industries. The rule of law is in force. Professional careers and personal status depend on merit, formal education and personal achievement. Markets must be in



Private condominiums and public housing projects side by side in Singapore.



embedded in such a functionally differentiated order to prosper, but they cannot create that order themselves.

**Authoritarian rule, however, does not automatically lead to effective functional differentiation. Pakistan, Egypt and Nigeria are countries that stagnated for decades under military governments. All too often, dictators merely exploit countries. Apparently, a development regime needs to have an idea of the common good.**

Well, the Singaporean state and the Singaporean society formed a tacit agreement after independence in 1965. The government's implicit promise was to ensure everyone's welfare for the price of renouncing selected civic liberties. The Asian values discourse in the 1990s fit that pattern too, stressing supposedly Asian values such as industriousness, frugality and family cohesion. Things are changing however. The recent election saw the opposition gain 10 of the 93 seats in Singapore's parliament. That used to be unimaginable. Whilst social inclusion and the integration of society are still being emphasised, society is beginning to support demands for democracy. It is noteworthy that development regimes – in contrast to right wing populists – normally stress common values that bridge ethnic or religious divides. A development regime does not thrive on social fragmentation.

**In theory, we expect progressing functional differentiation to lead to pluralistic exchange and eventually to democratisation. That has happened in South Korea and Taiwan, and the trend is perceptible in Singapore, but not in China so far.**

Western scholars tend to under-appreciate that more functional differentiation may cause disintegration. That is particularly true where social diversity is big to begin with – as in China or Singapore. Singapore is a multi-cultural and multi-ethnic city, so no one can take cohesion for granted. On the other hand, paternalism disempowers people and can obscure existing tensions. It was quite telling that Singapore largely managed to contain the Covid-19 pandemic, but then the virus started to spread fast in migrant workers' shelters. The government's idea of the common good had only taken account of its citizens. We can observe something similar in the EU. This alliance of democracies has a pattern of generally endorsing human



Chinese stock ratings: well-functioning capital markets require a minimum level of rule of law.

rights, while regularly disregarding the human rights of refugees at the same time.

**An authoritarian development regime typically emphasises nationhood, promising to make the country catch up with world leaders. Stressing one's own nation's interests, however, causes tensions in the global arena. In the jargon of systems theory, globalisation does not simply mean free trade. It stands for the functional differentiation of global society, and functional systems have indeed been transcending national borders for a long time. It is no coincidence that we need global solutions for global challenges such as climate change, financial instability, pandemics et cetera. The implication is that we need an understanding of something like a global common good. Do the UN's Sustainable Development Goals (SDGs) serve this purpose? And do they suffice?**

The SDGs are ambitious, and they certainly point in the right direction. However, broad-based support is challenged by the current crisis. Further, the language is rather bureaucratic, and multilateral decision-making is often cumbersome. An underlying reason is the divergence of values which makes it difficult to reach global consensus. At the same time, the Covid-19 pandemic shows just how crucial the SDGs are in terms of a shared vision of our common future. It also matters that the SDGs offer a coherent approach. Indeed, human, animal and plan-

etary health are mutually interdependent. Protecting them is a global common good. Unfortunately, the pandemic also means that fiscal space is shrinking, so it is becoming more difficult to achieve the SDGs.

**Aren't conflicts of interests even more destructive in multilateral affairs? You can't distil any set of values from the USA's current foreign policy. Its only evident aim is to boost the power of President Donald Trump. His party is in favour of free trade, unless its president introduces tariffs. It opposes deficit spending, unless that deficit results from its own tax cuts. It preaches family values, but stays silent when its president pays hush money to a porn star. Trump's style of governance is geared to undoing functional differentiation. Expert knowledge is made fun of, his family's interests are prioritised and any dissenter is declared to be an enemy of the people. Trump wants control of everything, but his policies are incoherent. They are only designed to boost his power and provide him with acclaim.**

That is a valid assessment of the current situation, but it is equally true that we have been grappling internationally with the serious divergence of values for a long time. The USA stresses individual freedom, whereas the state must have a leading role in Chinese eyes. Successful global governance geared to promoting the global common good requires more consensus and more compro-



mise. We need more exchange and more debate. We need to get to know one another better. The SDGs give us a glimpse of what the global common good should look like, but much must yet happen for them to become global guidelines for policymaking. Around the world, we must invest more in all forms of education, in line with the philosophy of enlightenment. Unless people are empowered to critically assess their own situation, they will not be able to make independent decisions. People need a solid education to cope with rapid change in their natural and socioeconomic environments. Moreover, education is a precondition for understanding what matters to others. Mutual empathy will help us to find shared solutions.

**I agree, but we will be accused of being Euro-centric if we refer to European enlightenment. It is unfortunately true that Voltaire, the important proponent of enlightenment philosophy, benefited from the slave trade. Yes, and Thomas Jefferson and other founding fathers of the USA were slave owners.**



**A slave owner and democratic revolutionary: the Smithsonian Museum in Washington displays statues of Thomas Jefferson and slaves, separated by a wall.**

Nonetheless, Jefferson wrote the beautiful words of all men being created equal and enjoying inalienable rights. This is a proposition that we should not fall behind of, while of course, we would add “women”, today. That he himself did not live up to his principles does not invalidate them. A good education system can spell out the crimes of the colonial age and endorse the validity of enlightenment at the same time. The Universal Declaration of Human Rights is based on the same philosophy. If we forgo it, we will not see development geared to the common good – neither at global nor national scale.



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MUNICIPAL DEVELOPMENT COOPERATION

# Learning from one another

**In 2015/16 and 2017/18, two exchange projects were run for Aachen and Cape Town municipal employees with the goal of strengthening cooperation at local government level. Participants feel that aim was achieved and that both municipalities are now better equipped to implement the Sustainable Development Goals (SDGs).**

**By Gabriele Schütz-Lembach and Ulrike Devers-Kanoglu**

On both occasions, six colleagues from each of the two municipalities spent a week in the respective twin city. In line with the programme’s name “Learning from one another – For a sustainable city”, they exchanged views on various aspects of sustainable urban development. These were:

- urban climate
- safe and clean city
- sustainability in everyday life
- economic development (economy/ green economy)
- university cooperation.

At the same time, the cities’ universities also ran student exchanges with the same focus as the municipal exchange programme. The exchange arrangements were funded by the state of North Rhine-Westphalia through Engagement Global as part of the Municipal Development Cooperation support programme. The municipal contribution was ten percent.

Reciprocal training sessions were arranged and operational work assignments performed during the visits. Participants also compared notes on the development

and implementation of work strategies and looked at how they could be usefully adopted by the partner city’s administration. Differences in social and economic environment that became apparent during the exchange were also taken into account.

The exchanges with colleagues had a noticeable effect on municipal employees. The shared experiences and personal encounters were felt to be very valuable. Excursions with colleagues from the same departments (but also with different areas of responsibility) were found highly motivating and inspiring for participants’ own work. Both municipal employees and students reported the following learning and development processes in the field of sustainability:

- They increased their knowledge in their own field of work or study and profited from interdisciplinary and cross-cultural stimuli.
- They received positive impulses for their own work.
- They experienced practical networking with other departments and gained



Aachen and Cape Town municipality staff participating in the exchange project.

a deeper understanding of the importance of cross-cutting tasks.

- They improved their language and communication skills.
- They found that commitment (willingness to perform tasks on top of their normal workload) and motivation (ambition beyond promotion and salary) increased.

These results suggest that the exchanges can be perceived as a very valuable resource for the development of competencies. According to a definition by Erpenbeck (2010), competencies are more complex than the mere existence of knowledge, skills or abilities. Instead, competencies are based on a complex interplay of knowledge, skills, values, experience and the will to translate this into practice. Responses of the municipal staff suggest that there has been remarkable gains regarding these aspects. The students' statements were similar; many said they developed a new perspective on fundamental values such as national and international distributive justice.

This is very important for the goals of the municipal exchange programme, which was established to strengthen municipal cooperation for sustainable development as well as to implement the SDGs. Promoting these goals calls for creativity, motivation and commitment on the part of municipal staff, which can hardly be

generated by the limited instruments of pay and promotion policy alone. Indeed, the values and convictions acquired informally by employees in the municipal exchanges probably play a much more important role.

As a matter of fact, both municipalities have seen a number of changes in recent months which directly benefit the improved implementation of SDGs and thus promote sustainability. There has also been a significant improvement in cooperation not only between the two municipal administrations, but also within the administrations themselves as well as with other stakeholders on a municipal level.

For example, the cultural and human-resources departments in Aachen are both keen to amplify the scope of positive stimuli. The human-resources department aims to compare HR development, training and recruitment with its partners so that all can learn from one another's experience. At the same time, the head of the cultural department is committed to a school partnership that will carry the positive experiences of exchange programmes into the education sector. In addition, one Aachen district has successfully adapted positive examples of civic participation from Cape Town, so it can be assumed that district workshops (with participants from local government,

associations, politics, trade and commerce) will be held more frequently in Aachen in the future.

Cape Town created and filled a staff position responsible for international partnerships (and fundraising for them). In Aachen, a visit to Cape Town was arranged for a delegation of business leaders, council members and senior administrators. The trip proved inspiring at all levels. The mayor of Cape Town, for example, motivated his counterpart in Aachen to follow Cape Town's example and publish a "Portfolio of Sustainability".

Such contacts are intended to create enduring and sustainable links between local government representatives, business leaders and policymakers. To achieve this, long-term political support and the availability of reliable responsible contact partners are important prerequisites. They are vital for ensuring continuous networking and the establishment and maintenance of contacts. Exchange participants pointed this out in a final workshop.

In a way, Cape Town municipality has responded to this call by creating the staff position for international partnerships. The move can only be a start, however, because the issue needs to be addressed as a cross-cutting municipal task. It is thus crucially important that all those involved, both policymakers and administrators, are fully committed.

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## Sustainability and finance

Capital markets are increasingly interested in what environmental, social and governance impacts an investment may have. The three letters ESG stand for such concern. Ethical investing used to be a niche market, but its criteria are attracting ever more attention. The plain truth is that the sustainability of financial systems – and indeed, entire economies

– hinges on preventing damaging side-effects of doing business. Public finance, of course, must be kept viable long-term as well.



This focus section directly pertains to all of the UN's 17 Sustainable Development Goals (SDGs).

Stock-market professional  
in Frankfurt.





## ENTREPRENEURSHIP

## Safeguarding long-term viability

The most renowned businesses around the globe were built on ingenuity, hard work, customers' demand for products and services. Obviously, money mattered very much as well. Entrepreneurs must not only consider the impacts their companies have on society and environment, they must also ensure their finances stay sustainable. This short essay explores some of the links between entrepreneurship and financial sustainability.

By Ifeyinwa Ugochukwu

The concept of sustainable enterprises is getting increasing attention. Both academic research and the financial industry are interested in this topic. One reason is public discourse. Many voices, especially in prosperous nations, have been promoting causes such as corporate social responsibility (CSR) and corporate citizenship. The first term stands for business leaders committing to social and environmental goals beyond maximising profits. The second term stands for a private-sector company being a worthy member of society.

A core tenet of this discourse is that a company's true success cannot be measured only in financial terms. The reason is that business practices may have negative impacts on people and the natural environment, and such impacts may even be felt in faraway places. Those who run the company must not ignore such "side effects". If they do, they may eventually have to pay a high price. Indeed, they are putting the very survival of their company at stake. That will be the case if

- customers begin to shy away from their products and services,
- they get entangled in costly legal disputes, with judges eventually forcing them to pay compensations, or
- regulators suddenly forbid harmful business practices.

Of course, various repercussions of this kind may be felt at the same time, and there are other ways that a company may be forced to reckon with harm and suffering it causes.

At the same time, every private-sector company's survival depends on its financial performance. This is as true as it ever was in today's fiercely competitive global markets.

The Tony Elumelu Foundation, of which I am the chief executive officer, aims to support African entrepreneurship. Among other things, we provide funding, mentoring and training. We promote innovative start-ups and help them to become competitive, if possible, at the global level. In this context, we believe that their business activities should be geared to contributing to the achievement of one or more of the UN Sustainable Development Goals (SDGs). This is in line with our primary philosophy that companies can and should do good while doing well.

Of course, financial sustainability deserves attention too. This term means that an organisation has the revenue streams and the access to financial services that it needs to stay afloat. Every organisation must have a plan for financial sustainability, irrespective of whether it is for-profit, not-for-profit or charitable. Only entities with sustainable financial models will survive. Important components of such a model include

- maintaining strong and mutually beneficial relationships with stakeholders,
- relying on a diversified mix of funding,
- building financial reserves and
- continuously assessing risks and operating costs in order to manage them well.

In the past, some not-for-profit and social enterprises have been relying on aid to a large extent. The era of aid, however, is reaching its peak, so the outfits concerned will have to cope with less and perhaps even no aid. We urgently need more research into this matter, and hopefully results will contribute to designing viable new business models. As the scholars Dean Shepherd and Holger Patzelt (2011) have written, it is imperative "to explore the role of entrepreneurial action as a mechanism for sustaining nature and ecosystems while providing economic and non-economic gains for investors, entrepreneurs and societies".

On the upside, it is encouraging that innovative approaches are creating new opportunities. Crowdfunding is an exciting example. It means that start-ups can take off thanks to masses of small contributions from many different individuals. Typically, the start-ups concerned reach out to those small-scale investors using the internet. We can expect artificial intelligence and machine learning to also help to make access to finance easier and more sustainable.

Digital connectivity is a blessing, and entrepreneurs should take advantage. Those



Ifeyinwa Ugochukwu with African entrepreneurs at the Tony Elumelu Foundation's Forum 2019.

who are digitally visible and adept will benefit, not least in terms of access to finance. The bad news is that many will fall through the cracks, especially in places with no or only limited internet access. Unfortunately, there still are many under-served areas in Africa and other developing world regions.

Where hard and soft infrastructures are weak, formal private-sector companies cannot succeed. Modern businesses do not only need internet connectivity. They also need reliable water and power supply and access to transport. Moreover, they depend on access to financial services, a minimum level of rule of law, and they will only find sufficiently skilled workers where public education is basically functioning. Social infrastructures matter too. Where health care is inadequate, for example, accidents and illnesses can become serious problems for business leaders.

Poor infrastructure does not only result from poverty. It perpetuates poverty. Economies that are dominated by informal sectors – as is typically the case in Africa –

cannot prosper. The informal sector is a trap that keeps people stuck in poverty (see interview with Christiane Laibach in D+C/E+Z e-Paper 2020/02, Monitor section).

In countries around the world, the Covid-19 pandemic has shown once more how unequal societies are. Poor and vulnerable communities are hit hardest. We must not accept inequality. Opportunities of any kind must be made more equal. This demand is an important part of the SDG agenda. Financial investors are wrong if they merely consider monetary returns, including from derivatives and futures markets. The real economy must be geared to solving problems – and the focus must be on people's productivity, capacities and skills as well as environmental health. No one must be left behind. Remembering our humanness is our greatest hope for achieving sustainability, including the financial variety.

The Tony Elumelu Foundation will continue to provide sustainable financing for start-up businesses in Africa's disadvantaged areas. That is where funds are needed

most. We provide seed capital to promising entrepreneurs. Africa must create innovative products and services, deliver them to customers, including around the world, and become integrated in global supply chains. Many of the enterprises that we have supported have proven their ability to contribute to SDG achievement. At the same time, their financial returns are good.

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#### SUSTAINABLE FINANCE

## International standards are important

**The transition to a sustainable economy requires a financial sector that supports the Sustainable Development Goals (SDGs) and the Paris Climate Agreement. Standards for when a financial product can be considered sustainable must be clearly defined and internationally agreed.**

By Kathrin Berensmann

Sustainable finance deals first and foremost with environmental projects, including those that serve adaptation to climate change. Secondly, sustainable finance supports projects related to social goals such as reducing inequality. Thirdly, it supports better governance, for example in public

institutions or private companies. In addition to these ESG (environmental, social and governance) goals, financial sustainability is another important part of sustainable finance.

Standards and criteria are needed to determine when a financial instrument is sound and sustainable. Such standards improve transparency and strengthen investors' trust. The criteria enable investors to differentiate between "green" and "non-green" activities and distinguish related financial instruments.

In addition, financial institutions themselves need standards for "green" financial instruments for purposes of internal budgeting, accounting, performance meas-

urement and environmental risk management. Of course, standards also enable policy makers to design tax breaks and subsidies in ways to ensure that financial instruments truly support sustainable development.

On the other hand, if the criteria defining "green" financial instruments are too strict, they can impede development of products such as green bonds (Berensmann et al., 2017).

In order to reap the full benefits of standards, different standards should be coordinated at an international level. It does not make sense for each country using its own definition of what a "green bond" is.

Currently, the most widely used international standard for green bonds are the voluntary Green Bond Principles. They were issued by the International Capital Market Association, a self-regulatory organisation for participants in the capital markets. Most other green bond standards are based on these principles.

The Green Bond Principles do not suffice, however. They are not specific enough, and they are only partly harmonised with several national, regional and international





Criteria determine when an investment is “green”. Wind farm in Jordan.

standards for green bonds. These include the ASEAN Green Bond Standard, the EU Green Bond Standard and the standards of the Climate Bond Initiative.

In addition to differing standards for green bonds, there are also different standards for assessing the “green” activities supported by those bonds. To prevent “green-washing” – false claims that an activity or product is environment-friendly – objective external evaluations should determine whether projects are legitimately “green”.

### EU ACTION PLAN

The European Union has addressed these problems. In 2018, the European Commission (EC) drew up an Action Plan for financing sustainable growth, including a strategy for a sustainable financial system (EC 2018). To create standards and labelling for envi-

ronment-friendly financial products, the EC established a technical expert group (TEG) for sustainable finance. The focus was on the following tasks:

- creation of a “classification system (taxonomy) for environmentally-sustainable economic activities”,
- development of an “EU Green Bond standard” linked to this classification system,
- “guidelines on corporate climate-related information reporting” and
- “EU climate benchmarks and benchmarks’ ESG disclosures”.

In March 2020, the EU presented a classification system for environmentally sustainable economic activities, which will become part of EU legislation. The classification system sets criteria for environmentally sustainable economic activities. It aims to help identify existing “green” activities

and improve access to finance for these activities. This, in turn, could help to extend low-carbon sectors and to decarbonise high-carbon ones (EC, 2020a).

It is commendable that the EU has established a market-wide, legally binding classification system for “green” activities and related financial instruments. A downside, however, is that these taxonomies are not internationally agreed beyond the EU.

It is obviously difficult to enforce a uniform classification system worldwide. After all, such systems do not take into account national differences in economic and technological development. On the other hand, if different classification systems are to be used for different countries, then those differences must be transparent. The EU has therefore convened an international discussion platform to coordinate development of appropriate classification systems

for “green” activities and related financial instruments in different parts of the world.

### GUIDELINES FOR INSPECTORS

To date, there is no binding international standard to guide the work of those who review “green” financial instruments. To close that gap, the EU has proposed a bond-accreditation system. It would be used by external auditors of green bonds (EC, 2019a). Ideally, this standard could also set a benchmark for green bonds on international financial markets.

It is not yet clear whether this initiative will succeed. To begin with, the bond-accreditation scheme would be limited to the EU. It would make sense to create an independent international institution to ensure international harmonisation of green

bond certification standards. Its members would not only be drawn from regulators, but also from the most relevant private-sector companies and public-sector institutions that are active in financial markets.

The EU’s Action Plan is an important milestone to help mobilise private capital for sustainable economic activities. Given the interdependence of international financial markets, these guidelines need to be coordinated with those of other regional and national authorities.

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## Huge financial needs

Sustainable financing will play a key role in the economic recovery from the Covid-19 pandemic. The European Council recognised the central role of the Green Deal – a plan to make

the EU’s economy sustainable – in its “Roadmap for Recovery” (EC, 2020b). The Green Deal includes a growth strategy designed to create a low-carbon economy.



Significant sustainable investment is needed to turn the Green Deal into reality.

To implement the Green Deal, substantial investments in sustainable activities will be required (EC, 2019a). Estimates vary concerning the amounts required. According to the UN Conference on Trade and Development (UNCTAD 2014), the developing countries need an annual \$2.5 trillion more than is made available to achieve the Sustainable Development Goals (SDGs).

Such sums cannot be provided by governments alone. For the transition to a more sustainable economy substantial private investment will be needed as well.

One of the greatest problems for mobilising private capital is the absence of harmonised standards for defining and verifying sustainable financial instruments (see main text). Other obstacles are a general lack of transparency and the different levels of information of investors and debtors. Due to a lack of transparency and disclosure it is difficult for regulators, non-governmental organisations and researchers to assess

sustainable financial instruments.

Moreover, relatively long-term sustainable investment projects do not fit the short-term time thinking of many savers and investors. Political risks are relevant too, including the lack of strategic direction, sudden national political changes, regulatory shifts or biased policymaking (Berensmann et al., 2017)

In developing countries, further difficulties arise from poorly developed capital markets with only rather few sustainable financial products. Moreover, they typically have too few investors, too little technical expertise and insufficient institutional capacities for evaluating financial products. kb

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## DEVELOPMENT FINANCE

# Developing local supply chains and digital services

The coronavirus pandemic is severely disrupting economic life in many developing countries. This makes it all the more important to keep up support for sustainable economic development in the countries of Africa, Asia and Latin America. Development-finance institutions such as DEG have a particular responsibility to do so.

By Monika Beck

DEG is a subsidiary of KfW group with a mission to finance and advise private enterprises in developing countries and emerging markets. It maintains a close dialogue with clients and partners to find solutions that are appropriate for their particular situation and challenge. To measure the developmental impact of the projects it co-finances, DEG has created the Development Effectiveness Rating (DERa). Calculated for every enterprise, it is based on five quantitative and qualitative indicators as criteria for sustainable development. Those indicators are:

- decent jobs,
- local income,
- market and sector development,
- environmental stewardship and
- community benefits.

DEG conducts an annual analysis of each enterprise's performance on these criteria. This furnishes data that enables it to measure the dynamism of development and progress. DEG can thus show development contributions over years and work with clients specifically on the sustainability criteria (see interview with Christiane Rudolph in D+C/E+Z e-Paper 2020/09, Monitor section).

DEG is currently working in this particularly difficult environment to maintain support for its clients and mitigate the impacts of Covid-19 with specially designed programmes. Those programmes – which are also supported by the Federal Ministry for Economic Cooperation and Development (BMZ) – include health-care schemes

and programmes for the continued payment of wages, for example in the textile industry in Bangladesh or Tunisia. DEG also offers liquidity support, helping companies to carry on paying wages or to cushion the impact of similar pressures.

Financing solutions are important for the manufacturing sector regardless of Covid-19. Local value and supply chains

need to be further developed. In the service sector, food retailing plays a key role. The Kenyan supermarket chain Naivas, for example, with more than 60 stores and around 6,000 employees, is a major customer for upstream suppliers: more than 90% of what it sells is purchased locally or within the region. In April 2020, DEG invested in the company to allow it to enlarge its number of stationary stores, expand online services and develop local supply chains. In the wake of that expansion, Naivas aims to create large numbers of jobs.

Also particularly important at present are finance and support for innovative companies engaged in expanding new technologies and, above all, digital networks. Those industries have been drivers of development in Asia and Africa for the past 10 to



Kenyan regional online shop Copia delivers customers' orders for collection at existing local stores like this one in the Nairobi region.

15 years. Some developing countries have already invested in relevant infrastructural development, especially for broadband and telecommunications but also for energy.

There is demand for digital financial services in developing countries and emerging markets because very few people there have a bank account or any other form of access to banking services. Thanks to digital technologies, the past decade has seen the emergence of new business models such as “mobile money”, which allows banking transactions to be conducted by mobile phone. Other digital finance products such as loan-processing solutions permit users to use their mobile phone for every step in the process, from offer of credit to approval and repayment. Fintech companies, such as LivFin in India, which is financed by DEG, also reach sole traders who currently have no access to the formal financial sector and rely on moneylenders, who often charge very high interest rates.

Digitised health services are also in demand, for example for early notification

of suspected Covid-19 patients – which is particularly important in developing countries because of the limited number of intensive care beds. Penda Health, one of Kenya’s largest private health-care providers, therefore relies on its strong social-media presence. The company increasingly channels coronavirus information and advice through both social media and call centres in order to reach as many people as possible and better manage patient flows in medical-care centres.

Supplying consumer goods to rural communities is another area of business ripe for digital networking. With networked order management and delivery systems, retailers can reduce distribution costs, and farmers and other producers can extend their market reach. Regional online stores such as Copia in Kenya deliver customers’ orders to existing local stores for collection, thus solving the “last mile” problem even in rural areas with no postal services (see interview with Sophia Waweru in the Focus section of D+C/E+Z e-Paper 2019/09). The

importance of digital commerce is particularly evident today, in times of the coronavirus pandemic. Copia, for instance, has seen a significant increase in sales.

Industrialised countries that are not among the “early adopters” could follow the example of less developed countries such as Kenya, Tanzania, India and Indonesia, where digital and networked communications are often quickly integrated into operational processes and are already in use as a workaday tool. In developing countries, meanwhile, European investors could prompt greater action on issues such as data and IT security, consumer protection and intellectual property protection. Intensified exchange would thus lead to even better solutions.



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**Covid-19 is exacerbating economic problems: small retail shop in Buenos Aires in late August.**

#### DEBT SUSTAINABILITY

## Buying time

**Argentina has escaped defaulting on its massive external debt. Nonetheless, a sustainable solution to its persistent debt problems is still not in view.**

**By José Siaba Serrate**

On the last day of August, Argentina reached a deal with private creditors to restructure almost all of the \$ 65 billion that it owes them. The deal ended Argentina's ninth default on its sovereign debt.

President Alberto Fernández, who belongs to the centre-left Peronist party, now has an opportunity to reform economic affairs in his country. His centre-right predecessor Mauricio Macri had tried to do so, but his more orthodox approach failed. The saga of recurring financial crises in Argentina is long and has often seemed never-ending (see Jorge Saborido in focus section of D+C/E+Z e-Paper 2018/08). Argentina definitely needs to fundamentally change its economy to end the cycle of borrowing, defaulting and restructuring.

In the August deal, private creditors such as global asset managers BlackRock

and Fidelity agreed to extend the maturity dates of Argentinian sovereign bonds, and to accept lower interest rates on newly issued bonds. The average interest rate was cut from seven percent to around three percent. The deal, spearheaded by Economy Minister Martín Guzmán, means that Argentina will experience a \$ 38 billion debt relief through lower interest payments by 2030.

One notable aspect of this deal is that private creditors did not require a prior agreement between Argentina and the IMF. Nor did they demand a thorough audit of Argentina's accounts.

Even more noteworthy is that private creditors did not insist that Argentina adopt specific reforms to ensure its return to sustainable growth. Instead, they accepted Argentina's offer of a general framework of economic guidelines. Argentina did not make any specific policy commitments, nor did it set any specific economic targets.

In an interview with the Financial Times, President Fernández said he does not believe in precise economic targets and plans. And in a document titled "Debt

Sustainability Guidelines" – which he presented during the negotiations – Minister Guzmán relied on economic projections which the Coronavirus pandemic have already rendered unrealistic.

Indeed, the pandemic's economic impact was not even a factor in the talks. Negotiators on both sides treated the pandemic as a temporary income shock with no adverse long-term consequences. In the negotiations, Argentina kept raising the amount it offered to repay, until an offer was finally acceptable to bondholders. The irony is that the pandemic does make economic recovery harder to achieve – and it is needed for repayment to be possible.

Does this mean that creditors were unusually generous? Under these new more feasible terms, Argentina has significantly more chances to be able to service its debt. Creditors expect to benefit through the deal by a rapid appreciation of the country's new bonds market prices.

Argentina will now try to refinance the \$ 45 billion debt it owes to the International Monetary Fund, its largest single creditor. Talks are expected to last six months and to focus on loans maturing between 2021 and 2024.

With the private debt deal in hand, Argentina has escaped a liquidity crunch. But as negotiations with the IMF get under way, the going will get tougher. Argentina will be asked to prove that it is on course to meet

its obligations in future. That, in turn, will require Argentina to use credible economic data and to show it has a solid plan for recovery. It must prove, in short, that it will wisely use the extra time it has gained through restructuring deals.

## ESCAPING STAGFLATION

That rebuilding task will be formidable. Argentina's economy is in tatters. Its gross domestic product (GDP) in 2020 will be about the same as it was in 2008, which means that per-capita GDP has actually shrunk more than 12%. Inflation is around 40% despite a tangle of controls on prices and utility rates. Covid-19 has devastated the private economy, forcing increased public spending (and deficits) and raising poverty rates from 35.5% to up to an expected 45% of the population.

Moreover, the economy is relatively closed, with minimal imports due to the pandemic. Despite restrictions aimed at slowing capital flight and the restructuring deals, the country is still losing hard-currency reserves. The free-floating, unofficial exchange rate differs by 70 to 80% from the official one, which follows a dollar crawling peg. Further devaluations should be expected, and they will exacerbate inflation.

The government is well aware that it must make changes to attract capital from abroad – which it needs to restart its stagnating economy. Proof is that the risk premium on Argentina's new bonds remains ten percentage points above the US Treasury bonds rates. In its upcoming negotiations with the IMF, Argentina will have to present – among other things – a credible plan to fight stagflation, a condition of high inflation, high unemployment and no growth.

So far, Argentina has pledged to build its export industries as a way to boost growth. Partly in response to currency devaluations, which make imports more expensive and exports cheaper, partly because of recession, Argentina currently has an \$18 billion trade surplus. However, the government has been undermining its own strategy by imposing high export taxes on agricultural products. Agriculture is Argentina's most competitive sector. A soybean producer, for example, pays a 33% tax on exports. Restoring sustainable growth will require changing such policies.



Another necessary reform is to shrink the public sector. After the turn of the millennium, commodity prices boomed, permitting an over-expansion of the public sector. The commodity bonanza ended in 2011, but the public sector became even more bloated. Since January 2012, the private-sector workforce fell by 3.9% while the public-sector workforce grew by 25.9%. It is a burden on the economy. Moreover, fiscal accounts must become better balanced. The government's primary deficit (fiscal deficit excluding interest payments) targeted at 4.5% of GDP for 2021 – much more than the 0.5% to 0.9% projected during talks with private creditors. Keep in mind that primary surpluses are needed to keep debt in a stable path.

## POLITICAL CHALLENGES

Argentina can now start a reform process with a few points in its favour. When Argentinians' investments abroad are counted, Argentina is actually a global net creditor, with \$121 billion in financial assets as of March 2020. Argentina's private international investments abroad are 57% higher (at market value) than the amount the country owes foreign creditors.

Moreover, although government debt carries a hefty risk premium, private corporations can borrow affordably. Lenders appreciate that the vast majority of them pay their debts on time. And there are many examples of successful entrepreneurship in Argentina. For example, Argentina is home to Latin America's most dynamic and valuable company – Mercado Libre, an e-commerce giant. However, Marcos Galperin, its founder, moved to Uruguay when the government changed after the presidential election last year.

On the other hand, political polarisation is making reform more difficult. Argentina's debt situation was already bad, but it became untenable the day after primary elections in August 2019 showed that Fernández would win the October election. As soon as the election results were announced, the peso lost a third of its value, listed companies lost half their capitalisation, and the risk premium on Argentine bonds soared from 8% to 14% as bond buyers demanded compensation for increased risk.

Since taking office, the government has on some occasions undermined the confidence of investors and lenders. One such move was its failed attempt to take over Vicentin, a bankrupt soybean processing company. Another was its designation of several telecoms companies as public utilities, aimed at regulating prices. The government is trying to increase the number of appointed judges and prosecutors and is attempting to remove judges handling corruption cases involving Vice President Cristina Fernández de Kirchner, who is a former Peronist president herself, but unrelated to Alberto Fernández.

Such manoeuvring creates controversy at a time when the country needs consensus around a shared strategy. To attract fresh investment, Argentina must build confidence, both at home and abroad. The government cannot afford to alienate voters and investors by undermining the independence of the judiciary and generally weakening governance.

Argentina needs to grow again, supported essentially by its own resources and with its fiscal accounts in order. It will not do so without sacrifice, but neither is sacrifice alone sufficient. Leaders should restore confidence by providing a roadmap and a vision for the future. The absence of such a vision – not its foreign debt – is Argentina's greatest weakness.



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## PUBLIC FINANCE

## In the driver's seat

African governments face daunting challenges. They must make their economies more productive, gear them to sustainability and ensure that their own finances stay viable. Dereje Alemayehu of the Global Alliance for Tax Justice argues that they need comprehensive development strategies, and that a favourable international environment can help.

Dereje Alemayehu interviewed by Hans Dembowski

**Private-sector activity can cause environmental, social and governance-related (ESG) harm. Some investors voluntarily apply ESG standards to prevent such damages. Is that enough or must more be done?** Voluntary action is fine and may be a first step to test options. But it does not suffice to transform economies. If you consider the history of social change, it is clear that we need binding standards, and that non-compliance must be sanctioned. That is how the eight-hour working day was established and how child labour was abolished.

**Are the political systems of developing countries strong enough to pass and enforce legislation accordingly?**

There is a lot that can and should be done. Moreover, this is not just a technocratic or bureaucratic exercise, but something that requires a strong political will to implement. Governments must not seek bureaucratic measures. It makes sense for governments to involve civil society and the private sector to enforce accountability. The rules must be clear and enforceable. Negotiating the terms with relevant stakeholders helps to achieve those goals. If a government has the political will, it can achieve very much.

**Are international standards necessary?**

They are certainly helpful, but must be contextualised at the national level. National authorities play decisive roles.

**What about the informal sector? Subsistence farmers and informal industries are**

**probably exposed to a lot of harm that is done by corporate powers, without that damage ever showing up in national statistics, for example.**

Well, the big question is whether a government is pursuing a well-defined national development strategy. Such a strategy must link the informal sector to more dynamic

consider which tax breaks and subsidies they can cut. Reducing them will increase their fiscal space. They should also do whatever they can to curtail illicit financial flows. Huge amounts of money are flowing from low-income countries to prosperous nations because of corruption, tax evasion and various illegal and non-legitimate activities. The governments of developing countries must get a grip on the matter, and so must those of rich nations. Never forget that money laundering in prosperous financial centres is compounding the fiscal problems of developing countries. Moreover, some companies are profiting from the Covid-19 crisis, espe-



**"Money laundering in prosperous financial centres is compounding the fiscal problems of developing countries." Frankfurt skyline.**

sectors and include support to make it more productive – which typically means formalisation. Without such a strategy, there can be no success.

**What implications does the Covid-19 pandemic have for the financial viability of the governments of developing countries?**

The Covid-19-induced crisis is a double whammy. On the one hand, it is reducing government revenues. On the other hand, it is making additional government spending necessary. In this scenario, additional debt is not the best option. Governments should

cially big internet corporations like Amazon or Facebook. Governments should tax such extra profits. The emphasis should be on raising resources, not on increasing debt.

**Does it matter whether government debt is denominated in the national or a foreign currency?**

Yes, it matters very much. Developing countries' debt is almost always denominated in a foreign currency, typically the US dollar. One problem is the fluctuation of commodity prices on world markets. It can dramatically reduce foreign-exchange earnings in

which the foreign debt is serviced. It also means that the developing country must cope with exchange-rate risks. A country's debt burden fast becomes unbearable when its currency's exchange rate deteriorates.

**So if donor governments want to support financial stability in developing countries, they should lend in those countries' currencies and ensure that ESG standards are binding. Is that correct?**

Well, that would certainly be nice, but I think the most important thing is that debt servicing should be made a function of developing countries' economic capacities. It would make sense, for example, to limit debt services to 10% of a country's export earnings. That would prevent excessive debts strangling entire economies. When a government suffers debt stress, moreover, it will always struggle to renegotiate and restructure the loans. Private lenders in particular are not interested in that kind of recalibration. Things would be much better if we had some kind of legal system to resolve sovereign insolvencies. Bankruptcy laws exist for private sector companies.

Without them, insolvency problems cannot be resolved, and the insolvency of one company will ruin many others. It is absurd that the international community does not have similar rules for insolvent governments. So far, donor countries have blocked attempts to introduce such a system. For the sake of global financial stability, they would do well to change their stance.

**International financial institutions like the World Bank have adopted ESG standards. Is that making a difference?**

To be really effective, those standards have to be binding and enforceable. As we discussed earlier, standards without sanctions do not work. Where institutions are weak, moreover, misbehaviour and malfeasance will not be punished. Ultimately, the authorities in developing countries must enforce rules. National governments must be ambitious enough to make that happen.

**To what extent does China differ from established owners in regard to development lending?**

I cannot make a generalised statement. There is a lack of transparency. Some African countries have accumulated huge debts, and we neither know how much money they owe China, nor what the conditions are, nor how they are renegotiating the terms. What we do know, however, is that China responds to the demands partners raise. Some governments accept that Chinese companies bring in thousands of people to build infrastructure, but others do not. Some have succeeded in starting vocational training in cooperation with the Chinese, teaching Africans to do the work. If a national government wants to be in the driver's seat, it will be in the driver's seat. It is not China's job to develop Africa, nor is it western donors' job. It is African governments' job. The essential thing is to have a comprehensive national development strategy.



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## Undermining SDG achievement

So far, 42 countries have taken advantage of the suspension of debt servicing that the G20 announced in view of the Covid-19 crisis. As the Financial Times reported in mid-September, the World Bank reckons that they have requested the combined deferral of payments worth \$5.3 billion. Twice that amount had been expected.

World Bank president David Malpass has expressed his frustration, moreover, that private-sector lenders have been very slow to join the G20 initiative: "There is a direct connection between debt service, which takes money away from countries, and the urgent need for resources to address

health, education and investment in human capital." He said he wants to avoid another "lost decade" due to government austerity.

Experts spoke of a lost decade when African and Latin American economies stagnated due to debt problems in the 1980s and 1990s. For some time, observers have again been warning that some countries are piling up excessive debt. That trend started before the Covid-19 pandemic began. This global health crisis, of course, is compounding public-finance problems because it reduces government revenues while also increasing the need for government spending.

The G20 initiative eases, but does not solve the problems. After all, debt servicing is set to begin again next year or at a later point should it be extended, as seems likely.

The full truth, however, is that donor governments and the international financial institutions (IFIs) they control, such as the World Bank or the International Monetary Fund, are less powerful than they used to be in previous financial crises of developing countries and emerging markets. Two important reasons are:

- Governments of newly industrialising nations, in particular China, have lent poor countries huge amounts, and
- commercial lending to both governments and private-sector companies in developing countries has in-

creased dramatically, driven to a large extent by low interest rates in advanced economies which make private investors look for higher returns elsewhere.

Civil-society organisations argue that debt problems are undermining many countries' ability to invest in the achievement of the Sustainable Development Goals. Some call for some kind of international bankruptcy law to resolve issues of excessive sovereign debt (see Hans Dembowski in Monitor section of D+C/E+Z e-Paper 2020/03). Governments of rich nations have always rejected such proposals. While Malpass and other IFI leaders still do not echo that CSO demand, they too now speak of debt-related payments reducing SDG finance. D+C/E+Z



**David Malpass, the World Bank president, and French President Emmanuel Macron have spoken out in favour of debt leniency. This picture was taken in May 2019 in Paris.**

## DEVELOPMENT LENDING

## Consider the quality of debt

Low-income countries require support to cope with the Covid-19 pandemic. The international community has responded with intensified lending, debt suspension and even calls for debt cancellation. Money, however, is not the solution. Decisionmakers must pay more attention to the quality of debt. It is necessary to learn lessons from past debt-relief efforts and address systemic weaknesses. Otherwise, countries will remain unable to manage their debt burdens and stay stuck in poverty traps.

By Leny van Oijen and Christian Penda Ekoka

The rising indebtedness of low-income countries was until recently a matter of great concern. In early 2020, the presidents of respectively the World Bank and the African Development Bank were even engaged in a dispute about the roles their institutions played as regards the growing debt burden in Africa. But the Covid-19 pandemic has totally changed the discourse. Indeed, international finance institutions and others have increased their lending with the aim to help low-income countries to cope with the pandemic.

The G20 group of the largest economies has taken a lenient stance on debt

in view of Covid-19. It agreed to suspend low-income countries debt servicing for one year. Moreover, various leaders have pleaded for even more radical steps. For example, French President Emmanuel Macron called for massive debt cancellation in April 2020. Later, David Malpass, the World Bank president, declared debt reduction to be the only way to escape the poverty trap.

We argue that the present loan frenzy is likely to exacerbate debt problems. It is true, of course, that this pandemic is an exceptional emergency, so international solidarity is needed. Low-income countries require both financial and in-kind support. But we must not lose sight of the ever-mounting debt burdens of a growing number of countries. It is wrong to believe that lending more money will solve fundamental problems.

The analysis of the debt situation in low-income countries mostly uses quantitative data, such as the ratio of debt to Gross Domestic Product or to exports. It would be equally relevant to consider two critical performance criteria:

- debt effectiveness (to what extent did a loan achieve what it was supposed to achieve?) and

- debt efficiency (the value added per dollar borrowed).

If performance is mediocre in both respects, that means that funds were wasted. Moreover, possible misuse by kleptocratic governments adds to the toxicity of country indebtedness.

Country-specific information of this kind exists. It is included in loan reporting and must be considered when decisions are made on further lending and/or debt relief. Across the broad cancellation of debts, by contrast, is a problem rather than a solution in cases of dramatically underperforming loans or of evident misuse.

Many low-income countries benefited from earlier debt relief efforts, in particular the Heavily Indebted Poor Countries (HIPC) Initiative that was launched in 1996. It covered full or partial debt relief totalling more than US \$100 billion for 37 countries (of which 31 in Africa). In return, the countries concerned had to implement structural economic and social reforms. Prudent debt management was supposed to prevent debt from returning to unsustainable levels again. Two decades later, we know that this was not applied, neither by lenders nor by borrowers.

Ad hoc debt relief does not address the root causes of the recipient countries' problems. It therefore will not allow them to escape poverty and debt traps. The challenge is to make economies create value and become competitive, resilient and inclusive. "Money alone" will not do the job. It did not bring about good governance, effective leadership and capable institutions in the past. There is no reason to expect it to do so in the future. When global leaders believe that a systemic reduction of debt is the only way to get on a growth path again and to get out of the poverty trap, there is reason to get worried.



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## PRIVATE-SECTOR BANKS

# No money for coal

**By financing the coal, oil and gas industries, banks make a significant contribution to climate change. A recent study examines the finance flows of large private-sector banks and identifies what they need to do in order to help reach the 1.5-degree goal.**

By Katja Dombrowski

In order to limit global warming to 1.5 degrees Celsius, as stipulated by the Paris climate agreement, no additional coal, oil or gas deposits can be exploited. That's because burning the fossil fuels that have already been extracted will exceed the remaining carbon budget. This information comes from the 2018 special report on the 1.5-degree goal by the Intergovernmental Panel on Climate Change (see Lea Diehl and Sabine Balk in D+C/E+Z e-Paper 2018/12, Monitor section).

The study "Banking on climate change 2020", which examines the influence of private-sector banks on climate change, therefore draws the conclusion that no new fossil-fuel projects should be financed. Nevertheless, this continues to happen on a grand scale: the 35 banks under review, from Canada, China, Europe, Japan and the USA, have reportedly funnelled a total of \$2.7 billion into fossil fuels in the four years since the adoption of the Paris agree-

ment (from 2016 to 2019). According to the study, more money is spent each year than in the year before. Most of it comes from the US banks JPMorgan Chase, Wells Fargo, Citi and Bank of America. The Canadian bank RBC landed in fifth place. Barclays was the top fossil bank in Europe, MUFG in Japan and the Bank of China in China.

The authors do see signs of progress, however. Of the 35 banks the study examined, 26 now have policies restricting coal financing, and 16 also restrict financing to certain sectors of the oil and gas industries. According to the authors, this is not surprising – after all, the global financial system is always concerned with risk and return. "And no risk to the profits of individual companies and the financial system as a whole is greater than that posed by the climate crisis." On top of the financial risk, banks must also consider their reputations: more and more customers and employees do not want to take part in financing the destruction of the earth.

Policies restricting fossil-fuel financing are, according to the study, a basic prerequisite, but so far they have been much too weak. The French bank BNP Paribas is a case in point: it has adopted some of the strictest guidelines of all the banks covered in the study, but it nevertheless doubled its coal financing over the past year. Although,

on the whole, coal financing around the world is slowly receding, it is more than compensated for by the increased financing of the oil and gas industries.

Ultimately the report demonstrates that the private banking sector has behaved with "extreme irresponsibility" in relation to the climate crisis. The authors believe that the growing pressure that is also coming from movements like Fridays for Future could mean that the peak of finance flows to the fossil-fuel industry might soon be reached. They emphasise, however, that stagnating at a high level or a slow retreat will not be sufficient; what is needed instead is a rapid and sustained decline in financing in order to reach the 1.5-degree goal. The authors call on banks to:

- explicitly acknowledge the role of the fossil-fuel industry as the main driver of climate change as well as the role of banks in financing this sector,
- halt all financing for new fossil-fuel projects and for companies that are expanding fossil-fuel extraction and the corresponding infrastructure (such as plants and pipelines),
- phase out financing for existing fossil-fuel and infrastructure projects on an explicit timeline that is aligned with the 1.5-degree-Celsius goal,
- phase out financing for projects and companies that extract oil from tar sands, extract oil or gas in the Arctic, offshore or through fracking, manufacture liquefied natural gas, mine coal, or produce coal power, and
- fully respect all human rights, particularly the rights of indigenous peoples, including their water and land rights and their right to free, prior, and informed consent, and prohibit all financing for projects and companies that abuse these rights.



**Demonstration against the financing of fossil fuels in France in 2019.**

## LINK

Rainforest Action Network, 2020: Banking on climate change. Fossil fuel finance report 2020. [https://www.ran.org/wp-content/uploads/2020/03/Banking\\_on\\_Climate\\_Change\\_2020\\_vF.pdf](https://www.ran.org/wp-content/uploads/2020/03/Banking_on_Climate_Change_2020_vF.pdf)



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## Novel coronavirus

As D+C/E+Z is supposed to tackle issues of long-term relevance without responding much to breaking news, Covid-19 took us by surprise. To deal with this crisis, we started a Covid-19 diary on our website and are including some of the most recent entries here. The authors are from four different continents. Their articles do not necessarily reflect the fast changing state of affairs. The relevant date is the indicated day of publication on our website.

Our web diary: <https://www.dandc.eu/node/4306>



20 SEPTEMBER 2019

## Disrupted schooling

**Covid-19 lockdowns meant that hundreds of millions of children and teenagers lost access to formal education. Though most countries now have programmes for remote schooling, masses of girls and boys could not participate. UNICEF demands better and more comprehensive approaches.**

By Claudia Isabel Rittel

Because of the coronavirus pandemic, schools and nursery schools were shut down. Around the world, 1.5 billion children and teenagers were affected. A recent UNICEF publication points out that at least 463 million girls and boys could not even attend their school or nursery school anymore. UNICEF appreciates that 94% of all countries now have concepts for remote schooling, with poor countries mostly relying on radio broadcasts and more prosperous countries making use of TV and the internet. The big problem, however, is that about 30% of the target group cannot be reached by these means.

The data show that almost half of them were pre-schoolers. Moreover, 40% of countries did not offer them any support. The authors warn that such failure not only hurts the affected children's education. There is economic damage too. UNICEF ar-

gues that every dollar invested in pre-school education delivers results that are worth nine dollars. More pre-schooling, after all, means fewer students repeating a year later in their school life and fewer dropping out entirely. The impact of pre-schooling on individual life-long incomes is relevant too.

According to UNICEF, remote-schooling programmes reached out more successfully to older students. Moreover, households with older children are typically better equipped technologically than those with small children. In theory, 82% of all girls and boys in upper secondary education could be reached, the publication states.

Of the excluded persons, three quarters live in rural areas. That is true of both rich and poor countries. However, the total share of students who suffered exclusion was larger in poor countries. The authors



Learning at home depends on teachers' outreach and equipment: attending an online lesson in Seoul, South Korea.

reckon that this was the case for about 50% of sub-Saharan girls and boys.

The UNICEF team paid special attention to two issues: governmental education programmes and technical infrastructure. To assess the first, they relied on a survey run by UNICEF, UNESCO and the World Bank in the months May to July. To understand the latter, they used household surveys.

The study does not reveal empirical truth, but only assesses countries' potential for reaching out to children and teenagers at home. The authors state that fewer boys and girls actually took part in remote schooling.

They propose that the new remote-schooling approaches should be expanded and improved. They also express the hope that such efforts would benefit the 258 million young people around the world who were excluded from formal education even before the pandemic started.

Remote schooling should be designed in ways that serve universal inclusion, the UNICEF paper argues. Infrastructure must be modernised, and both parents and teaching staff must be taught to make use of the new options. Moreover, UNICEF calls for remote pre-school programmes to be run everywhere because pre-school

boosts a child's long-term educational outlook.

LINK

UNICEF, 2020: Covid-19: Are children able to continue learning during school closures? [https://weshare.unicef.org/archive/RemoteLearningFactsheet\\_FINAL-2AM408PZYD7C.html](https://weshare.unicef.org/archive/RemoteLearningFactsheet_FINAL-2AM408PZYD7C.html)



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20 SEPTEMBER 2020

## Devastated businesses

**Ben Tembo normally earns his livelihood selling second-hand clothing in Lusaka, the Zambian capital. This is an informal business that is popularly known as “salaula”, and it has been hit hard by the impacts of the Covid-19 pandemic.**

By Derrick Silimina

The background is that salaula merchandise largely consists of used clothes that people in rich countries have discarded. Often, they do not simply throw away their old trousers, shirts and sweaters, but hand them over to charities, which in turn sell them on to export companies. Such goods, however, are no longer being delivered to Zambia because borders were closed to prevent the spread of the novel coronavirus.

Tembo says that many businesses have already collapsed. He worries: “If this global pandemic persists, how are we going to pay our bills?”

According to a report published by the International Labour Organization (ILO) in 2018, not quite 90% of Zambia's labour force works in the informal sector. It means that businesses are not registered, do not pay taxes and are hardly regulated. It also means that staff do not enjoy social protec-

tion. Things are similar in most sub-Saharan countries. Small-scale agriculture and retail markets are typically informal, and wholesale markets are often informal too.

In many places, policy measures meant to limit the spread of Covid-19 have had a considerable impact on the informal sector. The reason is that income-generating activities are made harder or even impossible, and people have to do without

the daily earnings they and their families depend on.

To the extent possible, people therefore keep on working. Gertrude Mbaio is an example. She knows she is at risk of catching the disease. She gets up at 4 o'clock in the morning and goes to a crowded wholesale market, where she procures vegetables for the small retail business she runs. She then spends the day serving customers, which means yet more contacts with people. “I have no choice but to continue trading at the market despite Covid-19,” she says. “I depend on this small business to feed my children.”

Some consider her lucky. Her work is essential and can go on. By contrast, restaurants and bars have had to close. The



Small shop in pre-pandemic Mungu, Zambia.



implication is that the people who used to work there have lost their livelihoods. Compounding matters, Zambia was experiencing an economic downturn even before the pandemic started. Government debt was soaring, the national currency depreciating and inflation accelerating. Lockdown policies and fear of the disease have further slowed down economic activity.

Jack Zulu runs a liquor shop near an important bus terminal. His business is still open, but it has been devastated nonetheless. "My daily livelihood has been crippled," he says. He used to have revenues worth the equivalent of

about \$250 on a good day, but now struggles to rake in that much in an entire month.

The disease is still spreading in Zambia. According to the health ministry, the country had registered almost 13,000 cases by 7 September, and almost 300 patients had died. Many people feel, however, that the economic pain caused by preventive measures is incommensurate with the risk.

The Jesuit Centre for Theological Reflection (JCTR) has appealed to the government to ensure that disease-related restrictions do not make poor households face starvation. This Catholic outfit does advo-

cacy work apart from research and education, promoting social justice in Zambia and Malawi. However, Zambia's government is cash-strapped. Decisions concerning how to protect the people from a disease that is still not well understood and safeguarding their livelihoods are obviously very difficult.



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10 SEPTEMBER 2020

## Insufficient funding

**The Corona pandemic is increasing poor countries' dependence on aid. This is particularly true of crisis countries, for example in the Middle East and North Africa. Germany and the EU would be wise to show their solidarity through appropriate support.**

By Veronika Ertl

In the course of the Covid-19 pandemic, humanitarian aid and development aid have been becoming ever more important. Especially countries torn by violent conflict, like Syria, Libya or Yemen, increasingly depend on international support. They were suffering from humanitarian crises even before the pandemic started.

Against this backdrop, the UN have launched the most comprehensive appeal for aid in its history. It wants to raise \$10.3 billion for its Global Humanitarian Response Plan (GHRP). The pledges made by the international community, however, are still insufficient. This year, two international donor conferences fell significantly short of their funding targets. One concerned Syria and its neighbouring countries, the other Yemen. Due to a lack of funding, 30 of 41 UN aid programmes in Yemen already had to cut down or even discontinue their work since mid-April. In

Syria too, many people in need are no longer being reached.

The novel coronavirus has also caused massive harm in developed countries, and their priority seems to be coping with the pandemic at home. Compared with Europe's national and EU-level stimulus programmes, the support for developing countries looks quite scant.

Moreover, in some crisis regions, security concerns and geo-strategic considerations make it very hard to deliver aid. The

UN Security Council's painful compromise on the cross-border resolution on how to deliver relief supplies to Syria serves as a stark example. Due to the politically motivated voting behaviour by China and Russia, the number of border control points where aid can be delivered has been reduced, and it has become harder to provide people with the essential supplies their survival depends on. As for Libya, the urgent issues of finding a political solution to the conflict and enforcing the UN arms embargo are overshadowing aid considerations.

At the same time, we must bear in mind that the pandemic has considerably worsened pre-existing humanitarian crises in some conflict regions. In recent years and decades, progress was made in regard to fighting poverty and hunger as well as im-



**Cholera patient in Yemen, the country hit by multiple crises.**

proving health care. That progress is now at risk of being reversed. Germany and the EU must rise to their responsibility.

The pandemic proves that, in our era of globalisation, problems require global solutions. Few events have made this truth as obvious as the spread of Covid-19. In terms of controlling the pandemic, the global community is only as strong as its weakest member. Accordingly, it also serves the self-interest of Germany and Europe to support weaker partners. Multilateral organisations serve an important coordinating function

in the current situation, and their support is indispensable.

In spite of some shortcomings in this crisis, Germany and the EU clearly are among the world's leading donors. Germany, in particular, has managed to quickly reallocate funds and mobilise additional resources. The EU, by contrast, is not making additional money available, but only reallocating existing budget items. Hopes for more funding for humanitarian aid and development cooperation in the EU's multiannual financial framework for 2021 to 2027 have

been disappointed. In this time of pandemic, it is essential that Germany and the EU display their solidarity with people in conflict countries by lending appropriately generous support.



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4 SEPTEMBER 2020

## Suppressing dissenters

**Zimbabwe has a reputation for authoritarian governance. President Emmerson Mnangagwa, who took office three years ago after his predecessor Robert Mugabe was forced out, promised things would get better. Nonetheless, several western embassies recently admonished his government not to use the Covid-19 pandemic as a pretext for breaching human rights.**

By Jeffrey Moyo

Hopewell Chin'ono is an award-winning journalist. The latest scandal he uncovered concerned Zimbabwe's health ministry and the misuse of Covid-19 funding. In July, the president fired the health minister. A little later, on 20 July, police broke into Chin'ono's house and arrested him. After 45 days in prison, he was recently granted bail: \$120. He stood accused of inciting public violence, not least because he endorsed a call to protest on 31 July in spite of lockdown. The protest never took place. His lawyer says he is ill and needs medical care.

Other opposition activists have experienced detention too. One of them is Jacob Ngarivhume, who also recently got bail. He tried to organise the 31 July protest. Others are Cecilia Chimhiri, Netsai Marova and Joana Momombe. The three youth leaders of the opposition party MDC Alliance were abducted from police, beaten and rearrest-



**President Emmerson Mnangagwa observes Covid-19 rules – but also uses them for less than benevolent purposes.**

ed. They suffered multiple injuries. They are accused of having infringed on the lockdown by protesting.

According to the government, the lockdown serves to fight the spread of Covid-19. Activists see a malign angle however. Owen Dhliwayo, a prominent human-rights defender, says that the government

has "taken advantage of the presence of coronavirus to bar anti-government protests". In his eyes, the novel coronavirus is "providing a cover for human-rights violations".

Diplomats from major western countries agree. On 20 August, several western embassies issued a joint statement, pointing out: "Covid-19 must not be used as an excuse to restrict citizens' fundamental freedoms. Freedom of the press, of opinion, of expression and of assembly are all universally recognised human rights and are guaranteed by the Zimbabwean Constitution." The heads of mission involved were from Britain, Canada, Germany, the Netherlands, Norway, Poland and the USA.

While Zimbabwe's government denies it has done anything wrong, its critics feel reminded of the abusiveness that marked the rule of Mugabe, the independence leader and strongman who was in power from 1980 to 2017 and died last year.

Dewa Mavhinga, who is the southern Africa director of Human Rights Watch insists that Zimbabwe's government must not dismiss claims of rights abuses. It must investigate them.

LINK

**Embassies' statement:**

<https://zw.usembassy.gov/joint-statement-from-the-heads-of-missions-of-canada-germany-the-netherlands-norway-poland-the-uk-and-the-usa/>

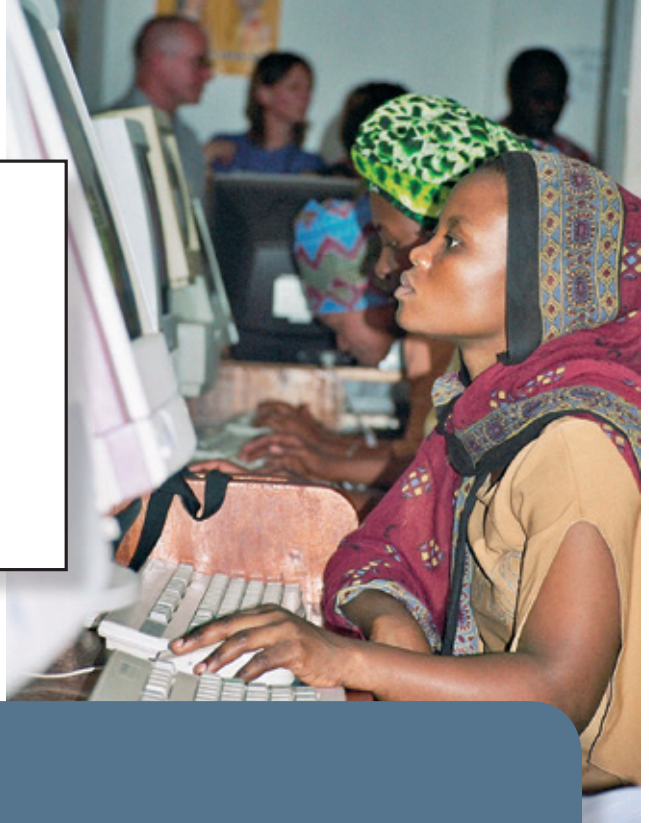


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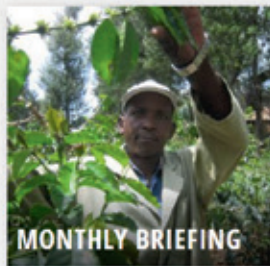
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UNDERSTANDING DEVELOPMENT